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International Joint and Coventures

Improving Competitiveness
of U.S. and Developing
Country Enterprises

Harvey W. Wallender, III
and Vincent Bozzone



AN IESC RESEARCH PUBLICATION

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Foreword

Thomas S. Carroll
President and CEO of the International Executive Service Corps

We are entering an age in which foreign assistance must develop new ways of helping the private enterprise sector of the third world gain access to resources, technology, markets, financing and information networks. Our research shows that developing new types of joint ventures and coventures may prove to be one of the most effective mechanisms for this purpose. It becomes especially important in the present environment which is overshadowed by the devastating effects of the international debt crisis.

Within the United States, we are also concerned about our international competitiveness. Many of the small and medium-size firms, on which we count so much for labor generation and new technology, has virtually no understanding or capability for international business expansion. Traditional ideas about direct foreign investment and simple exporting practices are not always helpful to United States industry. Often U.S. companies are unaware of offshore co-marketing agreements, co-production and technical assistance contracts represent viable mechanisms to help penetrate heavily protected foreign markets.

The United States government and many intergovernmental agencies, have useful programs that can help establish innovative types of joint ventures and coventures; unfortunately, not enough U.S. or developing country firms know how to exploit these resources. The following material was developed in a series of extensive field programs of IESC and helps to point out why and how U.S. companies can develop new ventures in developing countries.

The various cases and planning guides also point out opportunities for improving our assistance efforts that are organized to stimulate more effective private enterprises.

In the future, we hope that international business development will increasingly be a major consideration for the small and medium-sized firm in the United States and that both developed and developing country enterprises can improve competitiveness through cooperative ventures.

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Author's Note

A. THE REPORT

The primary objective of this report is to discuss how, and under what conditions, U.S. small to medium-sized firms can contribute to developing country economics through joint venture and coventure business strategies while simultaneously enhancing the national and international competitive market positions of each partner. We do this with a view to identifying points of possible intervention for organizations seeking to facilitate the transfer of technology to lesser developed countries (LDCs), the growth of the LDC private sector and the contribution of private enterprise to LDC economic development goals.

This report is an outgrowth of a year-long pilot program: The Joint Venture Feasibility Fund (JVFF); which utilized the networks and clients of the International Executive Service Corps (IESC) and was funded by the United States Agency for International Development (USAID). The JVFF was targeted toward small and medium-sized enterprises (SMEs) and provided funds to encourage venture development. Important information was gathered during the JVFF program concerning the specific factors contributing to how and why joint ventures and coventures ultimately come about.

Review of existing business development literature for this report yielded little in the way of previous studies or research concerning international joint ventures or coventures involving SMEs. Generally, research on international business ventures was conducted with larger firms, which differ strikingly from SMEs in their organizational and management characteristics. Thus, the ability to generalize findings from prior research to this report was extremely limited. In order to explore the unique role of SMEs in international business ventures, four major streams of research were selected for review and analysis:

1. How do joint ventures or coventures enhance the competitive positions of

the respective firms;

2. How do SME organizational and management characteristics affect venture formation and development;
3. What role can SMEs play in third world economic development through joint venture and coventure mechanisms;
4. What development assistance strategies would be most effective for increasing the number of cooperative ventures between SMEs in the developed and developing countries?

By focusing the research on the factors contributing to SME venture development, this report is intended to address the literature gap regarding SMEs and to determine what external environmental conditions and factors in both developed and developing countries encourage and/or discourage venture development. Additionally, we were interested in what new or emerging forms of joint ventures and coventures would be the most successful and under what conditions; what stages of the business venture development process are the most critical or prone to breakdown; whether SMEs are viable partners for the venture development process; and what can the public and private sectors do to strengthen this process?

To help fill the literature gap, data was also collected from several primary sources, such as:

- Case studies (84) of actual ventures involving developed and developing country SMEs throughout the world.
- In-depth interviews with SME executives experienced in forming and operating cooperative ventures between U.S. and LDC firms.
- In-depth interviews with business development professionals and intermediaries actively involved in the venture development process.
- An extensive review of statistical sources reporting on worldwide venture activity in combination with other studies reporting statistical findings on venture activity by major operating area and other criteria. (See Appendix D)
- Questionnaires targeted to executives and development professionals which addressed the general pattern of venture formation and development. (See Appendices B and C).

B. THE PROGRAM

A brief description of the program which was the basis for our research may help illuminate this report. The Joint Venture Feasibility Fund (JVFF) sought to promote business venture development between U.S. firms and firms in the Caribbean-Central America region. It was but one program among many that

sought to bring private sector enterprises into the international trade and investment development process by encouraging individual firms of developed and lesser developed countries to form mutually advantageous business relationships.

The JVFF provided matching funds to support certain business venture development costs, including the research, travel and consulting expenses necessary for exploring the feasibility of a potential business venture. The JVFF was also able to underwrite a portion of those expenses incurred by an LDC firm for the services of a retired industry expert, provided by IESC, who could assist with various aspects of the venture development process.

JVFF reimbursement of expenses for a venture development project could not exceed \$15,000, or one-half of \$30,000. It was, therefore, unlikely that large firms would devote the time and effort to develop a relatively small source of financing. In keeping with this orientation to SMEs, JVFF clients were not required to spend undue time and effort to prepare funding applications, submit invoices and receipts or provide discussions regarding the status of their particular venture development.

Significant guidance was received from various USAID professional staff in Washington, D.C. and the Caribbean Basin/Central America region. These individuals, though too numerous to list, contributed substantially to a better understanding of the joint venture and coventure development process.

This report also contains field research contributions from Nida Backaitis, Philip Barton, Molly Hageboeck and Ludwig Rudel. Other individuals contributing to the editorial and publication process are Sally Buswell, Liza Feyk, Mark Pruett, Mary Gwen Wheeler and Deborah Joyner.

C. A NOTE ON TERMINOLOGY

Terminology is important because we are ultimately interested in using the information and knowledge gained from this research to facilitate the real-world venture development process. It is of the utmost importance to understand the differences between types of joint ventures and coventures and the business considerations that favor one type over another.

The term "joint venture" tends to be used as a generic label to refer to many types of cooperative agreements between firms. Licensing agreements, franchises, exclusive distributor arrangements and even simple subcontracts often come under the "joint venture" label. For the purpose of this study, a clearer distinction is necessary.

A *joint venture* is defined as one that embodies a separate legal entity jointly-owned and managed by the venture partners. In a joint venture, partners may gain ownership rights to each other's natural resources, plants, equipment, manufactured goods or other resources.

All other types of non-equity-sharing cooperative relationships are defined generically as *coventures*, or, specifically, as licensing agreements, contracts,

consortia or other terms that more accurately describe the nature and legal structure of these relationships. In a coventure, the partners do not gain direct ownership rights to the resources of the other and a separate legal entity is not created. Coventures are usually formed to share knowledge or facilitate transactions.

2

Executive Summary

Strengthening private business activity for international competitiveness has proven to be difficult and complex; traditional foreign trade and business investment concepts do not adequately address the needs of developing country or U.S. businesses looking to explore or expand international business opportunities. Assistance organizations and governments are eagerly seeking new approaches to stimulate business growth and cooperation between U.S. and developing country enterprises.

Business enterprises operating within today's existing world economy have limited access to technology, capital or markets through traditional debt financing and direct foreign investment. The opportunity to stimulate industrial growth through private sector cooperative ventures is increasingly important, but inhibited by a number of factors which will be addressed in this report.

The prevailing global debt and competitive business environment requires more effective business venture collaboration that will create access to markets, technology and financing for U.S. and LDC firms seeking to expand their international business activities. New forms of joint ventures and coventures represent an important business development strategy that can help both developing country and U.S. enterprises expand their international business activities. There appears to be a large pool of U.S. and developing country SMEs that can exploit joint venture and coventure opportunities, but are constrained by limited management resources, ineffective information and weak networks to consultants, partners and technical assistance organizations which could link them to new markets.

New methods for increasing the number of reasonable ideas for venture development consideration and communicating these ideas to potential partners is an obvious step toward increasing international venture development activities.

A. GROWING ROLES OF SMALL AND MEDIUM-SIZE ENTERPRISES (SMEs)

Small and medium-sized enterprises (SMEs) have historically been mainstays of the American economy. These enterprises generally can act quickly on a business venture idea, are more flexible in their approach and implementation of an idea and have been the largest contributors to the employment growth of the United States. The entrepreneurial drive inherent in U.S. SMEs is a major factor in their unparalleled economic success. However, despite the fact that SMEs could become significant contributors to LDC economic development, they play a minor role in business expansion in the developing world.

The distinguishing traits which lead SMEs to explore business ventures in LDCs are not well known or understood; the venture development potential between developed and developing country SME partners has only begun to be tapped. In order to use the experience of SME joint ventures and coventures as effective development tools, it is crucial to understand the international venture process and how and why SMEs do or do not participate.

Mechanisms for assisting SMEs with the formation of new venture strategies should be keyed to the complete venture development process through which companies move from an initial idea stage through the search for resources strategy development, feasibility studies and project start-up. At each stage of the venture development process, however, potential venture partners can be distracted and discouraged from pushing forward through the time-consuming steps that can lead to cooperative business ventures.

It is known that companies will move forward with new business ventures when they are able to clearly perceive an opportunity which could reduce costs, exploit new market niches or generate new revenue from existing operations. A variety of new venture development assistance programs have demonstrated that SMEs can develop international business activities through joint venture and coventure strategies and that this process can be accelerated through improved assistance and network development.

In contrast to larger firms, SMEs lack many of the resources and abilities which spur internationalization and help it succeed. Capital, trained management, business networks and international experience are only a few of the typical assets SMEs possess in very short supply. For some, even the time and money required to identify and meet potential foreign business partners can be a large enough obstacle to effectively rule out such exploration.

In studying the international venture activities of SMEs, it was determined that the majority of such ventures are unlikely to involve the creation of a traditional, equity-sharing joint venture. Rather, most are likely to enter into coventures that make use of the existing assets and abilities of the involved partners, while at the same time ensuring the independence of each partner.

B. PRINCIPLE STRATEGIES OF COOPERATIVE BUSINESS VENTURES

For the purpose of this study, joint ventures and coventures can be further analyzed and defined in relation to three main strategies: Cost reduction, product and market differentiation and surprise revenues.

Cost-reduction strategies refer to those ventures for which the driving force is cost reduction, such as the search by a manufacturer of a labor-intensive piece of furniture who seeks offshore assembly sites which can provide a lower-cost foreign raw material source.

Product and market differentiation venture strategies are driven by a firm's need to distinguish its products or markets from larger, more general product classifications or market segments. In this instance, customers are always interested in cost, but service, reliability, quality and product adaptation are as important in building client and customer bases.

Surprise revenue venture strategies are those which are dictated by unexpected circumstances or opportunities. For example, a U.S. poultry operation may be quite successful in its current operation and not actively seeking new business opportunities. On the other hand, a developing country poultry operation needs technical assistance for upgrading its facilities and streamlining its operation and approaches the U.S. firm for such assistance. For the U.S. operation, an opportunity arises to enter into a long-term technical assistance agreement with the LDC firm from which both firms will benefit.

New business ventures are undertaken when key management within a firm makes the decision that a venture opportunity's benefits outweigh the risks. Smaller firms typically do not follow a systematic approach to forming new venture development strategies; generally they spend a considerable amount of time muddling through the various planning stages. Often, the successful development of a new venture depends on the vision of a senior manager or the skillful assistance of an intermediary consultant or facilitating organization. Most importantly, a new business venture will usually only occur when an entrepreneur or key company manager has a clear picture of the business expansion opportunity and how the firm should approach its development. Generally speaking, a venture opportunity must provide new economic or competitive benefits for the SME and must not overly tax its resources while the project moves through the feasibility and resource analysis stage to the subsequent stages of venture development.

- the fact that few initial venture development ideas reach the final stage of success.

C. CHARACTERISTICS OF NEW VENTURE DEVELOPMENT

The development of a new business venture is a lengthy process. Development time is dependent upon the risks involved, the venture experience of the firm, the complexity of the venture project and the availability of resources. Normally, the venture development program must evolve through a number of stages before the venture can begin - which can last anywhere from 10 to 36 months. Things do not happen quickly, as a rule.

U.S. SMEs seem adverse to venture development projects which involve significant capital risks in a developing country. They are, however, open to innovative ventures that exploit their own technology, management systems or market channels, while also offering promise of enhancing their return on investment.

Successful joint ventures and coventures require good personal and business relationships between the partners. Intermediaries who are knowledgeable of both partners and their capabilities, as well as the venture strategies most suitable for their venture, can contribute greatly to the successful outcome of the venture development process. Unfortunately, however, many firms are unwilling to pay upfront for this type of intangible service because they do not understand the role of the intermediary - intermediation fees are generally more closely tied to the ultimate success of the venture.

D. CONSTRAINTS ON VENTURE DEVELOPMENT

Helping companies to quickly develop a credible approach to new venture development appears to be a critical step in the venture development process. Many business development assistance organizations lack the staff or industry-specific support to assist in these important "packaging" steps. Existing private enterprise assistance organizations are most effective when they provide highly-specific linkage networks, credible access to partners and steady venture development follow-up pressure. New private sector institutions may require several years to build up appropriate credibility and facility at program packaging and networking.

Other constraints to venture development include:

- the inability of typical SMEs to identify and clarify potential venture opportunities or partners;

E. POSSIBLE TARGETS FOR ASSISTANCE

A large number of venture development assistance organizations are striving to improve trade and investment linkages, especially through the creation of new private sector organizations in the Third World. Such organizations must strive to improve trade and investment linkages through assistance mechanisms, such as:

- providing funds to cover partial costs of travel and early planning efforts;
- providing search and contact networks which encourage early personal contact between potential partners;
- publishing and promoting new types of joint and coventure opportunities in order to build confidence and positive attitudes regarding venture development opportunities;
- encouraging closer cooperation between for-profit intermediaries and volunteer assistance programs to help lower the cost of such assistance;
- developing U.S. outreach programs which qualify venture development opportunities and technology issues which can be fed to developing countries;
- developing investment promotion programs which not only focus on direct foreign investment strategies, but also encourage a broader process of attracting capital and technology;
- improving existing trade and investment promotion program ties to complementary technical assistance sources in order to improve capacity of developing country firms;
- improving support strategies in LDCs which also provide benefits to U.S. enterprises and are not directly associated with U.S. loss of employment;
- encouraging existing export development programs to choose joint ventures or coventures as venture development options, which can provide options for coping with limited local capacity for volume and quality of manufacturing;
- encouraging LDC outreach programs located in the U.S. or Europe to use national industry networks and look to have U.S. programs generate "highly specific" venture development opportunities.

In summary, it was generally found that developed and developing country SMEs can play a role in international economic development through various

types of joint venture and coventure mechanisms. However, the extent of participation in this type of venture development is significantly constrained and/or limited by a number of factors which are not readily addressed in many developing countries. Usually venture development assistance programs fail to create industry-specific networks that can help promote new linkages which are supported by practical technical assistance programs and which can help improve developing country capacity and also fit the needs of developed country enterprises.

3

Historical Characteristics of Joint Ventures

For the purposes of this report, it is important to be aware of and understand the process of venture development - a series of more-or-less discrete stages through which an idea or strategy evolves into a practical business arrangement.

The seemingly logical flow of an idea from initial idea to action is not characteristic of SME behavior. Rather, the venture development process is intimately tied to the specifics of an idea or proposal introduced to a firm. The discrete steps involved in any SME venture development evolution do take place, but they do not follow a consistent order when different venture situations are compared. SMEs may move almost immediately from a rough idea about export marketing to actual export, or they may spend time analyzing partners and markets before beginning or increasing production. In general, SMEs tend to identify opportunities and act upon them as quickly as possible and with a minimum of planning and analysis.

The definition of a joint venture used in this text is one in which partners form a new entity to which each contributes equity in the form of capital and/or other valuable resources, such as technology or equipment. Although the new entity is jointly owned by the partners, it may not be jointly-managed, ownership may not be divided equally and more than two partners can be involved.

A coventure, on the other hand, is the term used for all other types of cooperative relationships. These may include exclusive distribution agreements, licensing agreements for manufacturing technology, products or brand names, contracts for joint research and development, subcontracts or drawback arrangements and similar types of contract-related business relationships.

With these distinctions in mind, it is easier to discuss the characteristics of joint ventures and why they do or do not occur, the players involved and the critical environmental and firm-specific factors influencing their development.

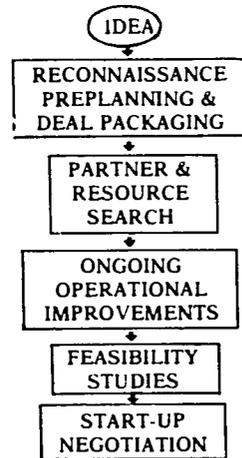
THE VENTURE DEVELOPMENT PROCESS

Although the process of venture development can vary greatly from venture to venture, there are a number of discrete stages that must occur and which can be organized in a working model. These stages include the following:

1. An idea is developed by an entrepreneur or member of a firm (IDEA);
2. A preliminary exploration, review and project concept is established by the potential partners or the venturer (RECONNAISSANCE and DEAL PACKAGING);
3. A search is made for a list of potential partners that meet the requirements of the venturer (PARTNER SEARCH);
4. A detailed feasibility study is performed and an investment package or business plan is developed in light of the interests and resources of the potential partners (FEASIBILITY);
5. Negotiation takes place between the potential partners (NEGOTIATION);
6. Start-up of operations is begun to implement the joint venture or coventure (START-UP).
7. On-going improvements in operations and the search for new growth opportunities starts the cycle again (IDEAS).

The following diagram illustrates this process:

GENERAL MODEL OF VENTURE DEVELOPMENT



B. JOINT VENTURES REPRESENT A MAJOR CHANGE IN BUSINESS STRATEGY

Existing research, most of which involves the study of larger firms, supports the idea that joint ventures are typically a "last resort" for firms unable to obtain the resources or cooperation they require through less-difficult means. Joint ventures are the least-preferred alternative compared to coventure or contractual relationships, since they: impose more restrictions on the partners' freedom of action; are generally more expensive to form; require more commitment by the partners and involve a variety of problems inherent in joint management of a co-owned company - disagreements over strategy, who has ultimate control over the co-owned company or reinvestment of earnings.

Harrigan (1985) concludes that joint ventures represent a key corporate strategic decision. Joint venture decisions are not taken lightly and generally require extensive planning, feasibility studies, negotiations, assessment of legal and tax implications and more. The Conference Board study, "Joint Ventures with Foreign Partners" (Bivens, 1966), reported that a firm's motivation for entering into a joint venture was to acquire some skill or resource which it either lacked or could not afford to acquire through other means. Pfeffer and Nowak (1976) also concluded that firms enter into joint ventures when they cannot afford to acquire the resources and competencies they need on their own.

C. JOINT VENTURES BRING TOGETHER NEEDED RESOURCES

Firms generally enter into joint ventures to acquire advantages or resources they cannot obtain otherwise. Decision makers are cautious or reluctant to consider these arrangements because of their complexity and disadvantages. The old saying, "A partnership is a marriage without love," hints at some of these difficulties. However, the number of joint venture formations in the United States has been increasing recently, with many occurring between domestic corporations (Harrigan, 1985).

For any business venture, particularly a joint venture, the perceived benefits of the relationship must somehow outweigh the problems. For example, one strategic value of joint venture relationships is that they sometimes can give partners the combined strengths necessary to cope with foreign competition. For some firms, increased competitiveness and survival may be far more important than

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the difficulty of meshing the distinct structures and systems of two or more partners.

D. BUSINESS EXECUTIVES ARE WARY OF PARTICIPATION IN FOREIGN ENTERPRISES

U.S. business executives often dislike venture participation by a foreign firm for many of the same reasons that host countries favor it. Some of these reasons are: authority is given to local entities, which at times may have different goals than those of the U. S. firm; managerial freedom is restricted; and additional burden is placed on the company. Interestingly, U.S. firms are sometimes more or less forced into joint venture arrangements because of the requirements and restrictions of the host government. A U.S. firm, for instance, may not be able to enter a market or set up a manufacturing plant without meeting government requirements for local ownership of a business, locally-sourced content of the product or local management requirements. In business ventures between state enterprises and private corporations, host government officials may believe the advantages of such ventures outweigh the disadvantages; U.S. business executives, on the other hand, may believe the exact opposite, having experienced a variety of frustrations with host government business involvement (Raveed, 1980). Foreign governments often prefer the control such ventures provide over economic activity, yet it is precisely that bureaucratic intervention that business people dislike so heartily, since they feel it creates enterprises that are excessively restricted and controlled, over-politicized, and generally less effective and efficient. In a convincing confirmation of this belief, the topic of divestment and privatization of state-owned enterprises has received steadily-increasing attention in recent years as host country governments recognize the problems of such government-run enterprises.

Government restrictions can cause difficulties in other areas as well. For instance, a company with business activities in Brazil would be required to fly any air freight into Brazil on one carrier only - the Brazilian airline, Varig. Another example of government restrictions is the fact that some countries make it very difficult to bring in a portable computer for personal or business use.

E. SMALL FIRMS ARE LESS LIKELY TO BECOME EQUITY JOINT VENTURE PARTNERS

The reasons for developing a joint venture found on the following chart are based on research gathered on larger corporations. Generally, SMEs do not have the same visibility, scale of operations or concerns as their multinational counter-

parts. Neither do they have the financial resources, access to information, nor the specialized international expertise and executive talent required to formulate and manage joint venture entities.

This does not mean, however, that SMEs do not enter into joint ventures; rather, their objectives tend to be more specific or limited to the commercial advantages or profits such a venture might produce. For example, being able to sell a proprietary technology to a foreign entity would likely be of much greater interest to a small firm than the opportunity to improve anti-foreign investment attitudes, a typical concern for a large firm.

Because SMEs generally have limited capital or other resources to invest, they are naturally concerned with the "up-front" costs of venture development such as travel, feasibility studies and consultant fees. They cannot afford extensive explorations and partner searches and are concerned with how quickly a new venture will become profitable.

Often, SMEs simply cannot afford the risks of a joint venture. The rationale for trade and investment programs, such as The Joint Venture Feasibility Fund and programs that support intermediary activities, are based on recognition of these problems.

WHY DEVELOP JOINT VENTURES?

The reasons generally presented for entering into international joint ventures include the following:

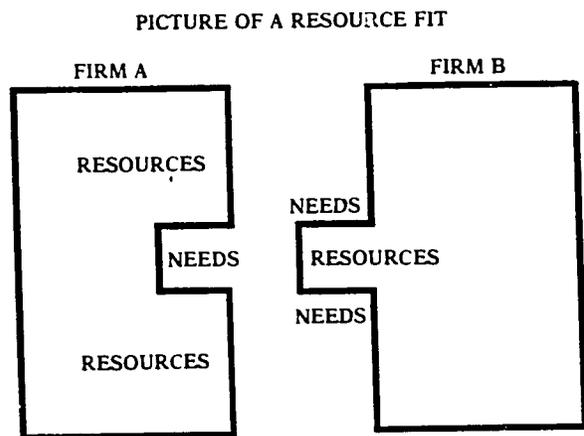
- To access a stable foreign source of raw materials.
- To enter into an attractive market that is legally-closed to wholly-owned foreign companies or which is difficult to enter for other reasons.
- To spread available investment capital over more projects, thereby lessening overall risk.
- To pool skills and gain knowledge of local customs and business practices.
- To use outdated resources profitably.
- To sell know-how or other technology.
- To integrate and rationalize world-wide activities.
- To stimulate or increase the worth of a stagnant organization (i.e., by introducing new blood, resources, or activities).
- To improve anti-foreign investment attitudes.

Robock & Simmonds, 1973

F. PATTERNS OF JOINT VENTURE FORMATION

The research performed for this study confirms that the most successful cooperative ventures are those which match different but have complementary resour-

ces and skills. However similarity between management styles, outlooks and control systems is an important ingredient for long-term success. The basis for a cooperative venture can be described as the "resource fit". Complementarity between the resources and skills of two firms will encourage cooperation between them. (Harrigan, 1985)



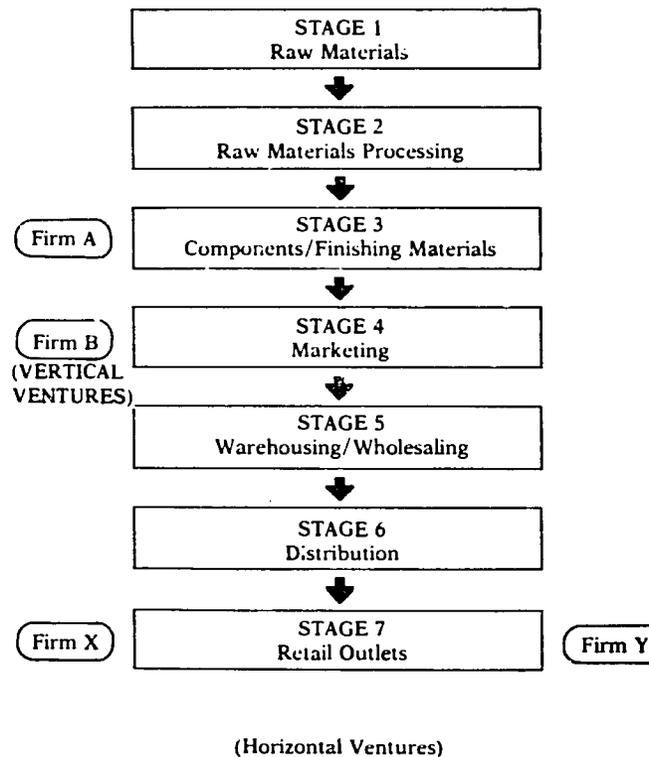
The fit between firms may be classified into broad categories on the basis of the stages of production in which the partners cooperate. Horizontal cooperative ventures are those in which partners engage in the same stages of production. Vertical cooperative ventures are those in which each partner participates in a different stage of production. The diagram on the following page has been included to illustrate these concepts and the various stages of the product transformation process.

1. The Horizontal Cooperative Venture

Partner firms which join forces in any single production stage form a horizontal cooperative venture. For example, firms X and Y above have formed a horizontal cooperative venture by combining their retail outlets. Firms may also form horizontal cooperative ventures to lower costs through shared production or warehousing facilities, to combine marketing channels, to carry out cooperative research and development or to perform joint mining or excavation projects. Firms may also use a horizontal cooperative venture to team up against a powerful competitor. Horizontal cooperative ventures to date have been prevalent in

the petrochemical, pharmaceutical, steel and farm and industrial equipment industries, in which attainment of scale economies and good market share have been important competitive goals difficult to achieve independently. (Harrigan, 1985)

THE PRODUCT TRANSFORMATION PROCESS



2. The Vertical Cooperative Venture

Two or more firms cooperating in different stages of production, such as Firms A and B on the preceding diagram, form a vertical coventure. Early studies of international cooperative venture activity regarded cooperative ventures as a means for developed country firms to penetrate the markets of industrializing countries (Bivens and Lovell, 1966). More recently, developing country firms have used the international cooperative venture to penetrate the U.S. market. In the 84 projects studied for this report, 67 percent of projects initiated in the Caribbean Basin followed the latter strategy (see Appendix C).

International vertical cooperative ventures have also been undertaken for the purpose of investment or the organization of financing from international sources. In addition, cooperative ventures have been used to transfer know-how or actual production facilities, to provide technical or management services, to attain competences or resources lacked by one partner, to market products from one country in another or to establish a drawback operation. Firms have also entered vertical cooperative ventures to decrease their dependency on particular supplier or buyer firms (Harrigan, 1985).

In our sample of 84 projects, 7 percent of the cooperative ventures were classified as horizontal, while 92 percent were termed vertical cooperative ventures or coventures; 1 percent was "spiderweb" or a combination of horizontal and vertical. Joint venture and coventure strategies were used by Caribbean and U.S. firms for different objectives. American partners used the cooperative venture process to access cheaper labor, less costly production facilities or cheaper sources of other inputs. Caribbean partners entered a cooperative venture in order to gain access to technology and management skills and to penetrate the U.S. market through the marketing and distribution channels of their U.S. partners. Harrigan reported that the American managers participating in her cooperative venture study concurred that market access is very important (if not the single most important) resource that U.S. partners control in cooperative venture negotiations. Technology was found to be almost as strong a motive for cooperative venture formation.

G. ATTITUDES OF SENIOR EXECUTIVES ARE CRITICAL

While there may be compelling business reasons for a firm to internationalize, it is unlikely to do so without the commitment of senior executives. The influence exerted by a senior executive is a significant factor in internationalization, according to those participating in our survey. Survey results indicate a high level of agreement with the statement: "A primary motivation for this venture was the

leadership and commitment of a senior executive." This finding tends to support Ahroni's (1966) contention that the most significant internal force for internationalization in a domestically-oriented company is the leadership of a senior executive.

H. JOINT VENTURES ARE A RISKY BUSINESS

The extent to which ventures survive to fruition is central to the usefulness of cooperative ventures as a vehicle for encouraging economic development. The venture must last long enough to benefit the firms involved and to attain its goal.

According to estimates developed by McKinsey & Co., history has been a harsh judge of cooperative partnerships: only 1 in 30 proved to be a long-term success as an ongoing enterprise. As the diagram on the following page illustrates, the percentage of cooperative venture ideas that actually develop into long-term alliances is very small. (The estimated percentages of success and failure at each stage of the venture process indicated in the diagram were developed by McKinsey & Co., 1986). According to the McKinsey estimates, there is a 3 percent probability that a venture will survive in the long-term once a formal agreement has been signed, while 2 percent of all partnering concepts eventually blossom into long-term successes.

Thinking of joint venture promotion, the McKinsey study would suggest a range of 6.7 percent to 16.0 percent of all general project concepts reach a formal agreement. The Singapore promotion office can get 27 percent of all companies contacted to visit Singapore and 4 percent to invest. (Organization of American States, 1985).

I. COOPERATIVE VENTURES TEND TO BE UNSTABLE

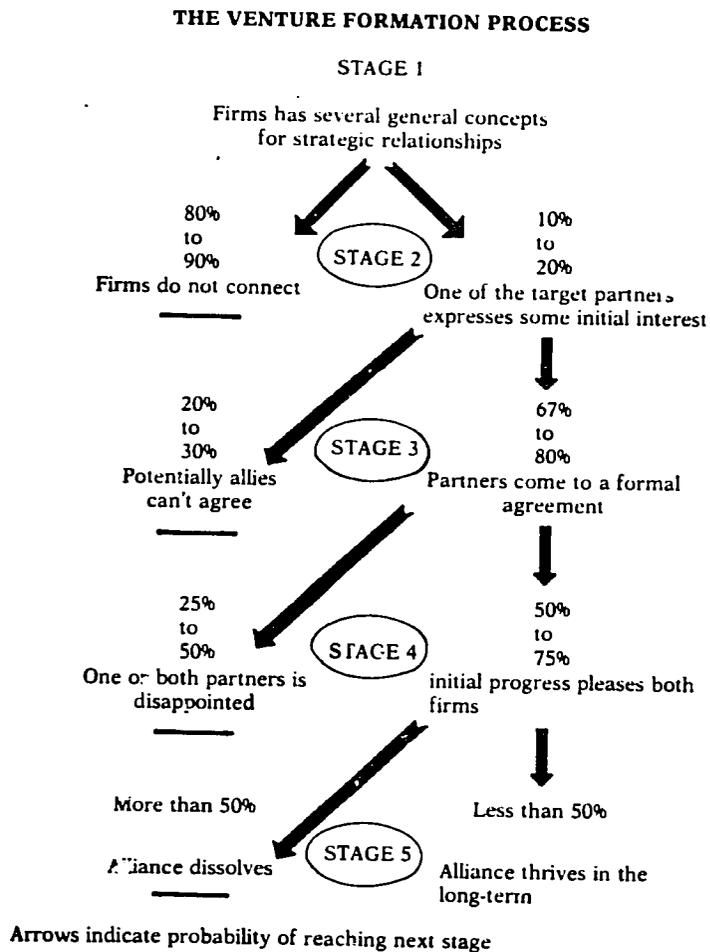
According to Harrigan (1986), The Conference Board Survey (1966), McKinsey & Co. (1986), and our own survey of joint venture experts, several forces lead to the erosion of cooperative alliances in the long-term. These forces include:

1. Uneven levels of commitment of the venture partners.

Venture partners may develop uneven levels of commitment to the venture when it is critical to the success of one company's business strategy, but peripheral to the other company's. Even if partners enter the venture with the same level of interest, it is rare that the same level of interest is maintained over time.

2. Changing strategic objectives

Joint venture partner firms have different motivations and face different situations in their business activities. Thus, the importance of the venture for the partner firms may change at varying rates. Additionally, one partner may find that cooperation with the other slows his operations or both partners may find that cooperation slows both down.



3. Large/small firm mismatch

Decision-making capabilities, risk-taking propensities and the scope of organizational resources that each partner is required to devote to the success of a venture differ between small and large firms. Large firms have access to outside consultants, market research departments, systematic screening processes or academic ties. Small firms, on the other hand, operate on a different frequency. It is often the case that one or two managers (or owners) carry out the functions allocated to several departments of larger organization.

Thus, small companies cooperating with larger firms are often frustrated by long decision-making processes, paperwork requirements, numerous meetings, and the layers of bureaucracy characteristic of larger firms. On the other hand, large firms become frustrated by partners which cannot play by their rules.

The size discrepancy may also hamper vertically related cooperative ventures. For example, a manufacturing-type venture where the U.S. firm is responsible for marketing and distribution may require far more volume than its potential small partner is able to provide, even if it is operating at capacity. Thus, a product manufactured by a Caribbean firm for which there is a strong market in the U.S. may be rejected by a potential U.S. partner if it cannot be obtained in sufficient volume to make marketing the product cost effective for the U.S. firm.

4. Dissimilar corporate cultures

The problem of dissimilar corporate cultures is similar to the large firm/small firm problem described above. Although firms may be of similar size, their operating styles may differ to such an extent that the partners are not able to work comfortably with one another. Confusion over procedures and misinterpretation of agreements can slow down partners' progress to the extent that the benefits of the venture are outweighed by the operational inefficiencies it creates.

5. Inadequate Incentives for cooperation

According to Professor Edward Roberts of M.I.T.'s Sloan School of Management, few partnerships fail because they are flawed strategically. Most failures occur in the execution or implementation of the venture, not in the conception.

Cooperative agreements are often crafted at the highest decision-making levels of companies, but are implemented by others within the organization. For exam-

ple, in a cooperative agreement which exchanges production for market access, the salesmen are the ones charged with implementing the marketing agreement. Each partner must provide adequate incentives to the arm of its organization charged with implementing the cooperative strategy or it will not live up to its end of the bargain.

6. Insufficient executive attention

According to a study by Coopers & Lybrand and Yankelovich, Skelly & White, executive involvement devoted to cooperative ventures declines with time: 46 percent of senior management time allocated to partnering goes into the conceptual phase of the venture, 23 percent to the development phase, and only 9 percent goes to the actual management of the venture. This study also found that most corporations underestimate the commitment of human resources which are necessary to make the cooperative venture work and that the actual time firms need to devote to the venture eventually drains them of their interest in the venture.

7. Misjudgment of distribution capabilities

Marketing new products often creates problems for even the most developed sales and service organizations. Many firms which undertake marketing a product for their venture partner find that they do not understand the market for the product as well as they thought they might. The cost of learning that market may outweigh the advantages of the venture itself.

8. Disappearance of reason for undertaking the venture

The market for the product manufactured by the cooperative venture may disappear or one or the other partner may decide to exit the business in which the venture operates.

9. Other Factors

Our 1986 survey of joint venture authorities (see Appendix C) revealed several

other factors which may prevent the venture partners from reaching STAGE 4 (start-up operations) of the venture process, such as:

Differences in partners' long -and short- term objectives

Differences in the long -and short- term objectives of partners often lead to the partners having different visions for the objectives and timetable of the venture. This can lead to negotiation or operating difficulties and the dissolution of the partnership. Ninety-seven percent of the respondents in the JVFF survey indicated that differences in long and short-term objectives were an important factor preventing the ventures from coming to fruition.

Partner does not live up to expectations

When one partner does not perform as the other expected, the cooperative venture is greatly strained and will be dissolved unless more negotiations bring the partners to a new understanding.

Inaccuracy or incompleteness of initial studies

Inaccuracy or incompleteness of feasibility studies may mean that markets for the venture's product are weaker than expected (in which case the venture may be dissolved) or stronger than expected (in which case a firm may have teamed up with an inappropriate partner). Similarly, inaccuracy of initial expectations about the expected profitability of the venture often results in the dissolution or renegotiation of a cooperative venture.

Lack of experience

The larger the firm's resource commitment to a cooperative venture (i.e., the greater the degree of importance in the overall company scheme) and the less experience it has with cooperative ventures, the more likely that substantial problems will be encountered. According to Haringan (1985), there is a definite learning curve associated with cooperative ventures; the firms that have venture experience are more likely to have learned to handle such difficulties.

Host government interference or changes in national policies

The political and bureaucratic environment of the host country can present significant barriers to efficiency. Nearly all of the JVFF survey respondents indicated that a principal contribution of the host country partner was providing relationships with government institutions that are necessary for the smooth operation of business. Host country partners can help cut through red tape, greatly accelerating the progress of venture development and/or facilitating operations. They are also in a position to anticipate changes in government policy and the effects such changes may have on the operation of the venture.

The effects of geographic distance on routine communications and language and cultural differences between partners

Surprisingly, our respondents ranked geographic distance, language and cultural differences as less likely to lead to the dissolution of cooperative ventures than any of the other factors described above. It appeared that as long as there was a sound business rationale for the venture and government interference did not make business operations too difficult, the venture would prosper - language and cultural barriers notwithstanding.

J. SUMMARY OF HISTORICAL CHARACTERISTICS

Historically, most research on joint venture formation and operations has been conducted with larger multinational firms. This research indicates that joint ventures are complex relationships, often unstable and prone to breakdown. Changes in external environmental conditions, inexperience of the partners, differences in partner philosophies and ways of conducting business, unrealized expectations and more, may create substantial problems, often leading to the dissolution of the partnership. The potential economic benefit that could be derived by the partners is a necessary, but not sufficient, condition for longer-term venture success.

A variety of factors can interrupt the venture development process at any stage. Anything is useful that can help the clients keep a clear vision of the opportunity at hand. Also, assistance can help them work through the various planning and negotiating details. Assistance programs for venture formation must, therefore, be able to affect all stages of the process with information and technical assistance. Maintaining pressure and incentives at each stage appears valuable to accelerating the project development cycle.

4

International Venture Development of Small and Medium-Sized Enterprises (SMEs)

A consistent theme weaving throughout the research findings is that of the differences between SME organizational and managerial characteristics and those of larger multinational firms. Though there is some overlap between them, SMEs are a distinctly different type of entity, which must be thoroughly understood in order to design effective support and assistance programs which are geared to their needs in both the developed and developing countries.

The aim of this chapter is to explore a variety of organizational and managerial characteristics of SMEs and to illustrate how these characteristics can affect the venture development process.

A. PLANNING IS LIMITED IN SMALLER FIRMS

SMEs typically lack an extensive planning system and are not overly burdened by corporate bureaucracy. Once a venture idea or opportunity presents itself, SMEs generally act quickly to explore such opportunities. This tendency to act quickly may be heightened in those firms that already have a propensity to internationalize. It may also result from personal exposure of key international business executives to a particular country or from relative international involvement of their industry. As an example, a smaller U.S. garment manufacturer may receive an unsolicited letter from a developing country counterpart, or vice-versa, who seeks an opportunity for offshore production. If the ensuing discussions warrant it, an agreement may consequently be signed.

Sudden changes in external business environment circumstances may push a firm to internationalize. Several requests for funding received by the JVFF in 1986 involved U.S. dairy operations who sought to shift excess dairy herds to developing countries, as an alternative to the slaughtering mandated by Federal legislation for the purpose of reducing dairy herds. At the same time, the U.S. Department of Agriculture (USDA) explored this option, since the much publicized dairy herd reduction met with strong opposition from the meat-packing industry, which faced a beef surplus.

The tendency of most firms to merge planning and action at the same time is well-documented (Weick, 1979). Managers do not generally formulate comprehensive plans; rather, they tend to plan as they go along. In the above dairy operations illustration the individual dairy firms and the USDA quickly discovered that exporting cattle overseas brought with it a variety of concerns, such as the ability of the host countries to operate dairy and livestock enterprises, the effects of such transfers on the recipient's local agribusiness economy, as well as the effects of transport and relocation on the cattle. One firm complained of the scarcity of appropriate shipping and noted that some cattle might die in transit. The realization that the export transfer was not as simple as initially presumed led quickly to feasibility study efforts in order to answer critical questions.

It was found during our survey that the SME management process generally is not a systematic movement through a logical sequence from planning to action. There is little time for isolated reflection on one's business. Most management time is spent "firefighting" (Mintzberg, 1973). Thinking (planning) is done concurrently with other tasks or during time away from work. This view of the average business decision is critical to understanding why most U.S. and foreign firms rarely seek out information or technical assistance to assist them with planning. Rather, they "muddle along," reacting to day-to-day situations.

The following case, an adaptation of an actual case in the Caribbean Basin, illustrates this management characteristic of SMEs.

CASE STUDY: CONTACT LENSES - PANAMA

Though the inclination to internationalize usually exists before a firm takes action, specific circumstances can change this. As the following case study illustrates, for U.S. SMEs in particular, venture development steps do not necessarily follow a standard order.

Everco Panama, a group of Panamanian entrepreneurs and business owners, were discussing ways to make use of the Caribbean Basin Initiative (CBI). One owned a company that manufactured containers, on a contract basis, for personal care products (hair spray, deodorant). Another firm had some knowledge of contact lens manufacturing. They believed that, since contact lens manufacturing is relatively labor intensive, they could offer a lower-cost source of contract supply to U.S. lens manufacturers, if they could acquire the necessary equipment and technology.

With the help of an intermediary, they prepared a proposal and presented it to U.S.-based contact lens manufacturers and distributors. Internationalization was a completely new idea for most of the U.S. firms contacted. It is worth noting that such firms, when shown a specific, attractive opportunity, are usually quite willing to seriously consider it. Introduction of a new idea, in the form of a specific proposal, started a development process which included visits to Panama, discussions of potential problem areas in the manufacturing process, preliminary studies and negotiations.

B. SMEs LACK INDUSTRY-SPECIFIC INFORMATION AND COMPANY STRATEGIES ON COOPERATIVE VENTURES

Changes in management's perspective of the existing business environment can lead to exploration of venture possibilities. Most importantly, a company is motivated to take action when it perceives a new opportunity or threat that must be managed (Pounds, 1971). Most firms rule out considerations for venture collaboration with developing countries unless they receive clear and specific information on these strategies and how they can benefit the firm.

Many enterprises, especially smaller U.S. and developing country firms, have little understanding of the joint venture or coventure process. Our research suggests that many small and medium-sized firms are unaware, unclear or confused about what coventures might mean to them in terms of cost reduction, new market access or other benefits. A clear understanding on the part of the potential partners regarding possible venture benefits is vital to any significant exploration of a venture idea.

C. SATISFICING RATHER THAN BROAD PLANNING

The concept of "satisficing" (March & Simon, 1958) challenges the idea that decisions are based on optimality. Firms generally do not develop elaborate analyses of strategy options and choose the strategy with the highest weighted net present value. Instead, most firms make decisions in response to the first satisfactory alternative that might solve the problem or need at hand - they make decisions which will both "satisfy" and "suffice", or "satisfice."

Satisficing is more common, even in larger firms, than broad-scale planning and extensive analyses. Most firms have neither the resources nor the inclination for broad planning. The reality of business planning and decision making is neither as rational nor as thorough as micro-economic stereotypes would indicate.

D. LEVEL OF PLANNING FORMALITY DEPENDS ON THE VENTURE

As noted earlier, venture development steps can vary, depending on the particular opportunity being explored. Intermediaries and other professionals involved in developing joint ventures or coventures report that the level of venture planning

formality depends on the:

- product;
- the complexity of the manufacturing process or technology;
- the venture's purpose and form;
- the presence or absence of an intermediary;
- the amount of investment required.

The perceptions, expectations, realities of the local business climate, company philosophies and cultures, key players personalities, interpersonal chemistries and prior international experience significantly affect the venture process. Even when firms have a propensity to internationalize, or to act, a catalyst-either in the form of a specific idea or "felt need" - is required before the venture process can begin.

The findings on satisficing and the informality of planning should not be generalized to all small and medium-sized firms. The following case study is a good case in point, since it illustrates a firm which did substantial planning for one venture opportunity and essentially none for another.

CASE STUDY: ELECTRONICS MANUFACTURING - EL SALVADOR

Rhode Island Electronics' (RIE) technology is not complex. Most of its manufacturing operations involve metal stamping, wiring and assembly tasks. There are only two patentable processes involved which are not considered to be major advances in the field.

Until recently, RIE had no international affiliations, although it did export some products to Europe. In 1984, RIE noted that a number of competitors were beginning to manufacture and sell in Europe. At the same time, they noted an influx of foreign competitors in the U.S. market. Convinced of the need to internationalize, RIE and their local bank hired a consulting firm to explore their competitors' strengths and weaknesses and their business development strategies, as well as various European countries and markets. This information and analysis provided the basis for RIE's emerging international strategy. Ultimately, the company decided to enter into a coventure with a German distributor who had previously handled RIE's export sales.

Realizing that internationalization had become a significant factor in their segment of the electronics industry, RIE also made a concerted effort to create a formal planning process for their internationalization rather than informally "winging it." They systematically collected and analyzed information, defined options, conducted cost benefit analyses, formulated a strategy and implemented a detailed action plan. Knowing that their competitors were operating on a global level, RIE's management expanded their thinking beyond simple exporting-a good example of the "bandwagon" effect (i.e. in this case, because RIE's competitors were going international, they felt they needed to also to keep up with industry trends). They did not possess in-house international expertise, but were astute enough to recognize the need for, and sufficient value of, the services of outside experts in their development of an international strategy.

RIE's venture with the German distributor was successful and "whetted their appetite" for other international opportunities.

Still concerned with growing competitive pressures in their U.S. and European markets, RIE had excluded the developing world in their planning and thinking. To its

management, the developing world meant small markets, quicksand politics and worthless currency that could not be converted to dollars. However, since the consulting firm retained for the European program was also involved in a trade and investment program for El Salvador, RIE was encouraged to explore manufacturing possibilities in that country.

RIE found that managerial capability and plant capacity were available in El Salvador, since there were several local electronic components manufacturers who had been phased out of a contract with a major American electronics company's subsidiary. RIE sent component samples to these firms and found that manufacturing in El Salvador would cost 15-20% less than in RIE's U.S. plant. Although RIE was enthusiastic about the opportunity, the venture is currently "on hold," due to a depressed market demand.

In contrast to the European venture exploration, RIE's exploration of El Salvador was relatively informal with little or no planning. They were presented with a way to reduce costs. They sent samples and were satisfied with the Salvadoran firms' quality and cost. As a result, RIE was prepared to make an initial order. None of these steps and actions involved significant preparation or risk.

E. INTERMEDIARIES FACILITATE VENTURE DEVELOPMENT

A survey of experienced intermediaries and venture development experts was conducted as part of the JVT research program with the purpose of confirming or challenging other research findings. The results confirm that small to medium-sized businesses are reluctant to pursue international ventures in general and to exploit opportunities with LDC firms in particular. Intermediaries bring specific experience and knowledge to potential venture partners and greatly increase the probability of venture formation.

The survey respondents were experienced in the international venture process. They had an average of 15 years experience in international joint ventures and coventures and had participated in an average of 30 to 35 international cooperative ventures. They were asked to answer a series of questions regarding cooperative ventures in general and the use of cooperative strategies in developing countries specifically (see Appendix C).

Research on the venture strategies of large firms indicates that their need to satisfy a variety of internal, competitive and strategic needs motivates them to consider a joint venture or coventure. Firms which lack the capabilities, strengths or resources to exploit an independent business opportunity will consider cooperation. A number of SME characteristics reduce their drive to engage in international joint ventures or coventures. In fact, 85 percent of the respondents to the survey felt that U.S. and Caribbean Basin SMEs lacked appreciation of joint ventures or coventures as a business development strategy.

Survey respondents overwhelmingly agreed that the "lack of direct coventure experience" of U.S. SMEs is the most significant factor inhibiting the initiation of cooperative ventures in the Caribbean Basin region.

Inexperienced firms may see coventures as being too complicated and may pursue other options for achieving their strategic goals. Unlike large firms, where strategic planning departments come up with venture ideas and lists of prospec-

tive venture partners, small firms often depend on a single individual - usually the owner/manager - to provide and process strategic business venture information.

Since the owner/manager must also assume many other roles in the management of a small business, there may not be much available time for strategic planning and information gathering regarding potential venture partners. Thus, initial surveillance for prospective partners may be limited - to the extent that no suitable partners are found. Conversely, large firms often survey and interview all prospective partners being considered for a particular venture. The problems that a small firm encounters in a partner search are further complicated by geographical distance and language differences. According to the survey results, 80 percent of the respondents felt that "small and medium-sized U.S. and Caribbean Basin firms have difficulty identifying joint venture opportunities and venture partners."

Intermediaries, or venture brokers, often perform the reconnaissance function for the small firm. Intermediaries are generally familiar with firms in a particular industry or country and can assess their viability as potential venture partners. Thus, intermediaries reduce partner search costs for the small firm and increase its realm of strategic options.

"Interviewing potential partners and eventually meeting them" is an important step in the venture development process. According to 90 percent of the survey respondents, direct contact with potential partners is the most important factor in building commitment to the cooperative venture. Thus, JVFF funds, which facilitate prospective partner firms to meet one another, play an important role in the early stages of the venture development process.

Once prospective venture partners have been located, small firms may encounter the more fundamental difficulty of having "insufficient knowledge of how to organize the new business" or how to manage its growth in a new dimension. Again, advisory services that provide effective, practical help in starting and managing a venture may increase the venture's chances of initiation and survival. The results of the survey indicate, however, that small and medium-sized U.S. and Caribbean Basin firms "lack an understanding of how to use intermediaries and other advisory facilities" to help organize cooperative ventures.

The survey of experts suggests that in order to stimulate the development of cooperative ventures between U.S. and Caribbean Basin small and medium-sized firms, intermediary organizations are needed to:

- make firms in both countries aware of venture opportunities
- make firms in both countries aware of potential partners
- familiarize firms in both countries with the venture development process (lack of experience is the greatest factor inhibiting the formation of cooperative ventures)

F. SUMMARY OF VENTURE DEVELOPMENT OF SMEs

For most SMEs, planning is generally unstructured, informal and unsophisticated. This fact, coupled with the fact that a "global orientation" is not a necessary condition for initiating international ventures, has many implications for policies and programs both in the home and host countries. This reality should affect not only legislation and program content, but it also has implications for the ways in which these programs are communicated to potential venturers. "Marketed" is perhaps a more appropriate term than "communicated," since the concept of joint ventures and coventures really has to be "sold" to smaller and medium-sized enterprises.

SMEs often require a push toward considering international business ventures and they need concrete reasons why they should internationalize. Some have unfavorable attitudes toward developing countries that are not easily overcome. Since many SMEs have never entered into joint ventures or coventures - either domestically or internationally - they require guidance and information regarding the theory and practice of such cooperative arrangements.

SMEs need assistance with identifying those features of their specific situation or business which lend to international business ventures. Some SMEs may be unaware that financing for business expansion and low-cost labor may be provided by developing countries. They may not be aware of a higher-quality offshore source of a needed raw material or may be ignorant of developing country markets for their products and services.

Since most SMEs are too busy "firefighting" to devote time, resources and effort to actively seeking international business opportunities, they need assistance to identify and evaluate specific venture opportunities. An intermediary mechanism, which would "push" potential venture opportunities in both directions - to U.S. SMEs as well as those in developing countries - would contribute to the greatest weaknesses of SMEs - their relative inability to seek new specific venture opportunities.

External guidance during discussions and negotiations between potential partners can lessen friction and increase the strength of the partners' commitments to a potential venture. Participation of an objective third party can provide the overview and knowledge of international business relationships which the partners may lack. Specifically, external guidance can help potential venture partners find financing, marketing channels, shipping/customs brokers, technical assistance, equipment, etc. Venture development assistance and promotion programs targeted at SMEs provide excellent opportunities to train firms in the varied aspects of international business operations.

Simply put, many SME's, in both the developed and developing countries, can benefit greatly from a substantial amount of personal, one-on-one assistance - a factor directly related to the successful development of further international business ventures involving smaller - and medium-sized enterprises.

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5

Characteristics of SME Joint Venture and Coventures

A survey of the research literature on international ventures confirmed that the majority of international SME ventures confirmed that the majority of international SME ventures do not involve the creation of traditional, equity-sharing joint ventures, nor the direct foreign investment typical of large multinationals. Rather, a variety of non-equity sharing coventures predominate, which tend to utilize a partner's existing assets and capabilities while simultaneously maintaining a greater degree of independence between the firms.

Several aspects of the projects examined in the JVFF research that are consistent with this tendency were: a) the firms were generally small to medium-sized (with the corresponding resource limitations); b) the SME firms held a common perception of the political and economic instability of the Third World; and c) the venture strategies of the SME firms were inclined toward the non-equity-sharing type of venture.

This chapter will first profile the JVFF ventures by type and size of venture and then discuss the motivations of both U.S. and Caribbean partners which affected the type of venture pursued.

A. THE VERTICAL/NON-EQUITY FORM OF COOPERATION PREDOMINATES

The Caribbean Basin firms surveyed in the JVFF research tended to form non-equity-sharing vertical relationships with their U.S. partners. In most of these

coventures, the Caribbean partner contributed the bulk of the resources needed to carry out the manufacturing function (materials, labor, capital, regulatory permits, etc.), while the U.S. partner typically performed the distribution function and provided technical assistance to the Caribbean partner. In some cases, the U.S. partner also provided some materials to the manufacturing function.

In statistical terms, 92 percent of the sample of JVFF ventures analyzed were termed vertical relationships, 7 percent were classified as horizontal, and 1 percent represent a spider-web effect (combinations of horizontal and vertical). Furthermore, as shown in Table A, 25 percent were joint ventures (involving the creation of a new equity). This breakdown of venture types is not surprising in light of previous research which indicates that executives (especially those who are owners of their businesses) attempt to maintain strategic flexibility as they venture, especially in situations which they perceive to be risky or which have insufficient information. Harrigan (1986) also found that venture partners generally preferred flexible arrangements when venturing into situations perceived to be uncertain and volatile. The non-equity, vertical forms of participation are consistent with the perception of U.S. SMEs of the Caribbean Basin as politically and economically unstable.

Table A
VENTURE TYPES
(sample of 84 JVFF firms)

	<i>Vertical</i>	<i>Horizontal</i>	<i>Spider-Web</i>
Joint Venture	22%	3%	0%
Coventure	70%	4%	1%
Overall Sample	92%	7%	1%

The firms that chose non-equity forms of cooperation also tended to be smaller than those which chose equity participation. Consistent with their limited resources and information-gathering capabilities many of the coventures were structured to utilize the existing abilities of each partner, thereby making the creation of a third organization unnecessary. Those ventures that did involve equity participation tended to involve somewhat larger firms which possessed greater international experience and were involved in industries requiring greater levels of capital. For example, one JVFF-funded venture centered around the creation of a sawmill in El Salvador, a relatively expensive proposition, to process excess low-grade Alaskan timber into lumber for local use.

Another factor which makes equity forms of cooperation between U.S. and Caribbean Basin firms less likely is their size asymmetry (see Table B). Harrigan

(1985) found that partners of substantially different sizes were less likely to be able to afford to fund and support their ventures in similar amounts.

Table B
SIZE OF FIRMS IN TERMS OF SALES
(Sample of 84 JVFF Ventures)

U.S. Partner Size	<i>Joint Ventures</i>	<i>Coventures</i>
Average Size	\$10,000,000	\$ 7,000,000
Minimum	350,000	100,000
Maximum	25,000,000	25,000,000
Caribbean Partner Size		
Average Size	\$ 5,000,000	\$ 4,470,000
Minimum	35,000	60,000
Maximum	16,000,000	4,000,000

In valuing reciprocal contributions to venture opportunities, access to the U.S. market was the most important resource controlled by U.S. partners in venture negotiations (Harrigan, 1985). Because technology changes rapidly, it was ranked below market access. Competitive advantages based solely on technology are less stable than those based on market access. The developing country enterprises evaluated in the study placed high value on locating partners who could provide access to both markets and technology.

B. PRINCIPAL MOTIVATIONS OF DEVELOPING COUNTRY VENTURES PARTNERS

Developing country SMEs view cooperative ventures with U.S. partners as an important mechanism to achieve their objectives of market expansion, business growth and product diversification. Among the most often-cited motivations for seeking cooperative ventures with U.S. partners are:

1. Access to the U.S. market
2. Acquisition of technology and know-how
3. Greater utilization of existing labor and production facilities
4. To enter into a new business

Caribbean Basin venture partners used the cooperative venture primarily as a means for gaining access to the marketing intelligence, distribution channels and brand names of their U.S. partners. In addition, U.S. partners offered their Caribbean partners access to technology which they would otherwise find very difficult to develop or buy (Connolly, 1984; Harrigan, 1986). New machinery and new technological skills were used to upgrade and build upon the existing skills of the Caribbean labor force (see Table C).

Table C
STRATEGIC OBJECTIVES OF CARIBBEAN VENTURE PARTNERS

<i>Strategic Focus of Caribbean Basin Firms</i>	<i>Percentage of Values</i>	<i>Percentage Initiated by Caribbean Firms</i>
Market Access	38%	43%
Enter New Business	31%	56%
Greater Utilization of Existing Capabilities	14%	60%
Product Diversification	10%	33%

Entrepreneurial ideas, resulting in new business ventures, represent yet another category of venture motivation. These types of ventures were generally based on new ideas with unknown market potential and their feasibility depended on the particular individuals involved in putting the venture together. Often the principals involved lacked the usual necessary ingredients for achieving venture success. The potential Caribbean partner may have been undercapitalized or lacked knowledge or experience in the industry they wished to enter. They also lacked the managerial expertise or other types of knowledge which are required to take an idea and transform it into a revenue-generating business organization - a formidable task for even the most experienced and well-capitalized group.

This is not to say that this type of motivation lacks merit. Rather, it is important to point out that the principal promoters of new ventures may lack a full understanding of the difficulties inherent in building a business from an idea and may not have an organization in place to provide some of the necessary resources and expertise.

The irony in developing countries is that the most capable manufacturing firms (and potentially the most suitable venture partners) are often the least motivated to explore export venture opportunities or international activities. These manufacturers tend to have sufficient regional markets and to operate profitably. Such firms may find it difficult to rationalize devoting the resources necessary to find and contact potential U.S. partners, travel, test products, and perform all the activities necessary to bring about international business relationships. One entrepreneur in the JVFF study put it quite simply "Why work so hard when it is

so unclear what the benefit will be?"

C. PRINCIPAL MOTIVATIONS OF U.S. VENTURE PARTNERS

U.S. firms tended to use the cooperative venture primarily as a cost reduction strategy (see Table D). The results indicate that small to medium-sized U.S. firms had a low level of awareness of the opportunity to reduce costs by manufacturing in the Caribbean since they did not initiate most of the cost-reduction ventures.

Table D
STRATEGIC OBJECTIVES OF U.S. VENTURE PARTNERS

<i>Strategic Focus of U.S. Firms</i>	<i>Percentages of Ventures</i>	<i>Percentage of Ventures Initiated by U.S. Firms</i>
Cost Reduction	63%	43%
New Revenue Source	16%	30%
Utilize Existing Capabilities	10%	43%
New Business	4%	100%
Product Diversification	3%	50%

The results also bear out the contention that the traditional multinational motive for engaging in international cooperative ventures - gaining access to new markets - is not the primary motivation for U.S. firms to invest in the Caribbean region. The Caribbean region offers sparse new markets to U.S. firms and is thus unattractive as a target for market expansion. However, the Caribbean region provides inexpensive labor and a short pipeline for U.S. manufacturers looking to reduce production costs. Thus, by utilizing cheaper labor, U.S. partners may reduce production costs without substantially increasing delivery times and costs, as would be the case if production were moved to the Far East for cost reduction purposes.

Given the different motivations of U.S. and Caribbean firms for participating in the JVFF, it is not surprising that they played very different roles in the coventures that were formed, as outlined below.

ROLES OF CARIBBEAN AND U.S. FIRMS IN JVFF VENTURES

Role of Caribbean Firm

Manufacturing
Agricultural Production
Provide Facilities or Land
Provide Market Channels
Provide Raw Manufacturing or Agricultural Materials

Role of U.S. Firm

Provide Access to Marketing Channels
Technical Assistance
Design Assistance
Raw Materials
Provide Facilities

D. THREE STRATEGIC DIRECTIONS DOMINATE DECISION OF U.S. PARTNERS

The motivations to invest or change operations can be summarized in three strategic orientations - cost reduction, market differentiation, and development of surprise revenues. Many trade and investment programs fail to market to these strategic options and choose to promote the general attributes of a country in regard to trained labor, attractive tax environments or transportation advantages.

Increasingly, successful promotion programs will be explicit in qualifying a company needs and will assist in developing a mechanism such as licensing or coproduction to achieve these strategic goals. Considering the weak planning and problem-solving capabilities of many promotion firms and their limited management resources, it is not surprising that promotion programs featuring general data on a country achieve limited results. In contrast, companies contacted by promotion firms defining cost reduction, market expansion, or new sources of revenues received favorable interest. The following discussion of strategic characteristics are in fact a basis for designing outreach communication for trade and investment promotion.

I. Cost Reduction Strategies

Cost reduction strategies are those for which cost reduction is the driving force. For example, a manufacturer of a labor-intensive piece of furniture might seek

offshore assembly which provides lower labor costs. Another company might seek a lower-cost foreign source of raw material or a component, such as beef, perhaps, in the case of a food processor. Some industries - electronics or garment, for instance - have a history of subcontracting relationships with foreign suppliers. The extent to which other industries might benefit from cost reduction strategies is unclear.

Cost advantages - a major way to develop significant competitive advantage - can be created by changing key cost factors, sometimes known as "cost drivers" (Porter, 1980). These changes can include:

- Developing economies of scale
- Improving employee skills and experience
- Improving integration of the firm's activities
- Improving timing
- Improving overall policy development
- Changing location and facilities
- Adjusting institutional objectives

These cost factor changes are not mutually exclusive. Some, such as developing economies of scale or changing location and facilities, can be interdependent. Some changes are more readily undertaken than others. For instance, the first thing most companies do when attempting to reduce costs is to change the cost of product input, labor, or management. They may also try to increase production volume or determine ways in which costs may be shared with other firms - such as banks or insurance companies sharing the costs of large computer systems. Normally, most companies do not realize that developing country partners can offer a means to lower costs.

U.S. firms generally are willing to pursue those cost reduction opportunities which provide the quickest path to cost improvement with the least exposure of capital and managerial resources. For the developing country firm, the U.S. firm's push to reduce costs can offer a significant investment opportunity through expansion of plant production, increased plant capacity, and development of new business systems - just as if the firm were selling to the end market itself. The developing country firm uses capital, labor, and management skills to exploit the cost need of the U. S. partner, who, in turn, possesses the necessary market presence and technology back-up for a venture.

Several primary cost reduction strategies exist: 1) manufacturing drawback or licensed manufacturing, 2) comarketing, and 3) technology sharing. The following discussion will address these cost reduction strategies.

Manufacturing drawback or licensed manufacturing allows an offshore manufacturer to act as a subcontractor and to offer a U.S. firm lower labor costs, favorable tax treatment, lower plant overhead, or the ability for the U.S. company to expand production without expanding its own operations.

As a rule, the U.S. partner possesses the technology and other know-how, the engineering specifications and, sometimes, equipment. He may then contract with an LDC firm to manufacture or assemble a specific quantity of items (sometimes

components) according to specifications. The LDC firm essentially performs as a job-shop subcontractor, supplying the plant capacity, skilled or semi-skilled labor, basic manufacturing expertise and, sometimes, raw materials.

The U.S. partner may also provide training, assist with production and quality control problems, or supply specialized equipment, such as jigs or dies, which are needed for production. There are also 806-807 arrangements (generally in garment and electronics manufacturing) wherein the U.S. partner supplies the basic materials or subassemblies and value is added by the developing country partner. The product is then returned to the U.S. and duty is only levied on the value added (such as labor).

The following case study is presented as an example of a typical drawback venture.

CASE STUDY:
Plastic Drawback - Costa Rica

Plasko de Costa Rica, a chemicals and plastics company, operates a drawback production program with Motorola. The venture took place because of the entrepreneurial interest and credibility of Plasko's general manager, and his ability to gain Motorola's confidence.

Even a firm as large and experienced as Motorola is hesitant to experiment with a new venture overseas. Plasko's general manager credits his successful development of this venture to the fact that he was U.S.-educated, spoke excellent English, had been treasurer of the U.S. Chamber of Commerce, and personally knew several management individuals at Motorola. Even with this strong foundation and careful planning, it took nearly two years to develop the first production program.

After the Costa Rican economic crisis of 1979-80, Plasko began actively searching for product diversification opportunities which could build on its plastics and chemicals divisions. The general manager targeted Motorola as a possible client and met with several local Motorola staff. He also began written communications with Motorola's U.S. offices.

As a result of the general manager's efforts, Motorola sent Plasko de Costa Rica a sample for costing. The initial costing was too expensive, probably as a result of Plasko's difficulties in costing a new product without running the molds in the plant. Determined to continue, however, the general manager met in the U.S. with Motorola's production staff. Consequently, Motorola agreed to set up a test production run. Molds were sent and the sample run was made. Based on the results, Motorola agreed to a large-scale test of 100,000 units, which resulted in high quality pieces with a rejection rate of nearly zero.

The 100,000 unit test opened the gates. With faith in Plasko, Motorola increased its use of Plasko's facilities and, by 1986, was subcontracting the production of several million units per year.

This case study illustrates several important lessons for firms which are considering joint ventures or coventures, particularly for those motivated by cost reduction strategies.

- Firms may be reluctant to try new venture activities, even with a partner who has knowledge of international business.
- A developing country partner's ability to establish credibility and personal linkages is essential for creating trust and an effective working environment.

- The ability to accurately cost and to plan effectively is crucial for securing opportunities to perform test runs and sample batches for potential clients.
- Long-term relationships depend upon quality standards and the ability to deliver.
- The willingness to invest significant time and money to develop business opportunities can bear fruit, if an entrepreneur is persistent in his efforts.

Comarketing for cost reduction is less common, but is an interesting way to share marketing costs. For instance, an American brush manufacturer might be interested in selling the brush line of a Costa Rican firm. This type of sharing of marketing costs could lessen the U.S. firm's overhead cost per sale of its own line as well as providing the Costa Rican partner with an established marketing network.

Although this sort of arrangement can be seen as a U.S. firm seeking an offshore source of brushes in order to provide lower-cost products, it can be characterized as a comarketing cost reduction strategy if the initial "driver" of the venture exploration is the U.S. firm's desire to lower its marginal cost of marketing by selling more products.

Technology sharing reduces costs by allowing one partner to benefit from the technology of the other, making it possible for the firm to have access to the technology without having to develop it or purchase it. An example of such a cost reduction strategy might be a U.S. computer chip manufacturer who is seeking to lower manufacturing costs by producing the computer chips offshore. This type of manufacturing requires skilled labor, but it also requires a complex manufacturing technology, consisting of both complex skills and equipment.

The U.S. firm could provide a developing country partner with the skills and equipment necessary, thereby gaining a lower-cost labor pool.

This example differs significantly from the earlier analysis of Rhode Island Electronics' (RIE) development of an assembly venture in El Salvador as it requires the sharing and transfer of a sophisticated technology. The RIE venture, on the other hand, consisted essentially of utilizing standard electronics assembly procedures and skills.

CASE STUDY:
Advanced Technology - El Salvador

The Dolman Corporation in the United States is a small company that sells advanced technology equipment to the U.S. Navy. Over the last five years the company grew because of its specialized sonar equipment, which is made on a piece-by-piece basis. The company's number one constraint, however, is raising capital to develop new manufacturing facilities which would utilize this "job-shop" technology for the development of more generalized products.

In 1984, the company began developing a portable bank teller device. Technology developed for the navy is applicable in this area and it was felt that there was a large market for the product. The capital required for the project could only be sourced through venture capital firms, as most banks felt the firm was too small and did not have a stable enough manufacturing base to warrant major debt. The venture capitalists, on the other hand, required a significant share of the company for only small amounts of capital. (Most venture capitalists feel that only one out of ten projects bring a significant return and, therefore, major returns are expected from

any contribution of capital.

The Dolman Corporation had not considered any type of offshore involvement until a team, sponsored by USAID, visited the firm in 1986. After discussions, the company realized that it could develop a coventure or joint venture to carry out its plan. Specifically, the company noted from the discussions that many groups in Central America were anxious to link with U.S. firms which had a bright future in advanced technology. The Caribbean firms could provide manufacturing facilities, engineering, and other resources necessary to help produce and assemble the U.S. designed product.

The advanced technology component of the project had to do with circuitry and design. Assembly and plant development could easily be placed in the Caribbean Basin. Negotiations began involving Dolman Corporation's establishment of a venture whereby it would maintain control over a large operation with offshore manufacturing capabilities.

In effect, the Dolman Corporation was able to acquire the necessary capital and expand its operations. A portion of the capital would even be used in market testing and engineering application studies. Through this strategy, the capitalization constraints were dealt with by forming a new partnership.

The Caribbean-based firms involved in such a venture are able to develop a long-term presence in the U.S. market and a more stable source of technologically competitive products. This strategy, therefore, might reduce the effective cost of capital for a U.S. company as well as develop a new application for electronics manufacturing capabilities in Central America.

2. Market Differentiation Strategies

The second general category of strategies for improving competitive position deals with how a firm can "differentiate itself from its competitors if it can acquire something that is valuable to its buyers." (Porter, 1980) Firms strive to provide some type of unique product or service or to improve the method by which these products are serviced, promoted, and delivered to customers. Drivers that create a unique value to a customer include the following:

- Improving value of the product to the buyer
- Lowering the buyer's cost
- Raising the buyer's performance
- Improving the buyer's perception of value

These are but a few of the points raised by Michael Porter in his discussion of various strategic options to cost reduction activities. Normally, we perceive these types of activities when companies change a product feature or offer a new service. Other manifestations are when we extend the product to new markets or improve the information suppliers to buyers to help them select and apply the products and services. Developing country partnerships and cooperative ventures can create differentiation strategies for themselves and U.S. firms.

The following is a discussion of the most common types of ventures which involve market differentiation, such as export development, exploitation of a

country's natural endowments, and comarketing.

The export development strategy usually involves a unique product, or capability, which appears to have broader (international) market potential. Often these are products being produced for the local or regional market which, with some further development or refinement, may be competitive on the U.S. market. Handicrafts and "productos tipicos" fall into this category.

The U.S. partner may provide: modified designs geared to the tastes of U.S. buyers; training and other manufacturing know-how; raw materials not generally available in the local environment; other forms of support and assistance required by the LDC partner to develop the product and to ensure that production quotas and quality standards are met. The key role of the U.S. partner is to market, sell and distribute the product in the U.S. These activities may be done directly (by adding the product to his current line of related items), or indirectly, as a representative or intermediary who locates outlets for the product and convinces distributors, retailers, and others to add the product to their inventories.

A major difference between the export development strategy and the drawback strategy is the effect of the market. For drawback or subcontract arrangements, the U.S. manufacturer assumes nearly all the business risk. Orders going to the LDC partner are definite-at least in the short term - and payment for his work is not contingent upon the U.S. manufacturer's sales of the ultimate product. The only instance in which there would be risk for the LDC partner would be if he made a substantial investment in upgrading his plant and equipment in anticipation of a long-term source of production demand which did not materialize. Of course, the U.S. partner also assumes a risk associated with the LDC partner's potential inability to maintain quality standards and delivery schedules. These types of risks are significant barriers to venture development in developing countries and are discussed in more detail in the following chapter.

The export development strategy, on the other hand, has a level of risk that is usually tied to market demand. The U.S. partner may invest "up-front" costs necessary for assessment of the potential product market, or investment may be made in new designs, travel to the developing country or around the United States to line up distributors, in marketing and sales promotion programs, literature, etc.

The LDC partner may have to invest in new equipment, a larger inventory of raw materials, re-training of employees, or he may have to bear the direct and indirect costs of prototype development.

CASE STUDY: Export Development - Dominican Republic

Caribbean Furniture, S.A., a joint venture in the Dominican Republic, illustrates the export development model. This is a multipartner joint venture which was established in 1982 to produce contemporary lacquered furniture for export to the United States. Initial capitalization is estimated at \$250,000.00. Expected revenues of \$5M to \$10M a year are expected to be generated when the project is fully operational. The venture is considered to be the nucleus of a larger-scale furniture industry for the Dominican Republic in the future.

This venture evolved as a result of a U.S. entrepreneur's business and personal interest in the Dominican Republic. His firm in the United States manufactures electrical and electronic components for the O.E.M. and after-market automotive industries, as well as for other industries. In 1971, as competitive pressures from

Japanese and other Asian electrical and electronic manufacturers were intensifying, he established a subsidiary to manufacture components in the Dominican Republic. His subsequent involvement and interest in the Dominican Republic set the stage for the later evolution of the furniture joint venture.

Furniture-making in the Dominican Republic is a cottage industry with individual craftsmen producing mostly for the local market. When the idea for the furniture company was first considered, it was recognized that Dominican furniture craftsmen are highly skilled and might have the potential for making furniture of the style and quality that could compete in international markets. However, although the quality of materials and workmanship was high, the products themselves had a limited market because the styling was primarily geared to local market needs. They also had limited appeal for the more sophisticated consumers in the U.S. and other developed countries.

As a first step in the development of this venture idea, a feasibility/market research study was conducted which determined that contemporary-styled lacquered furniture was the fastest growing product in the U.S. furniture industry and was, therefore targeted for future development. A shop-by-shop survey of craftspeople producing furniture for the local market was conducted and an assessment made of each shop's capabilities, level of interest, adaptability to new products, and needs for equipment.

An important next step was to provide selected shops with designs for the most complicated styles. The selected shops then made prototype pieces to prove their ability to produce this style of furniture.

As a cottage industry, furniture making is mostly an individually crafted activity. Individuals working in small shops lacked the industrial organization, management systems and large-scale production values required to compete on an international basis. On-time delivery, standardization and interchangeability of parts, materials requirements planning, production scheduling, quality control and other necessities for industrial production were lacking.

There was a need for new technology and methods requiring training in the application of these new techniques. Training in basic management skills for production coordination, quality control and on-time deliveries was also required.

Market representation was necessary in the U.S. to coordinate sales, as were the logistics necessary to deliver orders to buyers' specifications. These areas of need involve considerable, detailed planning, development, and expense. The whole "package" must be conceived and managed as an integrated system. Caribbean Furniture S.A. is intended to serve also as a model for organizing and developing other cottage industries in the Dominican Republic which have the potential for producing products to international markets.

The venture is currently in a "pre-production" development phase. Prototype pieces of furniture have been designed and produced, craftsmen have been identified, and shops have begun to work closely with the Caribbean Furniture, S.A. group. A training program has been organized and materials have been developed with a manager receiving ongoing training. A central facility has been established and equipped. Prototype products have been introduced to the U.S. market through industry shows and competitions resulting in initial orders.

For natural endowment strategies, the venture seeks to capitalize on a specific natural endowment of the host country such as land, climate or location. Typical ventures might involve nontraditional agricultural products, unique approaches to tourism, continuous processing operations and small mining projects. Often, the objectives of these types of venture businesses are to further develop or refine products which may create new demand in international markets, such as non-

traditional agricultural products.

Often, the motivating force for large-scale projects is to generate new sources of foreign exchange, reduce foreign exchange expenses through import substitution, and to create employment. Thus, it is not surprising to find governments involved in projects, such as a geothermal project, to generate energy and reduce foreign exchange expenditures for oil, to use U.S. government financing.

There is an important role for SME firms or individuals in this area, as the following case study illustrates.

CASE STUDY:

Natural Endowments - Costa Rica

The Cocolruit Corporation grows and exports bananas. In the early 1970s, however, the company began to explore diversification opportunities and noted that one of the Pacific coast port towns, Golfito, represented an opportunity for sport fishing and tourism.

A small fishing and port facility was determined to possess the necessary location and natural endowments which might be developed into an international tourist attraction—an idea that its owner had wanted to pursue for some time. It took nearly 12 years, however, to convince the owner that the present facilities were not suitable to attract sports fishermen from the U.S. and that he did not have the financial resources necessary to upgrade the facility to the appropriate level, nor the ability to market the business in the U.S.

With the assistance of an intermediary, a partner search was initiated. In order to interest investors in this opportunity, a business-vacation package to Costa Rica was put together. For less than \$600 an interested investor could fly to Costa Rica, stay at a first-class hotel, attend various seminars and functions designed to promote Costa Rica and become acquainted with businessmen and government officials. After three of these business-vacation packages had occurred, potential investors were identified and initial negotiations commenced.

Work to improve the facilities was begun and was expected to be completed in 1987. U.S. marketing and business development activities commenced and the project was expected to generate about \$1 million per year in foreign exchange for Costa Rica and 50 new jobs. The project was to provide an important stimulus to the southern Pacific coast of Costa Rica and would have likely created other business opportunities in its wake.

Although the development of tourism has been a principal target of the Costa Rican government for some time - significant monies have been spent on tourism promotion and infrastructure improvements - it is difficult to match the effectiveness of a venture that is targeted to a specific market niche (sport fishermen, in this case) for achieving tourism promotion goals. This joint venture required a strong U.S. partner for marketing, financing and the knowledge of what would appeal to sports fishermen, as well as the natural endowments of the Costa Rican partner's land and his management capabilities. The role of the intermediary was critical throughout the project development process.

Ironically, the project ultimately was halted due to an accidental death that led the U.S. group to withdraw after its initial investment.

Much has been written about the value of the LDC partner's knowledge of local business customs and contact networks. However, the value of this knowledge is contingent upon the underlying value of the resources he represents. The emphasis on the value of an LDC partner's knowledge appears to reflect the overall bias of previous research, which predominantly focuses on multinational

companies (MNCs). Frequently, MNCs wish to establish a presence in a country or region in order to rationalize a global organization, prevent a competitor from gaining market access, create a diversionary tactic or for other reasons that do have a direct profit outcome. A joint venture with a local partner can shorten a learning curve and may be the most economical means to accomplish their objectives. SMEs, on the other hand, are interested in direct venture pay-off and take the local partner's knowledge for granted.

3. Surprise Revenues and Incremental Income Opportunities

Surprise revenue strategies are dictated by unexpected circumstances or opportunities. An American poultry operation, for instance, may be quite successful in its current operation and not actively seeking new opportunities. However, if approached by a developing country firm seeking technical assistance in order to upgrade its facilities and streamline its operations, the U.S. firm may have an excellent opportunity to enter a long-term technical assistance agreement which will benefit both parties.

Generally, surprise or incremental revenue options may be categorized as: technology sales, technical assistance contracts, or project management fees.

Technology sales represent an opportunity for U.S. firms to sell patented or non-patented technology or know-how to a variety of users. Additionally, copyrights or trademarks, are also considered valuable technology. In the Third World, technology represents all of the knowledge systems that are necessary to operate or expand a business. For simplicity's sake, we often refer to technology as both *hard* and *soft* systems.

Hard technology systems are represented by equipment, operating standards, tools, processes or procedures. It is easy to envision this type of technology because it has a clear-cut physical embodiment. A small chemical plant cannot operate without a variety of manuals that describe the exact process and procedures that need to be followed when using equipment or particular formulas. Hard technology is easier to sell because it normally has clearly identifiable characteristics and its output or value to the firm is easily measured.

Soft technology systems tend to be management systems which are not so easily identified, but which have significant value to a firm, such as planning systems, cost control procedures, and maintenance programs. These systems are critical to a firm's ability to apply hard technology effectively. The four categories of soft technology are:

Organizing technologies: Those organizational structures, job descriptions, training programs, etc., which are essential to establishing effective business systems. This type of technology is particularly undervalued in the Third World.

Planning technologies: The various systems necessary to set goals, identify potential markets, and organize a company for future growth.

Controlling technologies: Supervisory, cost accounting, manufacturing control systems, and other programs that guide and control routine business activities.

Motivating and leading strategies: those issues of personnel direction, motivation, group behavior, and other activities that help improve human potential within a company.

Increasingly, Third World enterprises realize the need for a continuing mix of hard and soft technologies. With rapidly changing technological environments, it is important to have outside linkages in order to keep up-to-date in equipment and training techniques for worker motivation. Technology contracts help sell specific technologies, especially those having to do with maintenance, equipment utilization or the sourcing of new products and processes.

Technical assistance contracts provide long-term relationships and are mechanisms by which a company can sell knowledge or assistance overseas and generate unexpected income. As discussed earlier, developing country firms have difficulty linking to other organizations that can help train staff, update manufacturing procedures and provide ideas for new products and programs.

Unlike the technology contract, technical assistance implies an emphasis on a continuing mechanism for transfer of technology. That is, the contract focuses more on issues such as training, personnel exchanges or participation in seminars. The following case combines characteristics of several related projects in Thailand, Indonesia and the Philippines.

CASE STUDY:

Technical Assistance Contract - Thailand

The Natgrow Corporation of Thailand manufactured a variety of animal feeds. Large-scale feedmills were set-up to handle different types of animal feeds. For many of these operations, machinery was developed for pelletizing and bagging feed for various uses.

In 1981, Natgrow recognized that one obstacle to efficiency was inappropriately trained supervisors at the pelletizing and bagging stations. Since equipment changed every four to five years, it was felt that some type of long-term training program was necessary to keep supervisory practices up-to-date with equipment changes.

Natgrow discussed its training dilemma with several U.S. equipment suppliers. These firms had engineering capabilities to design and manufacture the equipment, but could not provide sites where supervisors could receive on-the-job training. Consequently, Natgrow was introduced to several U.S. feedmillers who used similar equipment. Natgrow was able to set up a simple technical assistance contract through which it paid two U.S. companies to house its supervisors for six months a year. By placing six supervisors a year in the United States for training, Natgrow accomplished a rotation rate of about ten percent a year, thereby keeping a steady flow of newly trained supervisors that could deal with the pelletizing and bagging area.

For the U.S. company, this technical assistance agreement provided an unexpected and welcome source of new income. The companies themselves felt no real burden at having to accept only one or two trainees at a time. These U.S. companies had never considered generating income from this kind of technical assistance sale.

Project management fees usually encompass a finite set of skills - offering to help a company install a new system, set-up a new program, or carry-out a

specific task. Normally, project management fees cover a limited period of time and are associated with large-scale engineering activities. For instance, large turnkey plant developments typically include project management fees. These fees are paid to the engineering company to organize the various construction, training and start-up activities necessary to the project.

It has become increasingly obvious in the 1980s that large-scale turnkey plants are not being pursued in the Third World. Rather, financial groups are more concerned with putting together consortiums and contracting project management suppliers who do not require up-front, large-scale payments. Engineering firms are still required for complex projects. Interestingly, however, there are many programs where a typical manufacturing company in the U.S. could earn project management fees. Normally, these fees are for services performed for the procurement of equipment, training of personnel and production line start up.

The following case study is an analogy to actual projects in Mexico, Thailand, and the Philippines.

CASE STUDY: Project Management Fees - Philippines

Philippine Packers is a large company that is involved in processing and distributing various food products. In the late 1970s, the company investigated the development of specialized food products that could be exported from the Philippine ethnic markets to the U.S. west coast. In order to develop packaging more suitable to the U.S. market, Philippine Packers needed not only to acquire new technology, but it also needed a company to assist with organization and development of new packaging lines.

The company had the necessary facilities and acquired the equipment for aseptic packaging. However, it lacked the ability to organize a comprehensive management system. It needed the assistance of a U.S. company skilled in aseptic packaging that could help install new equipment, train personnel, and set up the secondary procurement procedures.

A three-year contract was consequently agreed upon with a U.S. company to control the technology suppliers and to assure that the equipment was installed and employees were effectively trained. The U.S. company was asked to assure that accounting, shipping, and other general procedures were changed to fit the new aseptic packaging system and to coordinate the development of its marketing and sales practice in order to meet the expectations of its U.S. clientele.

Although this contract has not gone into operation, it reflects an increasing trend in the Third World to seek nontraditional project management and technical assistance suppliers. At the same time, the U.S. firm had an opportunity to understand the Philippine market, to develop relationships with a powerful offshore packaging group, and to gain a new source of revenue and income.

It appears that there is a large worldwide market for the sale of technology, technical assistance and project management skills. Unfortunately, very few U.S. companies are actively engaged in offering these services. In most cases studied, the companies are unaware of how to package, transfer, or manage such technology sales. At the same time, however, the developing country firms are aware of a variety of technology and technology assistance needs, but lack the experience and networks to locate suppliers or to organize contracts to gain access. There appears to be a strong opportunity for intermediaries to play a role in bringing together technology suppliers and users.

We can conclude that ventures between U.S. SMEs and Third World partners take place when underlying economics or commercial advantages are perceived to be great enough to offset the costs and risks inherent in the venture. This is a necessary - but not necessarily a sufficient - condition to motivate the partners to work through an often difficult and time consuming development process.

Success depends upon a wide range of venture-specific factors, such as the product, the complexity of the manufacturing process or technology involved, the purpose of the venture, the form of the venture, the presence or absence of an intermediary and the amount of investment involved. The host country, its companies, the personalities of key players, interpersonal chemistries and the prior international experience of the partners also play important roles. It is important to bear in mind that these are business relationships. Macroeconomic goals, infrastructure development, industrial development and job creation benefits, all normal priorities in the development community, are not the primary motivations in business ventures.

E. A VARIETY OF FACTORS CONSTRAIN VENTURE DEVELOPMENT

The resource fit between U.S. small- and medium-sized enterprises and developing country firms creates a fertile context for certain types of cooperative business relationships. Manufacturing drawback and export development were found to be prime areas for SMEs. Extractive industries, commodities, and infrastructure development projects require more extensive resources and are more appropriate for larger enterprises.

The process of venture development is often long and arduous. An idea for a venture goes through a series of steps or stages on its way to becoming a functioning commercial reality. Each stage imposes new barriers and restrictions that must be overcome. Not surprisingly, ideas suffer a high mortality rate during this development period. Lack of information, experience, and management resources combine with cultural barriers to stop many projects.

I. Lack of Information as a General Constraint

Risk is perceived to decrease with knowledge or information. The more information one has about a situation, it is believed, the better (less risky) the decision. The ability to make an "informed decision" depends on the amount and quality of information at hand. A lack of information on the part of both U.S. and LDC businessmen can act as a major barrier.

Much has been written about the global village, shrinking world, and the effects of mass media communications that bring the world into one's living room. The fact of the matter, however, is that decision-makers in smaller U.S. enterprises are insular, with U.S. businessmen evidencing a "stay at home" attitude. As long as

business is good, they are generally satisfied; when they experience a downturn in business, they may look to exports as a possible source of increasing sales revenues, but are not likely to be more ambitious in expanding internationally.

This same insularity is a prevailing characteristic of businessmen in the developing world. We frequently found that the most successful firms were the most reluctant to consider venture relationships that would give them access to the U.S. market. If they are doing well, they are generally satisfied and not motivated to seek out new opportunities. If they have a problem, then the motivation increases substantially, but only if management perceives a venture as a solution to the problem.

One of the primary reasons that cooperative ventures are not considered is that businessmen on both sides are unaware of the possibilities. Even if there is awareness, firms are likely to be unfamiliar with the process and steps involved--they do not know how to begin or where to get preliminary information. Without this rudimentary knowledge, they can be paralyzed and overwhelmed by the prospect of what they might imagine is involved. Intermediary organizations which push ideas forward and assist with project development can help overcome this problem.

The JVFF survey performed for this study found a strong consensus that "developing country firms lack a clear understanding of how cooperative ventures can be structured and how they can be used as a business development strategy." A similar high level of agreement was shown for the statements, "Developing country firms have difficulty identifying specific opportunities that could provide the basis for a joint venture or coventure relationship," or "A lack of direct experience or knowledge of other firms' successes in developing international ventures inhibits U.S. and LDC firms from pursuing these types of ventures." (See Appendix C)

Clearly, a major problem in venture development is to identify a definite project idea or profile proposed by capable entrepreneurs.

Information and knowledge from direct experience, or even familiarity gained through knowledge of other firms' successes, are lacking. We should not be surprised by this. After all, the entire emphasis on SME venture development is relatively new, at least in terms of a wider business audience. Since joint ventures and coventures have been recognized to have potentially positive implications for business development, job creation and competitive advantages for both U.S. and LDC firms, there is a strong need to disseminate information, education and the "hands-on" support required to introduce this concept to businessmen on both sides.

2. Cultural Barriers Inhibit Venture Formation

Venture development constraints somewhat related to lack of information and knowledge include geographic distance, travel and communications expenses, language and cultural differences and, unfortunately, a general negative perception of the Third World on the part of U.S. businessmen. Without the benefit of

specific country experience, U.S. businessmen tend to group developing countries together. There is a general perception that the Third World is not a good place to do business because the government might expropriate one's business, the markets are small, government red tape will tie-up a business forever unless one knows who to bribe, it is difficult to get money out of the country, new governments are continually coming into power and everything changes.

Those in the development community, as well as others with direct knowledge of specific countries, know that these generalizations do not hold up. Some developing countries have an excellent business climate and stability; however, all developing countries get "tarred with the same brush." Development of ventures is generally more attractive in industrialized countries. Intermediaries such as lawyers, consultants or volunteer programs, especially those that are aware of industry - specific opportunities, are able to bridge the gaps of knowledge and understanding.

CASE STUDY: Contract Manufacturing - Costa Rica

Pico CE Cosmetics manufactures a variety of women's cosmetics, including eye-shadow, lipsticks, body powders. The company has been a successful manufacturer and exporter in Central America for a number of years. In 1984, the president of Pico CE was asked to accompany a government trade mission to the United States. He was anxious to support government programming for new export development and was seeking product diversification opportunities for his company. During the trip, he spent several days in Orange County, California visiting a number of electronics plants.

While visiting the plants, he was surprised to see that the assembly operations were very simple. He stated, "My plant actually requires much more difficult operations and activities. I realized that electronic assembly sometimes is not high-technology at all."

Upon his return, the president spoke with government export agencies, but found they were not very interested in the area of simple assembly and believed local firms should investigate more complex technology and larger-scale operations. Yet Pico CE's president knew he would not be able to convince his board of directors to undertake major new experiments with complex electronics technologies.

Since he was unable to obtain support from government export agencies, he felt that the development of production of electronics products by his company required the assistance of an intermediary. He presented his problem to an American attorney who had spent many years in Costa Rica organizing projects between U.S. and local firms. The attorney understood the situation and agreed to look for an opportunity that would allow Pico to get a foot in the door by running small-scale tests of selected items to determine if the company could compete effectively and take on larger orders.

In 1985, discussions began with a company in California for Pico CE to assemble a simple pill box containing a built-in timer which would alert the user when a pill should be taken. Pico CE agreed to start with 10,000 units to be assembled at a cost determined by the U.S. company. Simply speaking, the president did not want to waste time trying to cost out something he knew very little about. He was willing to gamble and use a few workers to assemble an initial order. If successful, his plan was to open up a 35,000 square foot area that would employ approximately 300 workers in order to assemble between 300,000 and 500,000 of the same or similar electronic products.

It is important to note the role of the intermediary in this case. Fifteen U.S.

candidate firms were introduced to Pico before a suitable firm was located. In contrast, the government agencies were not interested in the lower level technology, even though simpler transactions were easier to start. They had agreed to help Pico, but, in fact, had introduced it to only one potential firm. The private intermediary, on the other hand, quickly understood the entrepreneurial concerns of local and U.S. firms and the need to bring several firms into contact with Pico in order to find the right "fit."

The entrepreneur's confidence to go forward with his idea came from his ability to visualize the production requirements for electronic assembly operations and his foresight to engage an intermediary to locate a pilot program.

The attitude of the government export development agencies in this case illustrates a general problem in the area of SME venture development. Many developing country governments believe that only the more highly developed, sophisticated technologies are worthy of their development efforts, while smaller, less sophisticated assembly operations are not taken seriously or are treated with disdain.

3. Partner Selection

The Conference Board study, "Joint Ventures with Foreign Partners," stated that the most significant problem for joint ventures is that of locating a suitable partner. An experienced international executive who participated in this study was quoted at length on this issue:

"The greatest problem is finding satisfactory partners, especially in less developed areas. There appears to be a serious shortage of potential partners who possess both funds and managerial talent who are not already tied to competitive companies. Even where there are partners available, their concepts of quality control, pricing, marketing, reinvestment, dividend policy, and accounting may be so alien to a foreign partner that there is no hope for an effective rapport." (Conference Board, 1966)

Harrigan's research also illustrates the importance of partner identification and selection. She found that the ultimate success and endurance of joint ventures was "largely a matter of managing the chemistry among the partners...managers must develop a way to tell in advance whether joint venture chemistries will succeed and what factors mediate the success or failure of a venture."

An important dimension of the partner identification and mutual selection process is the issue of credibility and trust. In addition to the need for a reciprocal resource fit and "good chemistry," businessmen pay particular attention to another firm's "track record" and history. Of particular concern is the question of whether or not the potential partner will be able to deliver as promised. This is a general characteristic of all business relationships, and takes on even greater significance in cooperative ventures that are expected to endure for some period of time. Essentially, the buyer wants to make sure that the seller can deliver what he says he can in accordance with the terms of the agreement and specifications. He also wants to make sure that the seller will still be around if he has any problems after the purchase.

For his part, the seller wants to make sure that he is going to get paid. The risks

of potentially high costs, loss of profits and other negative consequences that can result when one party to a transaction fails to meet his commitments are major reasons why businessmen prefer to deal with people they have dealt with in the past or, alternatively, are recommended by someone they know and trust.

Many international ventures involve firms and individuals who are strangers and likely have no other business associates in common or easy access to ready information that will allow them to "check the other guy out." This lack of credible evaluation assistance can constrain the venture development process. Most experienced clients agree that, "Direct contact with potential partners is probably the most important factor in building confidence and commitment to a venture."

4. Other Risks In LDC Joint Ventures

The relational and market risks inherent in a production sharing joint venture or coventures are not significantly different from the risks a firm would encounter when relying on any domestic subcontractor who is responsible for supplying a subassembly or product component. Though these risks are not substantially different, they are greater when LDC firms are involved. Components must be delivered on time, in the right amounts, at the level of quality specified and for the agreed upon price.

On-time delivery of goods to a U.S. firm can be critical. In the garment industry, for example, shipments to retailers by manufacturers are often tied to advertising campaigns and special sale days. If delivery from a sewing subcontractor is delayed and the garments are not in the stores for, say, the Washington's Birthday sale, the retailer loses sales, incurs wasted advertising expenses and more than likely has to deal with angry customers who came to the store specifically to buy that particular sale item. The garment manufacturer, in turn, also loses sales since the store will not accept the shipment after the sale is completed. The manufacturer has not only lost sales, but he now has a shipment of garments that no one wants. He has to find another buyer, probably in the "off price" market, who will give him 20 cents on a dollar - if he's lucky. Consequently, he also may lose the retailer as a future customer.

A JVFF survey of 56 experienced venture partners and intermediaries were asked to list the most difficult issues, or problems, they faced in developing a specific venture. Those most frequently mentioned included:

- the LDC firm's inability to provide accurate price quotes based on volume purchases;
- the LDC firm's inability to understand the exact quality control specifications required throughout the production process (in-process quality control);
- the LDC firm's inability to adapt production to the higher volume levels required by the U.S. firm;

- the LDC firm's inability to understand the importance of "timely" delivery;
- the LDC firm's lack of business systems and inability to train workers to perform production tasks at required quality levels;
- the U.S. firm's lack of confidence that the LDC firm can maintain delivery schedules; and,
- the difficult transition to industrial cultural values in non-industrialized countries.

These are basic issues that must be addressed by developing country firms if they are to become credible, reliable partners for U.S. firms and are to compete with the newly industrialized countries of the Far East. If an LDC firm is unable to address and carry out accurate price quotes, quality control, training of skilled workers, respond in a timely manner, provide business systems and managerial skills to provide on schedule delivery, then it is unlikely the LDC firms will be able to compete in world markets.

LDC firms face additional problems, such as the inability to obtain (import) hardware and other basic manufacturing supplies. They often are unable to secure adequate financing for upgrading plants and equipment and they tend to be out of the mainstream of industry developments. They do not routinely attend U.S. trade shows, are not contacted by salespeople (a primary source of new ideas/products) and often have to deal with government restrictions and changes that are not supportive of business.

As has been stated before, the decision to halt the development of a venture may occur at any phase of the venture formation process. Legal obstacles, such as import restrictions or other trade barriers, can spell the demise of a venture, as can the lack of funding or managerial commitment. If the venture proves to be too expensive, too difficult or otherwise untenable, management will probably scrap the idea.

Our survey determined that intermediaries who work with the U.S. and developing country partners and are familiar with the entities involved in the development of an international coventure can help smooth the venture formation process. The involvement of a capable intermediary familiar with all parties involved can be critical to successful venture formation.

FACTORS THAT CAN HALT VENTURE FORMATION

- Partners cannot get along
- Managers cannot get along
- Markets disappear
- Promised delivery could not be made
- Partner reneged on promise
- Appearance of a better alternative
- Inability to manage venture effectively
- Inexperience in cooperation

- Inaccurate initial understanding of each partner's contribution
- Geographic distance
- Communication problem - language or other
- Equity disputes
- Staffing disagreement
- Profit distribution
- Political disruption
- Production factors, price changes, and availability

F. SUMMARY OF DECISION-MAKING ISSUES

We can conclude that joint ventures and coventures between U.S. and developing country SME partners take place when the underlying economics or commercial advantages are perceived to be large enough to offset the costs and risks inherent in the venture. The venture development process, however, is a difficult and time-consuming process. Success also depends on the mechanics and characteristics of the specific venture, the personalities and experience of those involved, the host country environment and the presence or absence of an intermediary. It is worth emphasizing that these factors are all related to business motivations, not economic development goals.

Probably the single most important barrier to venture development in the Third World is the degree of perceived risk associated with a venture. Market risk and relational risk are present in any joint or coventure. However, due to a variety of factors - cultural differences, lack of common understanding, geographic distances, development expenses, negative perceptions and attitudes - these risks are perceived to be greater when a foreign firm is considered by a U.S. firm as a venture partner. A variety of other internal and external factors within a firm constrain the development of cooperative ventures. Lack of information regarding venture possibilities, lack of familiarity with the venture development process and the inability to locate qualified partners all act to hinder or constrain the venture development process.

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Implications for Restructuring Trade and Investment Assistance Programs

The United States Agency for International Development (USAID) and a variety of international development organizations are presently implementing private sector development programs throughout the Third World. Often these projects are designed to encourage business linkages between U.S. firms and firms in developing countries. These programs assume that such linkages will improve businesses and, in turn, will generate increased employment and foreign exchange earnings for the developing countries.

In many countries, private enterprise strategies have focused on encouraging foreign investment. However, there is a stronger opportunity to develop coventures rather than equity-sharing joint ventures or independent direct foreign investment.

Ludwig Rudel reports in his study on international technology access (June, 1986) that most AID projects for the private sector are designed to "create a more hospitable policy environment for foreign private investment and seek to establish mechanisms by which local private companies may find partners abroad who match their respective needs and help foreign firms find suitable local partners." Rudel goes on to point out that AID programs, along with other intergovernmental programs, usually tend to strengthen the institutional framework for handling the foreign investment and trade process. However, many trade and investment programs have proven very costly and have required much greater time and follow-up effort than originally planned.

The JVFF research efforts bear directly on the mechanisms designed to create international business linkages and on the type of ventures that are most likely to emerge between developed and developing country enterprises. The conclusions suggest the need for greater emphasis on engaging SMEs through information dissemination and more effective use of informal networks to bring opportunities

to the attention of key decision makers and to link partners with potentially mutual business aims and interests.

Many developing countries have established government investment promotion organizations which conduct general public relations throughout the developed countries. Some have organized programs aimed at highly-specific communities in the United States. Few programs recognize that coventures are a viable strategy for small and medium-sized firms. Many government programs are primarily oriented to attract foreign investors and, therefore, tend to emphasize projects that involve equity. Our research suggests that coventures and less formal business structures offer more potential than does direct-foreign-equity investment in LDCs.

A central concern of this study is the ability of the firms on either side of the international transaction to carry out planning and research activities. To some degree, many trade and investment institutions assume that there is some active search interest on the part of one or both of the partners. In fact, our research tends to support the conclusion that few enterprises have clear ideas of the types of projects they could pursue or the benefits of such projects and, therefore, are not motivated to exploit information and search systems. Programs designed on the assumption that SMEs are actively searching for international opportunities should be modified to help companies identify opportunities and formulate proposals should also provide further followup, such as feasibility studies and cost benefit analyses.

A. TRADE AND INVESTMENT ASSISTANCE PROGRAMS HAVE NOT ALWAYS BEEN CONSISTANT WITH AID STRATEGIES

The overall AID private sector strategy intends to exploit the capabilities of private entrepreneurs in order to achieve economic and social development goals. A number of programs within AID reflect the emphasis on using the private enterprise for direct foreign investment and joint venture stimulation. Many of these programs are designed to help rationalize, modernize and otherwise restructure the private enterprise so that it can play a more significant role in generating employment and foreign exchange.

Program strategies are generally built on the premise that firms require assistance in improving operating technology, access to foreign markets, and developing manpower within their operation. It is often assumed that U.S. and other developed country enterprises will help provide the technology, marketing channels or other business linkages necessary for business and organization development at the firm level.

Most USAID programs address the need for technical assistance simultaneously with the need to improve the policy environment that affects risk taking, foreign investment and other private sector activities. Technical assistance programming is increasingly oriented toward helping the private enterprise establish a more competitive position abroad and toward establishing linkages to sources of offshore technology and markets. This assistance is often termed "capacity

building".

Confusion between capacity exploitation and capacity building creates serious problems in program development. In many developing countries, macroeconomic studies suggest a wide variety of surplus capacity. In fact, in many cases, this capacity is inadequate and unusable. It is critical to understand the difference between usable capacity and the need to significantly overhaul and create new capacity. A program exploiting viable and available capacity needs to focus on contact, exchange of information and getting partners together for deals that will probably not require significant investment or long-term horizons. On the other hand, programs to build new capacity require longer time horizons and the need to focus on basic investment decisions including staff training or developing new products. Creation of new capacity often requires inputs from developing nations, particularly improved production processes.

A number of recent trade and investment programs sought to exploit perceived capacity with disappointing results. In the area of offshore assembly, many expectations were raised about the possibility of shifting garment and metal fabrication tasks into the Caribbean Basin from Asia. Unfortunately, these shifts have not taken place rapidly, since they literally required the creation of new plants rather than the exploitation of existing surplus capacity. The presence of physical structures and equipment does not indicate a true capacity to manufacture, assemble or operate an enterprise. This critical distinction has plagued a number of development programs.

3. PROGRAM DESIGN SHOULD COMBINE DIFFERENT STRATEGIES

Some 15 trade and investment programs in operation worldwide were reviewed to isolate principal design and planning features (see Appendix A). Major design issues were identified to provide a basis for evaluating different program approaches. Programs were found to focus on improving a firm's environment, its operational capability, and its ability to attract investors, technology or market access mechanisms into the country, usually from a developed nation.

Historically, assistance has focused on building up local institutional capability to help firms gain access to credit, technical guidance and other support. Local institution building is still central to many larger assistance programs, but there is an increasing emphasis on building stronger links to external markets, sources of technology and operational assistance. Intermediaries and specialized consulting firms are often employed to facilitate these linkages.

The most common strategies identified in our review of current programs are listed below. Some programs combine a mix of these specific strategies.

- Programs which emphasize attracting direct foreign investment as a principal means of creating and generating foreign exchange.
- Programs which focus principally on building host country institutions to provide training and technical assistance to local enterprises.

- Programs which establish significant representative offices or contact programs in the United States and other developed countries to locate potential partners or investors.
- Programs which focus on a particular level of technology, i.e., programs which emphasize more advanced technology goals as targets for joint venture or coventures.
- Programs which emphasize creating a demand for technical assistance or services as well as providing a supply of technical assistance, i.e., programs that have in-place networks to help companies identify problems and create an interest in improvement.
- Programs which focus on assistance for export activities, as opposed to those that focus on import substitution or sub-regional trade.
- Programs which encourage the utilization of a variety of intermediaries as opposed to programs which tend to use one particular channel to stimulate trade and investment relationships.
- Programs which provide funding to reduce the risk of travel, research or other activities necessary to move ventures through the project cycle.
- Programs which are built around short-time horizons, i.e., those that assume trade and investment activities can be initiated and put in motion in a relatively short period of time (less than three years).
- Programs which provide loans and loan guarantees for projects which are expected to be viable over the long term.
- Programs which establish credit rating services in overseas countries so that potential U.S. joint venture partners can qualify host country firms with some degree of speed and confidence.
- Programs which research business opportunities, comparative advantage, legislative barriers and incentives prior to the design of industrial development and trade promotion projects.
- Programs which help host country governments to translate laws, write clear regulations, and streamline administrative procedures; all of which, if overly cumbersome, can drive away potential investors and partners.

Some USAID programs build up the technical infrastructure of the host country (education systems, laboratories, etc.) while others deal directly with enterprises or institutions expected to facilitate enterprise growth. Those programs aimed directly at the enterprise can be grouped into two types: those which are designed to affect the internal capabilities of the firm and those focusing on the external environment or resource support.

TYPES OF ENTERPRISE ASSISTANCE

<i>Internal Focus</i>	<i>External Focus</i>
● Training services	● Provision of access to business networks (local and international)
● Information and partner search services	● Financing services
● Trade and export management assistance	● Improvement of policy and investment climate
● Technical assistance	

This framework helps illustrate why programs normally designed to deal with business activities or management processes within the firm also need to relate to the political and market environment outside the firm. Within the firm, programs must address production, finance, marketing, human resource development, product development and international business systems. Companies must be able to build their management processes--planning, controls, staffing, organization structures, and leadership systems--in order to compete internationally. These needs are addressed by programs that provide direct assistance to enterprises and by those which build local institutions for long-term assistance capabilities. These objectives can also be met by programs that encourage foreign investors or technical partners.

C. SIZE OF BENEFICIARY ENTERPRISES INFLUENCES PROGRAM DESIGN

Many trade and investment programs have a mix of activities to "build capabilities" of local firms, while others "exploit" capabilities by moving the enterprise into new markets, products, or productive systems. Development experts vary on the degree of emphasis that should be placed on these goals, but generally agree that capacity building and capability exploitation must come together. Unfortunately, this is analogous to the "chicken and egg" dilemma. Local enterprises, under increasing pressure to earn foreign exchange, compete effectively and diversify their interests will usually not invest in long-term capacity improvements without identified markets. Similarly, foreign markets, clients or partners are reluctant to become involved with local firms uncommitted to improved capacity and efficiency.

Enterprise size can predict the focus of assistance which will be more useful in the short and long run. Larger local firms are capable of linking to foreign

investors or establishing new joint ventures and services. They usually are also able to absorb training, export assistance and other technical assistance more effectively. This is not the case of the small and medium-sized local firm nor of the microindustry or informal sector.

Typically limited by capital, management and experience, SMEs are not able to jump into major new activities with larger foreign firms or to undertake major changes in business activity. For growth, management will tend to look for smaller incremental changes from short-term productivity gains or new market opportunities requiring small amounts of capital or management effort. The most appropriate focus for SME programs then would be activities such as coventure strategies, subcontracts and simple trading activities.

The microenterprise or informal sector firms are almost totally incapable of absorbing complex assistance or major new business opportunities, especially those involving substantial changes in products or manufacturing processes. Like the SME, the very small firm will be very receptive to programs that help it export a product or extend an existing service. Providing export management services or basic training and technical assistance services that incrementally improve existing operations and processes have a much greater impact than those that involve major changes in organization characteristics and operations due to the limited ability of these microenterprises to absorb change. Changes in the local policy environment and market conditions may not have a dramatic impact on growth of these enterprises for the same reason.

D. OTHER KEY DESIGN ISSUES

The development of local technical assistance organizations, professional associations, consultants, and training institutions is an important parallel activity to reinforce direct enterprise assistance programming. Most countries have a great need to improve the ability of local educators and consultants to work with firms to improve operations, stimulate planning and otherwise act as a catalyst for managerial and technical change. The activities of local support organizations should be coordinated with programs that link local firms to immediate sources of technology, market channels or intermediaries. The following diagram illustrates which trade and investment strategies are the most useful for different types of enterprises. (Naturally, training and technical assistance is useful to all types of enterprises, but has the greatest impact on smaller enterprises.)

TRADE AND INVESTMENT STRATEGIES					
STRATEGIES	Direct Foreign Investment	Joint & Coventure Services	Trading & Export Management	Training & Technical Assistance	Finance & Policy
TARGET ENTERPRISES					
Large Local Enterprise	GOOD	GOOD	GOOD	GOOD	CRITICAL
SME		GOOD	GOOD	CRITICAL	CRITICAL
Micro & Informal			WEAK	CRITICAL	CRITICAL
Association & Institution Building		ALSO SERVICE FOR CLIENTS	ALSO SERVICE FOR CLIENTS	ALSO SERVICE FOR CLIENTS	

The policy and general economic environment has the most decisive influence on the enterprise and is the most difficult to change. The trade, investment and technical assistance strategies can be mixed to reach a variety of beneficiary communities and associations. Technical infrastructure development should be linked to direct enterprise assistance. Venture development programs require strong industry contact networks and sustained pressure and follow-up to initiate ventures and move them through the process. Cooperative venture development programs are an alternative or complementary adjunct to trade and investment programs, especially for small and medium-size firms.

Enterprise change is a long-term effort which requires specific expertise and continuing pressure to achieve demonstrable results. This means that most shorter-term programs can achieve only minimal demonstrable results unless closely tied to building local capacity to continue assistance and networking. The ability to forge personal and practical links to the U.S. business and technical community is invaluable for the developing country firm, yet network building and maintenance is very difficult for smaller firms to execute.

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Entrepreneurs and professional managers generally comprehend the issue of risk and resistance to change. The success of any new program strategy, such as fostering SME joint and coventures, depends upon the program's ability to demonstrate success, disseminate appropriate information and education and reinforce perception and attitude changes that come about slowly. Joint ventures and coventures are already a component of assistance programs designed to strengthen private enterprises. They will be increasingly useful as networks strengthen and business strategy options are more widely understood. Assistance to accelerate cooperative ventures will be most effective when it provides networks to identify opportunities, search for partners, quality strategies and assist in planning and launching the venture.

E. JOINT VENTURES AND JOB DISPLACEMENT IN THE UNITED STATES

The present political environment within the United States argues for greater use of the joint venture strategy in Third World development assistance. Our assistance efforts reinforce private enterprises and free market systems, but money for direct assistance is limited. The U.S. Government will discourage programs that promote LDC exports to the United States at the expense of U.S. industry. However, SME cooperative ventures with LDC firms can benefit both firms and their countries in general. U.S. SMEs are the most important job creators and technology developers in our economy.

"over 90 percent of the 20 million new jobs formed in the U.S. in the last decade were generated by small businesses, while employment in larger firms has declined. The dynamic resource represented by smaller enterprises is gaining recognition worldwide. At the same time, U.S. share of international technological innovation is declining, an estimated drop from 75 percent to 50 percent in the last 30 years. It is not that the U.S. is innovating less, but that other nations have also recognized the power of the commercialization of technology to stimulate economic growth and create new jobs." U.S. Department of Commerce, 1986.

This quote is from a Department of Commerce document which argues for more cooperation between U.S. and foreign firms. The program for International Partnerships for the Commercialization of Technology (INPACT) maintains that "U.S. and foreign companies alike can better profit from cooperative entrepreneurial activities that can bring together technologically innovative people, products, and processes, and expand markets." INPACT argues that joint ventures have distinct advantages over direct investment and licensing since they tend to preclude one firm exploiting or absorbing the other. Further, having a vested or full-time partner in an overseas country provides stability and other advantages. The smaller U.S. or developing country firm cannot access the necessary market expertise, technology or management systems necessary to compete internationally without such ventures. It is clear that cooperative ventures can help move smaller firms into international business, whether through the more committed joint venture sought by the INPACT strategy or the coventures that represent the first level of firms coming together.

Unfortunately, overseas ventures are often perceived merely as a way to move jobs offshore without any direct benefit to the United States. Clearly jobs are sometimes lost when manufacturing ventures move into developing countries. However, it is the general feeling that without some type of cooperative venture smaller U.S. manufacturers cannot compete effectively. U.S. companies no longer have the luxury of deciding to compete internationally --the international market has come to them and they must compete to protect their closest regional markets from international competitors. The movement toward an increasingly open world economy has meant greater competition for U.S. domestic producers in virtually all industries.

For 16 years, the International Trade Commission has studied the relationship of offshore production to loss of jobs. It concluded that cooperative ventures, like joint ventures and production sharing, actually build employment in the U.S. Production sharing is a term that usually means combining U.S. technology and content with host country labor skills and factor costs through a two plant system. According to management expert Peter Drucker, "This growing trend (production sharing) is pushed by the dynamics of world population. The developed countries are strong in management, capital, technology and consumer purchasing power. The developing countries offer enormous and rapidly growing labor surpluses." (Drucker, 1980) Our description of joint ventures and coventures involves many transactions that are outside of simple of manufacturing agreements, but offshore manufacturing ventures create the greatest concern over exporting jobs simply to achieve cheaper labor input.

Interestingly, in the production - sharing ventures, registered under the U.S. Tariff Code categories 806.30 and 807.00 - where we might expect to see significant job export - the U.S. companies seem to have improved their job generation ability. In terms of goods partially manufactured and imported back into the United States through production sharing agreements, the U.S. content of these imports has increased from 15.4 percent of their total value in 1966 to 24.8 percent in 1983. More importantly, the firms feel that they have been able to improve their competitiveness and protect the jobs at hand.

Sixty-six firms in the United States involved in production sharing were surveyed regarding direct displacement of jobs in their business, not considering jobs protected by a venture. Eleven companies reported a one-for-one job displacement. Sixteen reported less than one-for-one job loss, and thirty-four reported negligible or no job loss. Clearly some of the firms surveyed gave up some direct manufacturing jobs. The broader point to be considered is that they in some way enhanced their overall competitiveness. Most offshore production ventures are done out of necessity --if a company cannot locate skilled workers in the U.S., or cannot afford to pay them, the price of not looking offshore may be to shut down completely. In this worst case, no jobs are protected and no one in the U.S. company benefits. (See chart)

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**WORKER DISPLACEMENT
1983 SURVEY OF 66 FIRMS**

<i>Employment Displacement</i>	<i>Number of U.S. Companies</i>	<i>Import Shipments (\$M)</i>	<i>Number of Workers</i>
One-for-one basis	11	574	15,450
Less than one-for-one basis	16	187	9,118
Negligible or none	34	535	14,435
Do not know	5	562	31,750
Total	66	1,858	70,753

Survey for the Committee on 806.30 & 807.00 Inc. prepared by Monticello Associates Inc. of Washington, D.C.

It seems that production sharing "improves U.S. competitiveness in world markets, enhances the employment levels of the American workforce, supports U.S. foreign policy interests, and provides American consumers with competitively priced alternatives to wholly foreign imports." (Committee for 806.30 and 807.00 Inc., 1984) Production sharing sometimes involves some loss of U.S. jobs to protect others. Considering that the Commerce Department estimates that approximately 25,000 jobs are created or sustained for every \$1 billion exports, the \$5.4 billion of domestic content in production sharing in 1983 can be associated with protecting 136,000 jobs.

It is difficult to say whether importing the products partially finished with only labor value added, as opposed to producing wholly within the U.S., takes jobs away from the United States. The Committee for 806.30 & 807.00 cites a study by the Flagstaff Institute, a nonprofit research organization dedicated to improving world trade, which states that 50,000 Americans worked in jobs supplying components shipped abroad for 806 and 807 assembly in 1976. Another 836,000 people were directly employed in export-related manufacturing to supply less developed countries with advanced technological products. These direct manufacturing jobs resulted in indirect employment in America of some 2.9 million additional persons, making the impact of 806/807 - related jobs 3.7 million in total.

It is easy to say that the offshore production sharing and other joint venture and coventure strategies help U.S. firms maintain efficiency. The most likely end result is that we are protecting skilled and semi-skilled workers' jobs but sacrificing certain lower-skilled labor jobs. In a broad sense, industries are participating in the normal exchanges of comparative advantage that underlie international trade. The Committee for Production Sharing (in March 1986, The Committee for 806.30 & 807.00, Inc. reorganized as the Committee for Production Sharing) argues that these types of ventures help U.S. firms by helping them to:

- maintain control over overall business operations
- protect proprietary and patent rights

- protect and enhance the manufacturing base in the U.S.
- improve competitiveness of end item products

Outside of manufacturing ventures, we can see that the licensing, comarketing, and other types of ventures help firms develop international experience, access markets, and improve competitiveness through ways other than reducing labor costs.

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Summary

This study has attempted to integrate three major research areas:

1. the use of joint ventures and coventures enhance competitiveness of both U.S. and LDC firms;
2. organizational and managerial characteristics of small and medium-sized enterprises that affect venture formation and development; and
3. the role SMEs can play in Third World development through joint ventures and coventures.

Our aim was to review how, and under what conditions, small and medium-sized U.S. enterprises can contribute to developing economies through ventures with LDC firms, and simultaneously enhance each partner's position in national and world markets.

Generally, we found that developing and developed country SMEs can play a role in international economic development through various types of joint ventures and coventures, but the extent of this participation is significantly constrained by numerous factors on both sides. It is not likely that SMEs represent a major new development strategy with far-reaching impact, at least in the short term; rather, ventures with small and medium-sized firms should be considered by development professionals as another "arrow in the quiver", so to speak, as opposed to a new "weapons system" for LDC development.

Significant constraints on the wider use of joint ventures and coventures between developed and developing country SMEs include limited capital and managerial resources of small and medium-size enterprises, their lack of familiarity with international ventures and a "stay-at-home" attitude, particularly on the part of U.S. firms. For these companies to change, there must be a confluence

of changing values and economic necessity. Changing values can be addressed, in part, through information and education, but potential ventures must have a sufficient economic potential and risk/benefit rationale if they are to be explored, let alone developed. Sharing risks and resources is an obvious way to serve multiple goals when common interests outweigh individual interests.

In addition to the limited resources of SMEs, another significant constraint on venture development is the type and level of contributions LDC partners can offer to U.S. firms. As LDCs are, by definition, less developed industrially, their potential contributions to increasing the competitive position of developed country partners are limited. Labor is the most important contribution. We found that the most frequent motivation for U.S. SMEs to consider a venture is to reduce assembly labor costs. Other common motivations are to increase revenues and/or serve new markets, often by licensing technology or entering into other types of agreements that would allow an LDC firm to market and manufacture (in whole or in part) a proprietary product.

The ability of a U.S. SME to capitalize upon an LDC natural resource or unique geographic advantage represents another basis for venture formation. Although this reason has generally been associated with larger multinational corporations which have the necessary capital to invest, opportunities do exist for SMEs in areas such as nontraditional agricultural products and natural endowments.

LDC SMEs, on the other hand, have somewhat different motivations and objectives for pursuing cooperative ventures. Access to the U.S. market, which can represent a market and/or product differentiation strategy, is a significant motivating force. Greater utilization of labor and production facilities, often achieved through subcontracts with U.S. firms is another popular venture rationale. Access to more competitive technology and know-how is the driving force for other LDC-initiated ventures.

SMEs approach the entire venture development process from a significantly different point of view than do larger and multinational firms. By definition, multinational firms have a different perception of their sphere of operations. Small- and medium-sized firms tend to be domestically oriented. This attitude, in combination with the resource limitations of SMEs, increases the level of risk associated with these types of ventures. Increased economic risk (or perceived risk) becomes an obstacle to active investigation of potential opportunities, and can preclude serious consideration of potential opportunities that may be presented. Often this barrier is reduced when a key executive has some familiarity with a particular country or region. A founding rationale for certain venture development contact programs is to reduce this risk by increasing information flows and reducing the cost of initial explorations by SME executives.

Although SMEs in the developing world appear to be more prepared to consider cooperative ventures than their U.S. counterparts, the general opinion among development professionals and executives interviewed during this research is that many LDC SMEs are unable to perform at the level required to compete in an increasingly competitive international business environment. They often lack the managerial and technical expertise required to participate in more sophisticated ventures. Many suffer from the less developed nature of local infrastructures, and others are victims of broader government policies and goals that are not conducive to business development. For example, currency restrictions and time-

consuming procedures that delay imports of needed parts and supplies make it difficult for the LDC firm to perform at a level required in a cooperative business venture.

It is important to recognize the unique characteristics and needs of specific target populations and organizations when developing assistance programs. Not all strategies are appropriate for all populations. The findings of this study have several implications for policy formulation and program design which are discussed in detail in Chapter VI. In summary, joint ventures and coventures are a viable approach to enhance competitiveness and economic prosperity of U.S. and developing country enterprises.

Appendix A: Example Trade and Investment Assistance Programs

Many less developed countries have established government investment promotion organizations which engage in general public relations efforts throughout the developed countries. Some have put together programs that are aimed at highly specific communities in the United States. Fewer programs look toward the coventure strategy as a viable strategy for engaging smaller and medium-sized firms. Many government programs are principally interested in attracting foreign investors and tend to emphasize projects that involve equity. Our research suggests that there is potential for engagement, on a broader front, of industrial activities through coventure and less formal business structures.

The overall AID private sector strategy intends to exploit the capabilities of private entrepreneurs to help achieve economic and social development goals. A wide number of programs within AID indicate the emphasis on utilizing the private enterprise for direct foreign investment and joint venture stimulation. A review of these different programs allows the isolation of the principal design and planning features.

Typical types of technical assistance programs that are being pursued include the following:

The African Project Development Facility, sponsored by the International Finance Corporation, the African Development Bank, and the UN Development Program, provides advisory services to small and medium-sized African entrepreneurs. AID is providing technical and managerial assistance directly to entrepreneurs to assist them in designing and implementing projects and arranging financing. The Facility provides specialists who identify viable indigenous enterprises ready for expansion and new business ventures that need help with start-up activities. The Facility works with

U.S. institutions, including AID, in identifying potential U.S. sources of technical and financial assistance.

The Egyptian Investment Authority Feasibility Fund provides monies to underwrite travel and feasibility studies of U.S. or Egyptian companies contemplating a joint venture activity in Egypt. Travel expenses of up to \$6,000 can be wholly underwritten with this fund. Feasibility studies can be fully covered up to a cost of \$250,000.

The Export Bank of Costa Rica (BANEX) was set up to provide special credit services and technical assistance to major export development industries in Costa Rica. The principal strategy of BANEX from its first years of operation was to provide information and assistance for large U.S. and developed country enterprises who might wish to open plants for offshore production in Costa Rica.

The Foundation for Economic Development (FIDE) in Honduras provides funds to underwrite technical assistance, research, and information requirements of Honduran firms. Linkage and partner search activities are carried out by a number of contracting consulting firms which are located in different regions of the United States. The FIDE program places great emphasis on being able to assist a firm from its initial business idea through a variety of different technical assistance, manpower development, and market development stages.

The FUSADES/PRIDEX Program is a trade and investment program supported by AID in El Salvador. This program establishes a U.S. linkage office that works along side a trade and investment program in El Salvador. The program uses missions and seminars to promote interest of U.S. firms in a wide variety of programs in El Salvador. The program also provides funding that will reduce the cost of travel, market research, and technical assistance that is required by either the U.S. or Salvadoran investor. This program allows intermediaries to bring programs into Salvador and to exploit resources or other networks being used by the FUSADES/PRIDEX program.

GIDCO Technology Transfer Pilot Project in India utilizes a private volunteer organization (PVO) as a principal contractor. This program, expected to begin in 1986, plans to have the PVO play an important role in promoting joint ventures between U.S. and Indian firms, especially in joint research and development, and opportunities to commercialize technology applicable to the Indian market.

The Industry Council for Development, a U.S. based nonprofit membership organization, receives minimal AID support in order to help meet the needs of planners and managers for information, advice and assistance in their efforts to halt environmental deterioration and promote sustainable agricultural production in the Sahel. A working group of large U.S. and European multinational corporations has set up a service center in Africa to assist in agroindustrial development efforts. The ICD has included private voluntary organizations, international assistance agencies, and host country and regional organizations in its recon-naisance missions designed to

identify problems, build consensus and design project solutions. This program is a good example of how AID can usefully tie its funds and know-how to existing programs in the private sector.

The Indonesian Executive Development Fund is a program of AID and the Ministry of Finance to stimulate private sector development by improving the management of Indonesian firms. Begun in 1986, the program enables selected senior level Indonesian executives to visit the United States for a formal management training course followed by a several week internship in their field of specialization with a U.S. company. The training program affords the foreign executives an opportunity to study American management practices, while allowing participating U.S. companies to become acquainted with possible business partners.

The Market and Technology Access Project (MTAP) is an AID project working in six countries (Yemen, Tunisia, Thailand, Turkey, Costa Rica and Haiti). This project focuses on assisting smaller consultant and intermediary firms assemble a variety of coventure and foreign investment activities. The program's initial activities in Costa Rica indicate a higher probability of coventure programming as opposed to direct foreign investment activities.

Path/Health Link is the type of U.S. based organization with the capability that AID seeks to work with the private sector overseas on a commercial basis. Health Link provides brokering, feasibility and financing services, and identifies products and U.S. companies that can find a market in developing countries. It works with the U.S. company to find a local partner, assist in obtaining needed regulatory approval, and assess the local market for production potential. AID provided both a grant and loans to promote the introduction of health technologies in the Far East, through local private production and distribution channels.

The Private Enterprises Promotion Project in Sri Lanka uses a "big eight" accounting firm to support a business development center. This center has contact points in Sri Lanka and the United States. In the U.S., the program can provide market studies as requested by Sri Lankan companies, searches for U.S. partners and distributors and analyses of appropriate U.S. technology sources. The business center in Sri Lanka, in turn, has contact activities with local companies and acts as a channel for technical assistance and linkage between itself and international search and information systems.

Private Sector and Development Project in Thailand has a U.S. consulting firm assisting the Thailand Board of Investment to generate and process investment applications. The consulting firm has been retained to represent the Board of Investment and to perform searches for U.S. companies interested in investing in Thailand. This program has developed a system through which companies can be identified in the United States and qualified in terms of investing in Thailand. This consulting firm often arranges missions of Thai businessmen to visit U.S. firms to begin exploratory talks and evaluations. In turn, return visits and contact programs are organized

from the U.S.

Project Development Assistance Program (PDAP) in the eastern Caribbean utilizes the services of a "big eight" accounting firm. Specifically, the contractor has set up contact offices in the eastern Caribbean and deals primarily with encouraging direct foreign investment into the region. This accounting firm uses its own networks and a wide variety of other associations and volunteer organizations to help identify interested U.S. parties and bring them into contact with potential partners or investment opportunities in the eastern Caribbean. This project has gradually evolved towards greater emphasis on building institutional infrastructure within the eastern Caribbean to continue trade and investment promotion.

U.S. - ASEAN Center for Technology Exchange was funded to establish linkages between private sectors in the ASEAN member countries and private U.S. sources of technology. This program relies heavily on office representation in three ASEAN countries and a central office in the United States. Specifically, the program develops interest in joint ventures and coventure through information services, and providing missions and reconnaissance programs that bring ASEAN investors into the United States and U.S. investors into various ASEAN environments.

The U.S. Investment Promotion Office (USIPO) was established by AID in Egypt. This local institution was set up to create linkages between U.S. and the Egyptian business community. The program offers information services and investment profile programs. The USIPO does not have a permanent office in the U.S., but its staff travels regularly between the countries in order to help target and assist joint venture programming.

Appendix B: Quantitative Research Measures

Two approaches for developing quantitative measures were pursued during the research of the Joint Venture Feasibility Fund. The instruments focused on a systematic analysis of 84 cases being handled by the program. The second set of measures will be illustrated in Appendix C.

The first set of quantitative measures were developed by examining and categorizing 84 cases being handled by the JVFF staff. Categories were developed on the following criteria:

- Industry breakdown
- Who initiated projects (U.S. or Caribbean company)
- Type of venture (vertical, horizontal, joint venture, coventure, or spider web)
- What was strategic goal of the program
- Size of venture partners
- Role of partners
- Main contingencies affecting project

Appendix C will present the results of an attitudinal survey that sought the opinions of experts in the field of intermediation. This questionnaire was broken down into four sections:

- What were partners initial objectives?
- What factors inhibit formation of joint ventures and coventures?
- What do firms believe are the general attributes of coventures and joint ventures?
- What are the difficulties or problems most commonly experienced in day-to-day operation?

The following pages review the results of the quantitative measures without supporting analysis or interpretation.

**QUANTITATIVE MEASURES I
CHARACTERISTICS OF 84 CASES**

**1. INDUSTRY BREAKDOWN AND INITIATOR OF COOPERATIVE
VENTURE SAMPLE**

<i>Initiator</i>	<i>U.S.</i>		<i>Caribbean</i>		<i>Intermediary</i>	
	<i>JV</i>	<i>CV</i>	<i>JV</i>	<i>CV</i>	<i>JV</i>	<i>CV</i>
Industry						
Service	1	2	0	1	0	1
Agribusiness	4	6	3	2	0	3
Light Manufacturing	2	12	3	16	0	1
Apparel/Textile	2	0	1	2	0	1
Continuous Process	0	0	0	1	0	0
Forest Products	1	0	0	0	0	0
Pharmaceuticals	1	0	0	3	0	0
Development	1	1	0	1	0	0
Service and Manufacturing	0	0	0	1	0	1
Heavy Manufacturing	1	0	0	0	0	0
	<u>13</u>	<u>21</u>	<u>7</u>	<u>34</u>	<u>0</u>	<u>7</u>

2. VENTURE TYPE BY FORMS OF ALLIANCE

	<i>Vertical</i>	<i>Horizontal</i>	<i>Spider-web</i>	<i>Overall</i>
Coverture	70%	4%	1%	75%
Joint Venture	22%	3%	0%	25%
Overall Sample	<u>92%</u>	<u>7%</u>	<u>1%</u>	<u>100%</u>

3. PROJECTS BY COUNTRY AND BY INITIATOR

<i>Country</i>	<i>Number of Ventures</i>	<i>Percent Initiated by U.S. Firm</i>
El Salvador	12	42%
Dominican Republic	10	30%
Haiti	9	11%
Honduras	10	40%
Guatemala	3	33%
Costa Rica	12	42%
Panama	2	100%
Jamaica	11	45%
Belize	3	67%
Trinidad	3	100%
Grenada	3	67%
St. Lucia	1	100%
St. Vincent	1	100%
Nevis	1	100%
Bahamas	1	100%
Antigua	1	100%

4. STRATEGIC USE OF COOPERATIVE STRATEGY BY U.S. FIRMS

<i>Strategic Focus of U.S. Firm</i>	<i>% of Ventures</i>	<i>% Initiated by U.S. Firm</i>
Cost reduction	63%	43%
New revenue source	16%	30%
Experience	10%	43%
New Business	4%	100%
Product Differentiation	3%	50%

5. STRATEGIC USE OF COOPERATIVE STRATEGY BY CARIBBEAN FIRMS

<i>Strategic Focus of Caribbean Firm</i>	<i>% of Ventures</i>	<i>% Initiated by Caribbean Firm</i>
Market Access	38%	43%
New Business	31%	56%
New Revenue	14%	60%
Product Differentiation	10%	33%

6. ROLE OF CARIBBEAN FIRM IN COOPERATIVE VENTURE

<i>Role</i>	<i>% of Type</i>
Manufacturing	63.4%
Agricultural Production	19.7%
Provide Facility	6.1%
Market Channels	6.1%
Raw Materials	4.5%

7. ROLE OF U.S. FIRM IN COOPERATIVE VENTURE

<i>Role</i>	<i>% of Type</i>
Provide Channel	52.0%
Technical Assistance	45.5%
Design Assistance	5.4%
Raw Materials	3.6%
Provide Facility	3.6%

8. MAIN CONTINGENCIES IMPEDING VENTURE FORMATION

<i>Contingency</i>	<i>% of Problem</i>
U.S. Partner	34.6%
Feasibility	19.2%
Market	16.7%
Caribbean Partner	15.4%
Financing	14.1%

9. TYPE OF INTERVENTION BY JVFF

<i>Type</i>	<i>% of Intervention</i>
Travel	42.2%
Technical Assistance	20.0%
Feasibility Studies	18.5%
Partner Search	10.4%
Linkage	8.9%

Appendix C

Questionnaire Results

10. SIZE OF VENTURE PARTNERS

A. Joint Ventures

U.S. Partner

Average Size	\$10,000,000
Minimum	350,000
Maximum	25,000,000

Caribbean Partner

Average Size	\$ 5,000,000
Minimum	35,000
Maximum	16,000,000

B. Coventure

U.S. Partner

Average Size	\$ 7,000,000
Minimum	100,000
Maximum	25,000,000

Caribbean Partner

Average Size	\$ 4,470,000
Minimum	60,000
Maximum	4,000,000

The second approach for developing quantitative measures pursued during the research of the Joint Venture Feasibility Fund utilized a questionnaire that was circulated to individuals considered expert or in some way heavily involved in joint venture and coventure development.

This segment deals with measures which are attitudinal in that they sought the opinions of experts about which factors seem to be the most important. The questionnaires focused on four areas of interest:

- What were partners initial objectives?
- What factors inhibit formation of joint ventures and coventures?
- What do firms believe are the general attributes of coventures and joint ventures?
- What are the difficulties or problems most commonly experienced in day-to-day operations?

**QUANTITATIVE MEASURES II
ATTITUDINAL QUESTIONNAIRES**

PARTNERS' INITIAL OBJECTIVES

Factor	Importance of Factor (percentage of respondents)				
	5	4	3	2	1
	Most Important				
1. To expand existing production facilities and/or reduce costs	33.3	48.7	18.0	0	0
		mean = 4.15			
2. To expand existing marketing, sales and distribution	38.5	38.5	20.5	2.5	0
		mean = 4.13			
3. To gain a competitive advantage	44.7	34.2	13.2	7.9	0
		mean = 4.05			
4. To gain access to new foreign markets	35.9	33.3	20.5	10.3	0
		mean = 3.95			
5. To sell acquired know-how	10.3	28.2	36.0	23.0	2.5
		mean = 3.21			
6. To secure access to raw materials	18.4	31.6	18.4	15.8	15.8
		mean = 3.13			
7. To use outdated resources in a profitable manner	5.3	15.8	23.7	39.5	15.7
		mean = 2.49			
8. To gain profits on excess funds	5.4	16.2	32.5	24.3	21.6
		mean = 2.46			

**FACTORS INHIBITING THE INITIATION OF JOINT
VENTURES AND COVENTURES**

Factor	Extent of Agreement (percentage of respondents)				
	5	4	3	2	1
	Most Important				
1. Lack of direct experience/knowledge in joint ventures	65.0	27.5	5.0	2.5	0
		mean = 4.55			
2. Developing country-firms lack an understanding of how joint ventures can be structured and used as a business development strategy	45.0	40.0	7.5	7.5	0
		mean = 4.23			
3. Developing country firms have difficulty identifying joint-venture opportunities	45.0	35.0	10.0	7.5	2.5
		mean = 4.13			
4. Firms lack the management resources and time needed to plan and execute cooperative ventures	47.5	30.0	5.0	12.5	5.0
		mean = 4.03			
5. Firms lack the confidence to initiate cooperative ventures	42.5	30.0	20.0	7.5	0
		mean = 3.95			

FIRM ATTITUDES ABOUT COOPERATIVE STRATEGIES

Factor	Extent of Agreement (percentage of respondents)				
	5	4	3	2	1
1. Direct contact with potential partners is the most important factor in building commitment to the cooperative venture	80.0	10.0	7.5	2.5	0
	mean = 4.65				
2. Firms lack understanding of how to use consultants to help organize joint ventures	50.0	40.0	2.5	7.5	0
	mean = 4.33				
3. Smaller firms are more prepared to consider equity rather than non-equity forms of cooperation	37.5	35.0	20.0	7.5	0
	mean = 4.03				
4. U.S. firms seldom consider a cooperative venture with a developing country firm as a viable strategy	32.5	35.0	10.0	20.0	2.5
	mean = 3.75				
5. Larger companies are more prepared to consider joint venture	28.2	35.9	20.5	12.8	2.6
	mean = 3.65				

CAUSES OF DIFFICULTIES AND PROBLEMS EXPERIENCED IN PARTNER RELATIONS AND DAY-TO-DAY OPERATIONS

Factor	Importance of Factor (percentage of respondents)				
	5	4	3	2	1
1. Differences in partners long and short term objectives	18.0	66.6	12.8	2.6	0
	mean = 3.88				
2. Host government interference or changes in national policy	33.3	43.6	15.4	2.6	5.1
	mean = 3.88				
3. Inability to recognize and adapt to the need for change	28.2	48.7	12.8	10.3	0
	mean = 3.85				
4. Partner was not able to perform at the expected level	23.1	51.3	23.1	2.5	0
	mean = 3.85				
5. Inaccuracy of initial expectations regarding profitability of the venture	23.7	42.1	34.2	0	0
	mean = 3.7				
6. Inaccuracy, incompleteness of initial studies	23.7	50.0	18.4	7.9	0
	mean = 3.7				
7. Difficulties in integrating policies, procedures and operating methods with established corporate routines	18.0	53.8	17.9	10.2	0
	mean = 3.7				
8. Language and cultural differences	33.3	43.6	15.4	2.8	5.1
	mean = 3.68				
9. Conflicts of interest between venture objectives and local partner's other business interests	18.0	41.0	25.6	12.8	2.6
	mean = 3.5				
10. Effects of geographic distance on routine communications	10.2	30.8	28.2	23.1	7.7
	mean = 3.05				
11. Initial reasons for venture were no longer valid	13.9	13.9	41.7	25.0	5.5
	mean = 2.98				

Appendix D: General Trends in Global Joint Venture Activity

A. CONSTRAINTS ON THE ANALYSIS

The process of assessing trends in joint venture formation, requires reasoned generalization. Joint venture formation is but one manifestation of private direct foreign investment (FDI). Parent multinational enterprises (MNEs) have undertaken nearly 12,500 PFDIs through roughly 100,000 foreign affiliates; approximately one quarter of these operate in developing countries. The flow of U.S. private FDI is a complex function of the operating environment with the volume and areas of activity sensitive to the political stability and economic promotion policies of the host countries involved.

Given this understanding, conclusive evidence exists that the volume of private FDI activity and the incidence of international joint ventures, in particular, have risen steadily in the post-1950 period. The key underlying causes for this trend have been the general growth of the international economy, increasing interdependence among national economies, assertion of sovereign rights in resisting wholly-owned subsidiaries, by many developing countries and recognition by MNCs of the need to pursue cooperative business strategies in the face of an increasingly competitive world economy and resource constraints.

B. DATA AVAILABILITY ON JOINT VENTURES

The historical trends in international joint venture activity have been summarized in recent study by Karen Hladik (1985), entitled *International Joint Ventures*. Briefly, the groundwork for substantive trend analysis and statistical description was laid by Friedmann and Kalmanoff's study of the developing country joint venture phenomenon in the late 1950s, and the analysis conducted by Stopford and Wells and Franko on coventures of the 1960s. The principal statistical work

on international joint ventures before 1975 is the Curhan, Davidson and Surt study (1975) entitled *Tracing the Multinationals*. This study grew out of the Harvard Multinational Enterprise (MNE) Project.

The Harvard MNE Project examined the formation of subsidiaries from an inventory model approach and tracked the explosion in private foreign direct investment. The study found that, from a net flow of 2,196 subsidiaries at year-end 1950, 13,795 subsidiaries were added in the period 1951-1975 and 4,793 "exits" occurred, for a net increase of about 7,000 this tripling of the subsidiary net flow in two and a half decades raised the total net flow to 11,198 by the beginning of 1976. Of this net flow, nearly 70 percent (7,741) represented wholly-owned (95% plus) subsidiaries, nine percent (1,090) consisted of majority owned and another nine percent (1079) were minority-owned (5-49%). The ownership distribution of the remainder was unknown. An examination of the net flow of entries indicates that 50% occurred in manufacturing, 29% in sales, 3% in extraction industries, 8% in research and development, resource exploration and "other", the major operating area (MOA) of 5% were unknown.

The primary contributions of the Harvard MNE study and the other seminal studies were the insights these studies provided into the flow of PFDI which illustrated new ways of examining the U.S. overseas investment position. Of the entries in the 1951-75 period, about 46% were newly formed, another 42% were acquired, and 3% were descendent (reorganized) subsidiaries (remainder was unknown). In characterizing the subsidiaries prior to 1975, Hladik notes an increase in manufacturing subsidiaries over the period, but hypothesizes that collaborative R&D was uncommon in pre-1970 joint ventures. Other analyses (e.g. Freidmann and Kalmanoff, 1961) found that U.S. firms often internationalize by purchasing existing manufacturing facilities with the goal of expansion. Friedmann and Beguin (1971) acknowledged a decade later the spread of joint ventures into other MOAs, and, in particular, an increase in extractive industry joint ventures in the late 1960s. These findings suggest that private FDI responds to opportunities and constraints in the host country environment and tailors the entity formed in ways that are distinctive to the MOA involved. Exhibit 1 offers an overview of some of these MOA-specific features cited in the Harvard MNE study.

Exhibit 1
General Characteristics of Subsidiaries Formed (1951 - 1975)
Feature by Major Operating Area (MOA)

All Joint Ventures:

- Joint ventures in LDCs rose from 41% of all joint ventures to 49% from 1950 to 1975;
- Joint ventures, as a percentage of all U.S. subsidiaries formed in LDCs, rose from 24% in 1951-55 to 45% by 1975;
- Over the period, the acceptability of joint venture formation as a means of conducting business in developing countries increased steadily;
- U.S. firms have tended to view joint ventures with host governments with a higher degree of suspicion than other types of joint ventures.

Manufacturing Joint Ventures:

- Accounted for a large percentage (68%) of all joint ventures formed over the period;
- Averaged 39% of manufacturing entries over the period and reached as high as 48% between 1961 and 1965;
- Collaborative R&D was fairly uncommon before 1970;
- Small manufacturers (less than one half of industry leader sales) tended to favor collaborative R&D entry over 1.5 times more often than large manufacturers;
- R&D-intensive firms tend to prefer wholly-owned subsidiaries over joint ventures to shield proprietary technology;
- Joint venture exports often present a problem for U.S. multinationals and represents a source of joint venture instability;
- Over the period, there was a clear increase in the local ownership share held in the joint venture entries;
- Local ownership usually consists of one or a small number of private partners holding a large block of shares (thus enabling little public trading).

Sales and Service Joint Ventures:

- The benefits associated with foreign partners were less apparent in the past among subsidiaries of which only 15% of the net flow were joint ventures;
- Among sales and service joint ventures, the U.S. firm was the minority partner in full, two thirds of the incidents.

Extraction Joint Ventures:

- Extractive joint ventures activity tended to be fairly localized in the host country selected;
- Wholly-owned subsidiaries represented 65% of the entries during the period, leaving the remainder to joint ventures;
- As for all joint ventures, problems associated with disputes over retention of earnings and dividends represent the greatest source of joint venture instability;
- Minority owner joint ventures represented 62% of the joint ventures formed in the period;
- The incidence of joint venture formation with another specialized, non-host country partner was a distinctive feature of extraction entries during the period, particularly after the late 1960s.

Other Category: Exploration, Research and Development, Etc.:

- This segment remained a relatively small component of the total pool of joint venture entry in the period;

International Joint and Co-ventures:

- R&D joint ventures are much more likely to occur among the smaller firms than larger firms, and the collaboration of owner-partners is facilitated by similar cultural background and training.
- There appear to be many opportunities for new types of firm cooperation in these areas since the projects are usually unique and lack any comparable precedents.

Hladik extended the work of the Harvard MNE study by developing a database of her own, based on interviews and tabulation of a survey instrument from 420 U.S. - foreign joint venture partnerships formed between 1974 and 1982 in the manufacturing industries. Hladik found that the absolute number of international joint ventures increased significantly in the period, particularly in the final four years, but the pattern of joint venture formation reveals some degree of cyclicity. The primary characteristics of the joint ventures in Hladik's sample include:

1. In contrast with the pattern of traditional joint ventures that tended to serve only local markets, export activity was undertaken by about half of the joint ventures formed each year;
2. R&D operation in joint ventures have increased for only 8% of the sample in 1975 to over 20% in 1982;
3. The relative proportions of majority, co-owned, and minority has remained stable over time, although a significant unknown component remains;
4. The most popular location for joint venture formation remains the OECD nations with very few located in low income countries and no clear pattern in the trend over joint venture formation in developing countries over the nine year period.

Exhibit 2 summarizes the results of the Hladik research project.

Exhibit 2
CHARACTERISTICS OF INTERNATIONAL JOINT VENTURE ACTIVITY
Manufacturing Joint Ventures between 1974 and 1982

Characteristic	74	75	76	77	78	79	80	81	82	Total
Sample size	64	29	28	23	28	54	72	68	54	420
*Activity										
% with exports	22%	34%	25%	35%	21%	37%	53%	51%	44%	39%
% with R&D	8%	0%	7%	4%	14%	22%	22%	16%	20%	15%
*Ownership										
% majority-own	11%	10%	18%	9%	18%	15%	13%	19%	17%	15%
% non-majority	50%	62%	46%	54%	54%	60%	51%	50%	56%	55%
% unknown own	39%	28%	36%	22%	29%	31%	28%	31%	28%	31%
*Distribution										
% in high-inc	58%	48%	57%	65%	50%	50%	47%	59%	65%	55%
% in mid-inc	34%	48%	36%	35%	36%	48%	47%	35%	26%	39%
% in low-inc	3%	3%	0%	0%	7%	0%	6%	1%	6%	3%

Source: Hladik, Karen, *International Joint Ventures*, (Boston: D. C. Heath & Company, 1985)

Note: Distribution of joint ventures based on World Bank classifications as follows:
 Low income countries have GNP per capita of less than \$410 (1980 dollars)
 Middle income countries have GNP per capita of between \$420 and \$4,500
 High income countries have GNP per capita of over \$4,800.

Also: majority constitutes 51-90% ownership, non-majority constitutes 10-50% ownership.

C. DATABASE DEVELOPMENT UNDERTAKEN FOR THE RESEARCH PROJECT

Given the time and funding constraints of the Joint Venture Feasibility Fund (JVFF) Research Project, the database development effort was undertaken with the goal of identifying significant past trends in joint venture activity, investigating initial hypotheses specifically developed for the JVFF, and collecting the most current data available from public and readily accessible non-public data. The greatest obstacle in conducting this trend analysis and building a current database is the fragmented state of the data and lack of any single authoritative source. Even Hladik, who spent a considerable amount of time tracking down citations from the *Frost & Sullivan's Index of Corporate Change*, acknowledged that only 70 percent of the citations could be identified.

The trends identified above were tested in this database development and, for the most part, confirmed. Due to the apparent cyclicity of international joint venture formation, this database added a tally of total joint venture activity on the theory that U.S. - based joint ventures often provide the foundation and relevant experience base on which firms can later undertake international joint ventures. While some caveats must be applied to this theory (especially in the R&D area), as

international joint ventures have gained acceptance among MNEs, lack of familiarity with and experience in managing joint ventures have emerged as obstacles to higher levels of activity.

In the past five years, the absolute number of joint venture entries identified (10-90% MNE ownership) rose 46 percent annually through 1983 (318 incidents) until the total number of known entries pulled back to 238 in 1984. Also, the pattern of entries in the international and domestic areas closely paralleled each other. During the period, international joint ventures consistently represented about three fifths of total joint venture entry activity identified (59,63,57,57, and 62% of each year, respectively). Between 1980 and 1983, international joint venture entries rose 43% annually until dropping 18% from 180 to 148 entries in 1984. The primary source for this database was *Merger Yearbook on Corporate Mergers, Joint Ventures and Corporate Policy*. Other sources were employed to cross-check the *Merger* information and to search for the joint ventures formed with Latin American and Caribbean partners.

The distribution of international and total joint venture entries over the past five year across major operating area (MOA) reveals those areas where international joint ventures have a greater propensity to occur. Exhibit 3 compares absolute entry counts for total and international joint venture activity. For the purpose of completeness, the "unknown" component is estimated at 10% although the actual percentage in this category may range between 5% (Harvard) and 30% (Hladik) of the total number of joint venture entries in any given year.

EXHIBIT 3
HISTORICAL DATABASE OF JOINT VENTURE ACTIVITY
Comparative Joint Venture Entry Count

SIC Industry	1984		1983		1982		1981		1980	
	Int	Tot								
20-45 Manufacturing	104	143	127	178	99	144	87	112	80	113
48-81 Sales and Service	31	73	35	97	35	87	21	49	11	30
1-14 Extraction	5	11	12	24	9	13	12	18	5	11
13, 82-900 ther, Expl., R&D	8	11	6	19	14	31	12	32	9	19
- Unknown	15	24	18	32	16	28	13	21	11	17
TOTAL	163	262	198	350	173	303	145	232	116	190

Note: "unknown" joint venture entries estimated at 10% of "known" absolute total

Exhibit 3 arrays the joint venture entry incidents or occurrences that closely approximate the MOA categories used in the Harvard MNE study. The different MOAs are referenced by the Standard Industry Code (SIC) numbers of the business activities included under each MOA. Initially striking is the high percentage of manufacturing joint ventures conducted in the international field compared with total manufacturing joint venture entries. In addition, the cyclicity identified in entry activity by geographical area is mirrored in the MOAs. The slowdown in entry activity in the exploration, refining and extraction MOAs since 1983, is indicative of this joint venture formation characteristic.

The distribution of total joint venture activity across the different major operating areas, presented in Exhibit 4, has centered in the manufacturing industries (over 50%) although the sales and service industries are increasingly popular for joint venture formation. Entry rates for extraction industry joint ventures have declined in popularity in recent years, probably due to the relative decline in raw materials prices. Examination of the raw data indicates that a high proportion of the domestic (U.S.) joint ventures are formed among R&D intensive firms and consumer goods sales firms. In the international arena, a surge in automotive and pharmaceutical joint ventures among U.S., European, and Japanese firms has contributed to total joint venture growth.

Closer inspection of the MOA entry trends internationally reveals that manufacturing joint ventures continues to be a popular form of entry into developing markets and occurs with greater frequency in the international field than in the aggregate, as reflected in comparing Exhibits 4 and 5. In 1984, 63.8% of international joint venture entry activity occurred in the manufacturing area, about the same level as 1983. Sales and service-related joint ventures have increased relatively in recent years and have taken up the slack from a relative decline in extraction and exploration joint ventures since 1982.

EXHIBIT 4

HISTORICAL DATABASE OF JOINT VENTURE ACTIVITY

Total Joint Venture Activity by Major Operating Area

<i>SIC Industry</i>	1984	1983	1982	1981	1980
15-45 Manufacturing	54.6%	50.9%	47.5%	48.3%	59.5%
48-81 Sales and Service	27.8%	27.7%	28.8%	21.1%	15.8%
1-14 Extraction	4.2%	6.9%	4.3%	7.7%	5.8%
13, 82-900 ther, Expl., R&D	4.2%	5.4%	10.2%	13.8%	10.0%
- Unknown	9.2%	9.1%	9.2%	9.1%	8.9%
TOTAL	100.0%	100.0%	100.0%	100.0%	100.0%

EXHIBIT 5

HISTORICAL DATABASE OF JOINT VENTURE ACTIVITY

International Joint Venture Activity by Major Operating Area

<i>SIC Industry</i>	1984	1983	1982	1981	1980
15-45 Manufacturing	63.8%	64.1%	57.3%	59.8%	68.9%
48-81 Sales and Service	19.0%	17.7%	20.2%	14.5%	9.5%
1-14 Extraction	3.1%	6.1%	5.2%	8.4%	4.3%
13, 82-900 ther, Expl., R&D	4.9%	3.0%	8.1%	8.3%	7.8%
- Unknown	9.2%	9.1%	9.2%	9.0%	8.5%
TOTAL	100.0%	100.0%	100.0%	100.0%	100.0%

In the postwar period, manufacturing joint ventures have predominated both in the level of international joint venture entry and the growing net flow of manufacturing joint ventures. A growing volume of sales and service joint venture entries have captured a progressively larger share of the entry total. The major obstacles to drawing conclusions from the data stem from the uncertainty about the "unknown" element and lack of complete data on international joint ventures in the 1976-1979 period. Exhibit 6 provides the available historical information on postwar joint venture formation activity.

EXHIBIT 6

HISTORICAL DATABASE OF JOINT VENTURE ACTIVITY

Post-war Joint Venture Activity

International Joint Venture Activity by MOA - Trend Table

<i>SIC Industry</i>	81-84	76-80	71-75	66-70	61-65	56-60	51-55
15-45 Manufacturing	61.3%	48.9%	66.6%	67.6%	70.0%	72.0%	58.0%
48-81 Sales and Service	17.9%	22.0%	17.6%	14.8%	14.0%	13.0%	14.0%
1-14 Extraction	5.7%	10.1%	4.2%	3.8%	2.0%	3.0%	11.0%
13, 82-900 ther, Expl., R&D	6.1%	10.5%	10.2%	10.0%	6.0%	6.0%	8.0%
- Unknown	9.1%	8.5%	1.4%	3.8%	8.0%	7.0%	11.0%
TOTAL	100.0%						

<i>SIC Industry</i>	1951-1975	1976-1984
15-45 Manufacturing	68.0%	52.2%
48-81 Sales and Service	15.0%	25.0%
1-14 Extraction	4.0%	7.3%
13, 82-900 ther, Expl., R&D	8.0%	10.8%
Unknown	5.0%	4.7%
TOTAL	100.0%	100.0%

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International Joint and Coventures

Improving Competitiveness
of U.S. and Developing
Country Enterprises

Harvey W. Wallender, III
and Vincent Bozzone

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