

**Ecole des Hautes Études Commerciales d'Alger**



**This thesis is submitted in partial fulfilment of the requirements  
for the Master's Degree in Commercial Studies**

**Option: International Affairs**

**Entitled:**

**A CRITICAL REVIEW OF INTERNATIONAL  
JOINT VENTURES' LITERATURE.**

**Case study: The Northwest African region.**

**Presented by:**

Ms Warda MAHROUG

**Supervised by:**

Mr. Ali HAMMOUTENE

Professor, EHEC

**7<sup>th</sup> Promotion**

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## *Dedication*

*I dedicate this humble work to the souls of my father and brother,*

*May Allah Almighty bless them.*

## **Acknowledgements**

*First and foremost, all the praises and thanks be to ALLAH, the Lord of the Worlds, and Prayers of ALLAH are to Muhammad and his Family and Companions until the Day of Resurrection.*

*This having been said, I hereby express my deepest gratitude to my mother, my sister and all of my family members for their constant love, support and understanding, from my first day of study, until the presentation of this paper.*

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*I would also like to convey my profound recognition to Mr. Arezki OUALI, the director of Janssen Liaison office, and compliant officer of the Maghreb and West African region at J&J group, for his expert instructions, availability and valuable information.*

*Last but not least, I wish to sincerely thank all those who provided assistance and encouragement, from near and far, for the sake of completing this dissertation.*

## ملخص

يتطرق هذا العمل إلى دراسة الأبحاث الحالية عن المشاريع المشتركة الدولية، إذ تُعدُّ أحد طرق الدخول إلى السوق التي كُثُر استعمالها في الوقت الحاضر. ومع وجود كثير من الأبحاث في هذا الموضوع، إلا أن سوق منطقة شمال غرب إفريقيا لم يحظ باهتمام كبير من قبل الباحثين في هذا المجال. وتكمن أهمية هذا العمل في تقديم مراجعة أدبيات تكاملية حول الأبحاث الموجودة في موضوع المشاريع المشتركة الدولية في منطقة المغرب العربي. زيادة على ذلك، أجرينا بحثا نوعيا على أساس دراسة حالة حول "عوامل اختيار الشريك المحلي". وأظهرت نتائج هذه الدراسة وجود حاجة إلى مزيد من البحث حول المشاريع المشتركة الدولية لتحديد خصائصها في المنطقة. وحددت النتائج بعض معايير الاختيار المهمة، وهي: سمعة الشريك، والارتباط السابق، والسلامة المالية، والإمكانيات الصناعية. أخيرًا، اقترحنا منهجا نموذجيا لمتابعة الشركات التي ترغب في الدخول في مشروع مشترك مع شركة جزائرية. ومن المتوقع أن يكون هذا العمل دافعا رئيسيا لمذكرات بحث مستقبلية في هذا المجال لأنه يلقي الضوء على مواضيع لم يتم التطرق إليها بعد في المغرب العربي.

### الكلمات الدالة:

طرق دخول السوق، المشاريع الدولية المشتركة، عوامل النجاح الرئيسية، معايير اختيار الشركاء، عملية اختيار الشركاء، مراجعة أدبيات تكاملية، سوق شمال غرب إفريقيا.

## Résumé

Ce travail consiste à analyser les recherches existantes sur les Joint-ventures internationales, un mode d'entrée sur le marché qui est de plus en plus utilisé par les entreprises de nos jours. Malgré l'existence de recherches approfondies sur ce sujet, le contexte du marché de l'Afrique du Nord-Ouest n'a pas suscité beaucoup d'intérêt de la part des chercheurs et des praticiens dans ce domaine. La principale contribution de ce document est de présenter une revue de littérature intégrative des recherches actuelles sur les Joint-ventures internationales (JVIs) dans la région du Maghreb. En outre, une recherche qualitative basée sur une étude de cas a été menée sur le facteur de sélection des partenaires. Les résultats de cette étude ont montré l'existence d'un besoin de recherches supplémentaires pour parvenir à une meilleure compréhension du sujet des JVIs dans la région de l'Afrique du Nord-Ouest. Les résultats ont également permis d'identifier certains critères de sélection importants, à savoir : la réputation, la taille du partenaire et sa part sur le marché, la solidité financière et le potentiel industriel qui influent sur le choix d'un partenaire approprié. Enfin, un processus de sélection a été proposé pour servir de modèle aux entreprises qui souhaitent se lancer dans une joint-venture avec un partenaire algérien.

Il est envisagé que ce travail soit un guide principal pour les futurs travaux de recherche dans le domaine car il apporte un éclairage sur les sujets qui concernent les JVIs et qui n'ont pas encore été explorés dans le cas de la région de l'Afrique du Nord-Ouest.

Mots-clés :

Modes d'entrée sur le marché, joint-ventures internationales, facteurs clés de succès, critères de sélection des partenaires, processus de sélection des partenaires, revue intégrative de littérature, marché de l'Afrique du Nord-Ouest.

## **Abstract**

This work investigates current research on international Joint-ventures, a market entry mode that is increasingly used by firms internationally. Despite the existence of extensive research, the context of the Northwest African market has not received much interest by scholars and practitioners in the field. The main contribution herein is to present an integrative literature review of current research on the topic of International Joint-ventures (IJVs) in the Maghreb region. Furthermore, a qualitative research based on a case study was conducted on the partner selection factor. The results of this study showed that further research is needed to reach a better understanding of the topic of IJVs in the region of Northwest Africa. The findings have also identified some of the important selection criteria, namely: reputation, partner's size and market share, financial soundness and industrial potential that affect the choice of a suitable partner. Finally, a selection process was proposed to serve as a model for firms that wish to embark upon a Joint-venture with an Algerian partner.

It is envisaged that this work would be a main guide for future research papers in the field as it sheds light on the IJV topics that have not been explored yet in the region of Northwest Africa.

Keywords:

Market entry modes, International Joint-ventures, key success factors, partner selection criteria, partner selection process, integrative literature review, Northwest African market.

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## **List of Abbreviations**

BRI: Belt-and-Road Initiative

CEO: Chief Executive Officer

CSF: Critical success factor

EMP: Euro-Mediterranean Partnership

EU: European Union

FDI: Foreign Direct Investment

IJV: International Joint Venture

ISA: International Strategic Alliance

JV: Joint-venture

KSF: Key Success Factor

LOI: Letter Of Intent

MEM: Market Entry Mode

MENA: Middle East and North Africa

MNCs: Multinational Companies

MU: Memorandum of Understanding

R&D: Research and Development

RBV: Resource-based View

SMEs: Small and Medium Enterprises

TCE: Transaction Cost Economics

TO: Turnkey Operations

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# **Introduction**

In the wake of globalization of businesses and international competition, the economy is becoming highly interconnected. International companies are focusing on opening the world markets to their goods especially in emerging economies to take advantage of their resources and opportunities. In order for international companies to enter foreign markets, there is a variety of modes of entry that they can choose in alignment with their strategy and objectives.

International Joint-ventures are one of the most popular market entry modes chosen by international firms to invest in new markets. They involve a particular form of alliance formed when two or more partners from different nationalities contribute a number of assets to an independent legal entity, then, they are remunerated in proportion to their contribution with the profits generated by that entity.

This collaboration is beneficial for both parties, to get access to advanced technologies, gain knowledge and explore new business opportunities while sharing risks and complementary resources.

The number of international joint ventures (IJVs) has increased significantly in response to changes in the global markets and economy. Firms are choosing joint ventures over other modes of entry to penetrate foreign markets. In fact, this mode of entry is considered "more attractive" and more profitable than acquisitions and other forms of partnership. Therefore, it is a topic that has had great interest by scholars and researchers in international business and management.

This extensive literature on the role of joint ventures in international business covers both the strategic dimension and the managerial dimension. The former involves the use of joint ventures as a foreign market entry and development strategy; their advantages and disadvantages compared to the alternatives available such as exporting, licensing, wholly owned subsidiaries, etc., and the latter (the managerial dimension) covers the problems involved in planning, negotiating, implementing and controlling joint venture agreements.

The object of this dissertation is to cover both dimensions of the existing literature on International joint ventures, with ambition behind, to build a guideline for businesses that wish to adopt this strategy.

Moreover, this work focuses on a more specific literature of International-joint ventures, the one that concerns Northwest African economies. As a developing region, Northwest Africa is an attractive destination for foreign investment and firms have been creating joint-ventures with local companies in the area for years.

In the course of current research on this entry mode, especially with regard to the economic development of Northwest African region, an integrative review of existing articles and papers is conducted to analyze, systematize, and assess the different insights published in order to identify propositions for future research directions.

In essence, to incorporate our study, we have raised the following research questions:

**What are the characteristics of IJV research in Northwest Africa? And what should be involved in future research on IJVs in this region?**

Our research aims to narrow the gap in IJV literature and it also treats one of the key decisions taken by the firm while forming the joint-venture, which is the choice of a suitable local partner.

Actually, the rich IJV literature has frequently stressed the important role of partner selection with regard to formation, operation and subsequent success or failure of the venture. However, IJV partner selection research in general has been relatively limited, and it has narrowly focused on the selection criteria or the process.

In light of the presented research gap, we have conducted a qualitative study that answers the following sub-questions:

- What are the criteria that determine the choice of a suitable IJV partner?
- What is the role of partner selection in the success of an IJV operating in Northwest Africa?
- What are the steps that should be taken to insure an effective selection process?

In order to answer these questions, we have formulated the following hypotheses:

**Hypothesis 1:** The local partner's financial assets are a crucial selection criterion that can determine the suitable partner for the JV.

**Hypothesis 2:** The partner's reputation and previous experience are crucial selection criteria that can determine the suitable partner for the JV.

**Hypothesis 3:** All firms should follow one process in the quest of a suitable IJV partner.

In the aim of carrying out our qualitative study, we have undertaken an internship in one of the most successful industrial IJVs in Algeria, operating in the pharmaceutical sector, JANSSEN Algeria.

The choice of this topic was not a random one, the originality of the subject and our interest in inter-firm relationships, as well as our willingness to deepen specifically in the topic of IJVs are the main drivers that prompted us to address it. Finally, in order to answer our questions and to present the theoretical concepts, we have made use of various documentary consultations, books, articles and specialized websites. In addition, we also sought the help of professionals in the field through interviews focused on our problematic.

This dissertation is organized as follows: in a first part, an overview on the concept of joint-ventures is presented, then, in a second part, we discuss the various factors that affect the IJV's success and failure and specifically Partner selection.

The third part concerns the current research on IJVs in Northwest Africa and finally, the last part presents our case study on partner selection in an Algerian-based IJV.



**Chapter 1: Overview on the**  
**concept of Joint-ventures**

## **Chapter 1: Overview on the concept of Joint-ventures**

### **Introduction**

Today's world of business is becoming more and more connected and interdependent due to the rapid integration of the economies and fast development of information and communication technologies. Therefore, an international enterprising environment of high requirement and intense competition was created

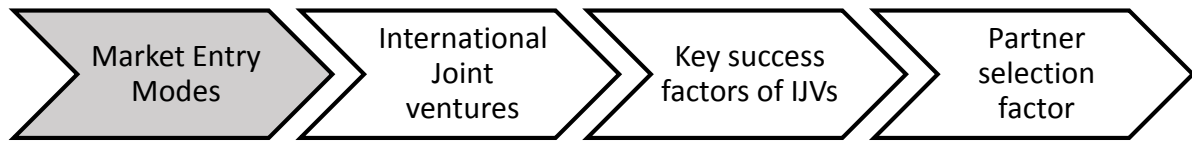
In order to survive in this environment, firms are compelled to adapt their behaviour and their operation in its complicated and often unanticipated processes.

An international joint-venture is only one of a variety of means by which a firm can exploit its technology and evolve in the global marketplace that is growing fast and changing rapidly. Before embarking upon a joint-venture, the firm must examine the relative advantages and limits of the other modes for foreign market entry.

Thus, it is important to distinguish the existing foreign market entry modes so that the advantages and disadvantages of joint-ventures can be viewed in a proper perspective.

In this chapter, the different entry strategies to foreign markets are introduced. Then, an overview of the concept of joint-ventures, the existing typologies, the reasons why a firm chooses this strategy as well as the legal aspects are discussed.

## Section 1: International Market entry modes



In order to operate internationally, firms make a crucial decision concerning the way they want to carry out their business activities and their degree of engagement in the foreign market. This strategic decision varies according to the firm's motives and expectations from the target market.

A foreign market entry mode (MEM) is a type of operation established by a firm to serve the customers of another market; it is a comprehensive plan that summarizes the firm's objectives, goals and business operation in the target market over a certain period of time.

In the literature, there are different models explaining the different forms of entry into foreign markets, the most common one distinguishes three fundamental groups: exporting modes, contractual modes and investment modes<sup>1</sup>.

### **1.1.1. Exporting modes**

This group is dedicated to international trade; it addresses mainly export and import activities.

Exporting is defined as *a strategy in which a company, without any marketing or production organization overseas, exports a product from its home base*<sup>2</sup>.

It is usually the easiest and most common entry mode for firms that are in the beginning of their internationalization process for several reasons ; not only it requires a limited need of knowledge of the foreign market but also the expenses are reduced and it generates lower risk.

Exporting can be organized in different ways, depending on the type and number of intermediaries. We identify the two major types: direct exporting and indirect exporting.

<sup>1</sup> Bruce D.Keillor, " International Business in the 21<sup>st</sup> century", Praegar, Volume 3, California, 2011, p.41-43

<sup>2</sup> Sak Onkvisit, John J. Shaw, "International Marketing: Analysis and Strategy" , Routledge, Fourth edition, London, 2004, p.246.

- Direct exporting is defined as *sale by an exporter directly to a buyer located in a foreign country*<sup>3</sup>. In other words, the firm keeps its manufacturing activities in the local market and sells its products to an independent intermediary that is situated in the foreign market. It can either be an agent or a distributor. The difference between the two companies is : the agent gets a commission in return to its services, whilst the distributor buys the products ,sets the conditions of sales and sells them to its customers independently.
  
- Indirect exporting is defined as *sale by the exporter to the buyer through a domestically located intermediary*<sup>4</sup>, the intermediaries in this type of exporting, are located in the local market. They are independent export organizations that carry the products abroad. Thus, the transaction is carried as a local one and the manufacturer does not have a direct contact with the customers. This method is usually used by firms that prefer to avoid commitment and utilize the knowledge and resources of an experienced intermediary to expand internationally.

### 1.1.2. Contractual modes

The second group of MEMs, as the name already alludes, is based on specific contracts between two or more firms. These contracts implement cooperative relations among foreign partners and allow the internationalization process to be easier and more profitable for the partners.

Contractual modes, also called intermediate modes, involve: Licensing, franchising, contract manufacturing, management contracts and turnkey projects.

- Licensing:

This strategy is especially appealing to small companies since it has proven to be very profitable and not demanding in terms of resources.

It is a transaction between the licensor (the firm) and the licensee (the foreign company) in which the licensor offers a proprietary assets to the licensee in exchange of royalty fees.

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<sup>3</sup> Dr. Gary and K. Busch, “ Glossary Of World Trade- Acronyms and Definition ”, international Bulk trade 2007, p.46.

<sup>4</sup> Dr. Gary and K. Busch, *Op.Cit*, p. 96.

These assets can include technology know-how, trademarks, patents and production processes<sup>5</sup>; as well as technical and marketing advice and assistance. The right to use the technology is generally assigned for a specific period of time.

Licensing is considered as a low-involvement and low-control entry mode because *control over operations and strategy is granted to the licensee in exchange for a lump sum payment, a per-unit royalty fee, and a commitment to abide by any terms set out in the licensing contract*<sup>6</sup>.

➤ Franchising:

Franchising is a more developed form of licensing, Lafontaine defined a franchise agreement as *a contractual arrangement between two independent firms, whereby the franchisee (foreign company) pays the franchisor (the firm) for the right to sell the franchisor's product and/or the right to use the franchisor's trademark at a given place and for a certain period of time*<sup>7</sup>.

Franchising, thus, is close to licensing, except that franchising involves a relationship that goes beyond the grant of a license, the franchisor licenses a business system beside other property rights.

In order to snap up opportunities in the foreign market, the franchisor has the choice to either contact a franchisee directly or use master franchising as outlined in Figure 1-1. The method of choice often utilized is master franchising: it is a system that allows the franchisor to give a master franchise to a local entrepreneur, who will, in turn, sell local franchises within his territory ( a region, a country or a group of countries)<sup>8</sup>.

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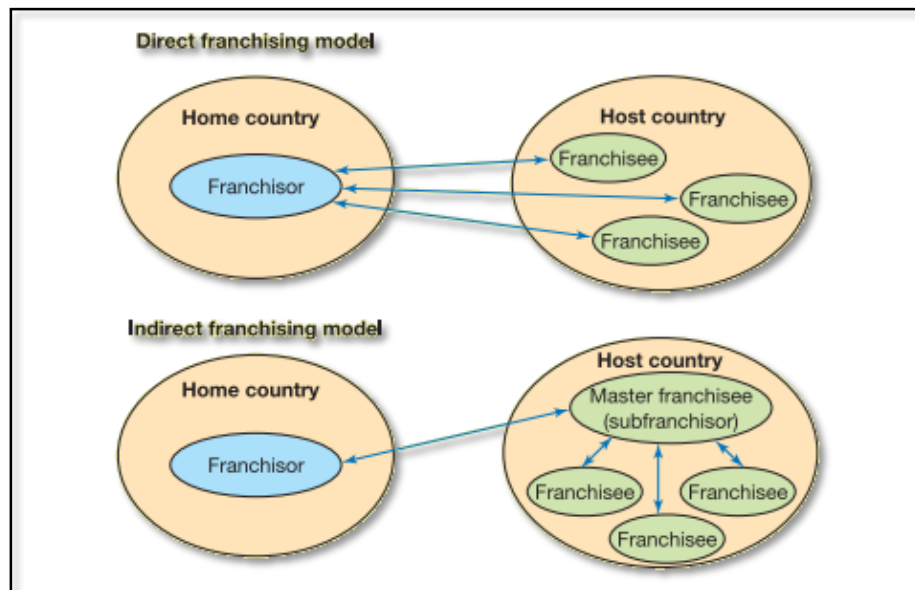
<sup>5</sup> Masaaki Kotabe, Kristiaan Helsen, "Global Marketing Management", Wiley, 5<sup>th</sup> edition, 2010, p.301.

<sup>6</sup> Preet S.Aulakh, S.Tamer Cavusgil, MB.Sarkar, "Compensation in International Licensing Agreements", Journal of International Business studies , Vol 29, N2, 1998, p.410.

<sup>7</sup> Francine Lafontaine, " Contractual Arrangements as Signaling Devices: Evidence from Franchising", Journal of Law, Economics, & Organization, Vol. 9, No. 2, 1993, p.258.

<sup>8</sup> Masaaki Kotabe, Kristiaan Helsen, *Op.Cit.* , p.304.

Figure 1-1: Direct and Indirect franchising models



Source: Based on Welsh *et al.* (2006) in Svend Hollensen, “Essentials of Global Marketing”, Pearson education limited, Edinburgh Gate, 2008, p.233

This contractual agreement grew explosively in the United States during the 1960s<sup>9</sup> and its main advantage is insuring rapid expansion with low political risks.

However, franchising can result monitoring issues because of loss of control<sup>10</sup>.

➤ Contract manufacturing :

Contract manufacturing, also known as outsourcing, is a strategy in which the product is manufactured by a local producer in the foreign market. The manufacturer’s responsibility is restricted to production, while the international company assumes the marketing responsibility for sales, promotion and distribution.

This MEM can be encouraged by several factors such as Desirability of being close to foreign customers, low foreign production costs and in some countries there is government preference for national suppliers<sup>11</sup>.

<sup>9</sup> Franklin R.Root, “ Entry strategies for International Markets “, Lexington books, Toronto, 1987, p.109.

<sup>10</sup> Dianne H.B Welsh, Ilan Alon, Cecilia.M, “An examination of international retail franchising in emerging markets”, Journal of Small Business Management, Vol. 44, No. 1, 2006, p. 135.

<sup>11</sup> Svend Hollensen, “Essentials of Global Marketing”, Pearson Education Limited, Edinburgh Gate, 2008, p.228.

Moreover, contract manufacturing allows the outsourcer (also known as OEM) to arrange with the producer to manufacture a part of the product or the entire product. Some of the benefits listed in the previous MEMs also apply here ,for instance, outsourcing also requires relatively little capital investment and it leads to a small amount of exposure to political and economic risks; besides, it allows the company to focus on its core competencies.

However, one of the major drawbacks of this mode is the inability to control the quality of the product made by the local producer in the foreign market. Also, sharing the technology with the manufacturer can make it a future competitor.

➤ Management contracting:

Another MEM by which a firm can expand overseas is through a management contract under which *the firm manages the operations of an independent foreign entity in exchange for fees. This provides the firm with as much control over operations as is specified in the contract, but with little or no investment*<sup>12</sup>.

In other words, it gives the firm the right to manage the daily operations of a company located in a foreign market; nevertheless, from an entry strategy perspective, these contracts are unsatisfactory. Not only they require time-consuming negotiations, but they also do not allow the company to build a lasting market position for its products.

Management contracts generally arise when a company seeks the management know-how of another experienced firm in return of a fee which may be a percentage of the profit or can be fixed irrespective of the financial performance<sup>13</sup>.

➤ Turnkey Operations:

A turnkey contract is defined as an agreement, in which a firm *plans, finances, organizes, manages, and implements all phases of a project abroad and then hands it over to a foreign customer after training local workers*<sup>14</sup>.

---

<sup>12</sup> “International joint ventures”, Federal Publication Inc, 2nd edition, Washington, 1988, p.37.

<sup>13</sup> Svend Hollensen, Op.Cit. , p242.

<sup>14</sup> S.T.Cavusgil, G.Knight & J.R. Riesenberger, “ International Business – The New Realities”. 2nd Edition. Pearson, 2012, p.477.

Put differently, the exporter undertakes to execute the contracted investment in a given period of time following the importer's requirements, then, transfers the complete project when it is ready to commence operations (thus the term "turnkey").

TOs are often related to the provision of technology, engineering and construction, which are essentially sold as a package deal to the foreign entity in the target market.

Firms usually choose this form of entry to expand in emerging markets with limited local construction and engineering capabilities mostly because the majority of developing countries are concerned about becoming self-sufficient especially in the industrial sector<sup>15</sup>.

### 1.1.3. Investment modes:

Also called hierarchical modes, these MEMs refer to situations where the firm wishing to go international wants to obtain more control over its operations abroad and be directly present in the foreign market. Investment modes require commitment and financial resources as well as willingness to take risks. However, they provide lower production costs, so, they engender the most profit comparing to the previous strategies. Investment modes are based on foreign direct investment (FDI), it is a driver of international business and many businesses use it to establish footholds in the world marketplace<sup>16</sup>.

FDI is defined as: *an investment made by a firm or individual in one country into business interests located in another country. Generally, FDI takes place when an investor establishes foreign business operations or acquires foreign business assets in a foreign company*<sup>17</sup>.

FDI frequently involves more than just capital investment; it may include technology and management know-how<sup>18</sup>.

Sometimes, the firms find it more relevant to establish a formal branch office in their target market. A branch is defined as *An extension of and a legal part of the manufacturer (often called a sales office). Taxation of profits takes place in the manufacturer's country*<sup>19</sup>.

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<sup>15</sup> S.T.Cavusgil, P.N.Ghauri, M.N.Agarwal, "Doing business in emerging markets : Entry and negotiation strategies", Sage publications, California, 2002, p.99.

<sup>16</sup> Alan.M. Rugman, Simon Collinson, "International Business", Pearson education limited, 4<sup>th</sup> edition, Edinburgh Gate, 2006, p.7.

<sup>17</sup> James Chen, "Foreign direct investment (FDI)", Investopedia, 24 Feb 2020, <https://www.investopedia.com/terms/f/fdi.asp>, Accessed 28/04/2020.

<sup>18</sup> Ibid.

<sup>19</sup> Svend Hollensen, *Op.Cit.* , p.244.

That is to say, the foreign branch is an integral part of the parent company; it has the same legal status and thus is subject to both the law of the country of origin and the host.

Nevertheless, in order to have control over the sales function, the firm usually invests to create a subsidiary which is *any organization more than 50 percent of whose voting stock is owned by another firm*<sup>20</sup>.

There are two types of subsidiaries:

- Wholly owned subsidiaries that give the MNC full control and ownership of a business abroad through establishing a Greenfield investment or Mergers & acquisitions.
- Partial subsidiaries that allow the MNC to acquire partial ownership via collaborative arrangements, thus, creating a strategic alliance or a joint-venture with a company operating in the target market.

➤ Greenfield investments:

*A Greenfield entry into a foreign market involves the establishment of a new affiliate in a host country by another firm headquartered outside the country*<sup>21</sup>. That is to say, the firm recreates her business from scratch in the target market.

This entry-mode is an *opportunity for the international company to shape the local firm into its own image and requirements*<sup>22</sup>.

However, it takes a long time to build plants than to acquire them<sup>23</sup>. That is why other firms opt for acquisitions.

➤ Acquisitions:

Acquisitions are basically presented as an alternative to Greenfield investments. Actually, MNCs often turn to Greenfield when an appropriate acquisition is not available. Acquisitions are defined as *a transaction in which a firm gains control of another firm by purchasing its stock, exchanging the stock for its own, or, in the case of a private firm, paying the owners a purchase price*<sup>24</sup>.

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<sup>20</sup> Dr. Gary and K. Busch, *Op.Cit.* , p.169.

<sup>21</sup> Yung-Ming Cheng (2006). “Determinants of FDI Mode Choice: Acquisition, Brownfield, and Greenfield Entry in Foreign Markets” , Canadian Journal of Administrative Sciences, Vol.23, No.3, 2006, p.203.

<sup>22</sup> Svend Hollensen, *Op.Cit.* , p250.

<sup>23</sup> Ibid.

<sup>24</sup> Babu John Mariadoss, “Core Principles of International Marketing”, METADATA, 2012, <https://opentext.wsu.edu/cpim/chapter/7-1-international-entry-modes/>, Accessed 04/05/2020.

Thus, the MNC takes over an established firm in the host country which allows it to move directly to the task of building a strong position in the target market. This type of FDI also includes when a company invests in an existing old facility to start its operations, and is called “Brownfield investment”.

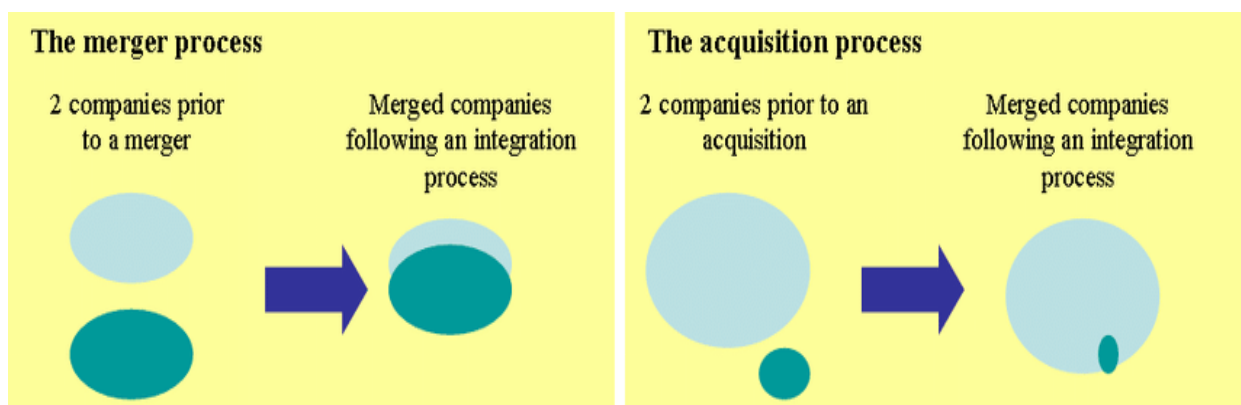
This form of investment is favorable to firms that want to have a quick enter to a market, or want to enter to a market which is already saturated with a lot of competition. Furthermore, the acquirer gets the facilities, equipment, and human resources of the other company. Though, Acquisitions are often expensive and they entail great risk.

➤ Mergers:

Mergers are a type of acquisition that refer to *the situation where two companies, usually of comparable size, join to form a new larger firm*<sup>25</sup>, this transaction is generally made when the two firms believe that by integrating their resources and capabilities, they can create together a stronger competitive advantage.

Satu (2007) presents an overview of conceptual differences between Mergers and Acquisitions, which is shown in Figure 1-2 below:

**Figure 1-2: An overview of conceptual differences between mergers and acquisitions**



Source: T.Satu, “a Comparative Overview of the Impact of Cultural Diversity on Inter-Organisational Economics”, *Advances in Mergers and Acquisitions*, Vol. 6 , 2007, p.4.

<sup>25</sup> S.T.Cavusgil, G.Knight & J.R. Riesenberger, *Op.Cit.*, p.445.

➤ Strategic alliances:

Formally, a strategic alliance can be described as *a coalition of two or more organizations to achieve strategically significant goals that are mutually beneficial*<sup>26</sup>.

Despite remaining completely separate, the entities share their knowledge and resources in order to pursue their shared goals. The two companies pool up their technology, knowledge, distribution channels and whatever else they see fit to benefit together from the business cooperation.

A strategic alliance is considered as an effective MEM when it is made between an MNC and a local one in the foreign market. It helps the MNC to accelerate its entry by facilitating local environment knowledge, hereby reducing costs of transaction and minimizing legal and political issues.

The term “strategic alliance” is often used to identify other collaborative businesses, at one extreme a simple licensing agreement. At the other extreme, they can consist of thick web of ties. The nature of alliances varies depending on the skills brought in by the partners<sup>27</sup>.

➤ Joint-ventures:

Joint-ventures prove to be the most viable way to enter foreign markets for many MNCs.<sup>28</sup> It takes place when *an international company shares in the ownership of an enterprise in a target country with local, private or public interests*<sup>29</sup>.

Hollensen defines the joint-venture as *an equity partnership typically between two partners, it involves two ‘parents’ creating the ‘child’ (the ‘joint-venture’ acting in the market)*<sup>30</sup>. Many companies use joint-ventures to conquer foreign markets that otherwise could be closed to foreign investment because of legal requirements, lack of capital, investment, or technology<sup>31</sup>.

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<sup>26</sup> Edwin A.Murray Jr and John F.Mahon, “Strategic alliances: Gateway to the new Europe”, Long Range Planning, August, 1993, p.102.

<sup>27</sup> Masaaki Kotabe, Kristiaan Helsen, *Op.Cit.* , p.315.

<sup>28</sup> *Ibid.*

<sup>29</sup> Franklin R.Root, , *Op.Cit.*,p.146.

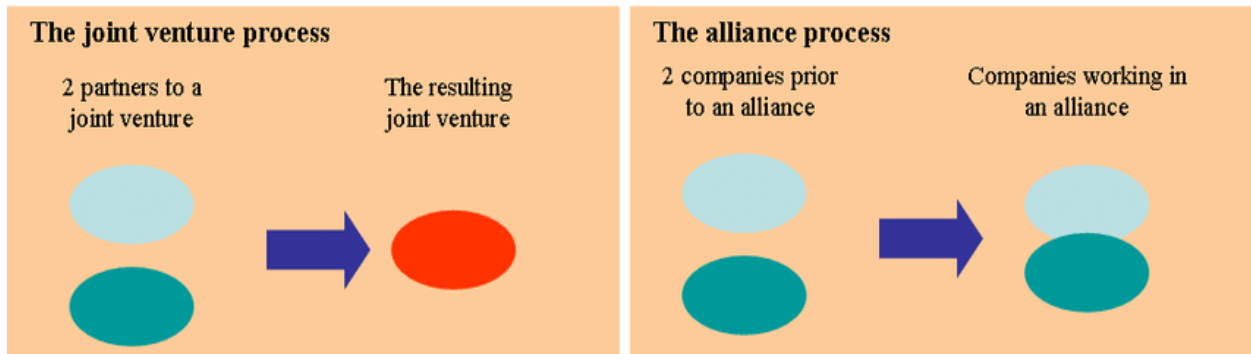
<sup>30</sup> Svend Hollensen, *Op.Cit.*, p.237.

<sup>31</sup> R.Duane Hall, « The International Joint-venture”,PRAEGER, New York,1984, p.1.

A JV is, therefore, not the same as a strategic alliance. The definition above underlines the difference between the two MEMs which is that a joint venture involves the creation of a new separate jointly-owned company (child), while in the strategic alliance the entities remain separate.

illustrates the difference between a strategic alliance and an equity JV.

**Figure 1-3 : An overview of conceptual differences between JVs and strategic alliances**



**Source:** T. Satu, “A Comparative Overview of the Impact of Cultural Diversity on Inter-Organizational Economics”, *Advances in Mergers and Acquisitions*, Vol. 6 , 2007, p.4.

According to Hollensen<sup>32</sup>, the formal difference between the two forms of business cooperation is: on one hand, the strategic alliance is considered to be a non-equity cooperation, meaning that *the partners do not commit equity into or invest in the alliance*<sup>33</sup>. On the other hand, a joint-venture can be either a contractual non-equity JV or an equity- JV. In a contractual non-equity JV no enterprise is created, however, the equity JV is the one we referred to as a child enterprise in which the parent firms (foreign and local) share ownership and control<sup>34</sup>.

Entering a market through a joint-venture presents a major advantage compared to lesser forms of resource commitment, which is the return potential. Moreover, they entail much more control over the operations than exporting and contractual entry modes discussed so far. However,

<sup>32</sup> Svend Hollensen, *Op.Cit.* p.237.

<sup>33</sup> *Ibid.*

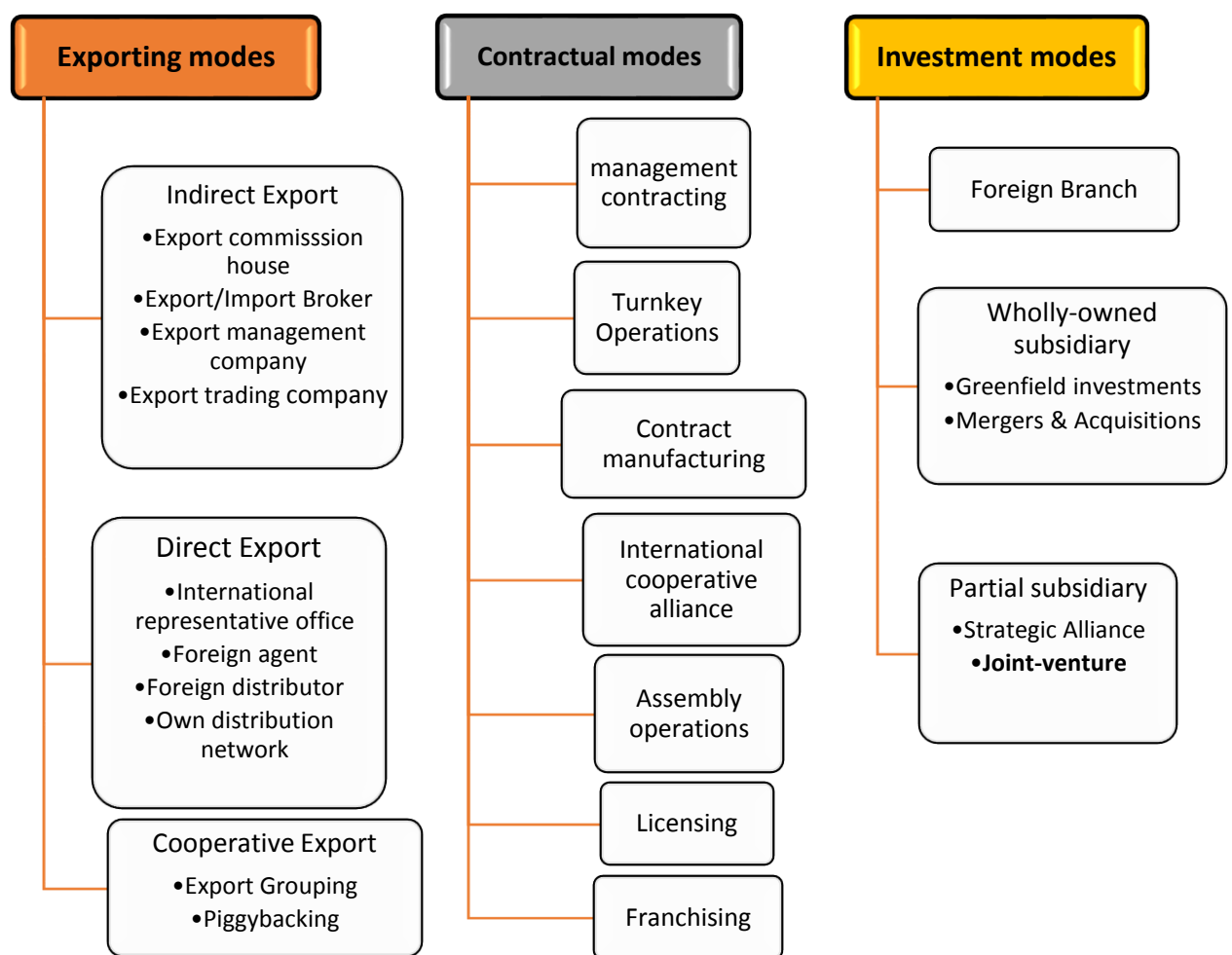
<sup>34</sup> *Ibid.*

many MNCs prefer full control which makes the lack of control one of the shortcomings of JVs.

Furthermore, just like licensing, the company runs the risk of having its partner as a future competitor in the foreign market. For instance, scores of China's most successful domestic companies started off as partners of multinationals<sup>35</sup>.

More theoretical background about joint-ventures will be discussed in the next section of this chapter. Figure 4 summarizes the most common MEMs divided into the three fundamental groups.

Figure 1-4 : Types of Entry modes



Source : Adapted from E. Horská, "International Marketing: Within and Beyond Visegrad Borders", p.137.

<sup>35</sup> Masaaki Kotabe, Kristiaan Helsen, *Op.Cit.* , p.308.

In order to select the suitable market entry mode for the company, this latter takes into consideration the advantages and disadvantages of each strategy and evaluates its own situation, whether it is in the company's best interest to invest, take risks and commit in the foreign market or not .

Table 1-1 recapitulates the major advantages and disadvantages of each MEM.

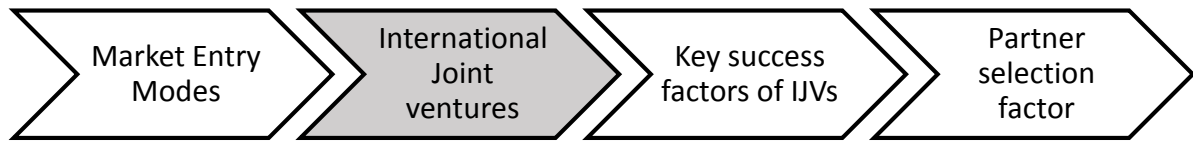
**Table 1-1 : Advantages and disadvantages of different entry modes.**

	Mode	Advantages	Disadvantages
<i>Exporting Modes</i>	Direct exporting	<ul style="list-style-type: none"> <li>- Low entry costs</li> <li>- Relatively low staffing requirements</li> </ul>	<ul style="list-style-type: none"> <li>- Potential trade barriers.</li> <li>- High dependence on the foreign intermediary ( agent/ distributor)</li> <li>- High transport costs</li> </ul>
	Indirect exporting	<ul style="list-style-type: none"> <li>- Low entry cost</li> <li>- low financial risk</li> <li>- Entry difficulties are lied on the domestic intermediary</li> </ul>	<ul style="list-style-type: none"> <li>- low profitability of the transactions.</li> <li>- Full dependence on the domestic intermediary.</li> <li>- Lack of knowledge on the foreign market(s).</li> <li>- Inability to gain international Experience.</li> </ul>
<i>Contractual Modes</i>	Licensing	<ul style="list-style-type: none"> <li>- Low entry costs</li> <li>- Low financial risk</li> <li>- Ensuring a steady income</li> <li>- A strong presence in foreign markets by commercial brand and logo</li> <li>- does not require a large commitment from the staff</li> </ul>	<ul style="list-style-type: none"> <li>- the possibility to lose control over technologies and know-how.</li> <li>- lack of control over the maintenance of the quality on the foreign market(s).</li> </ul>
	Franchising	<ul style="list-style-type: none"> <li>- low entry cost</li> <li>- the possibility of rapid foreign expansion even in large and distant markets.</li> </ul>	<ul style="list-style-type: none"> <li>- requires some control cost</li> <li>- the possibility of potential conflicts between the partners</li> <li>- possible difficulties in maintaining uniform standards and quality</li> </ul>
		<ul style="list-style-type: none"> <li>- low capital commitment</li> <li>- low risk</li> </ul>	<ul style="list-style-type: none"> <li>- relatively low profitability</li> </ul>

	Contract manufacturing		- inability to gain international experience
	Management contracts	- low capital commitment - low risk - gaining experience on the foreign market(s) by domestic managers	- relatively low profitability
	Turnkey Operations	- potential higher profits - chance of a permanent presence on the foreign market(s) after the completion of the investment	- require high costs. - a form difficult to implement. - high financial risks.
<i>Investment Mode</i>	Branch	- full control – holding centralized control - relatively good image of the branch on the local market	- relatively complicated registration procedures
	Wholly-owned subsidiary	- full control – holding centralized control - good image of such a company on the local market - potentially the highest profitability	- high entry cost - high risk - complicated registration procedures
	Joint venture subsidiary	- synergy effect - a combination of knowledge of the exporter and a local partner - spreading the risk between the exporter and the partner - good image of such a company on the local market (politically acceptable)	- high entry cost - high risk - potential conflicts of interest of the exporter and the partner - complicated registration procedures

**Source: adapted from Wach, K. (2014). Market Entry Modes for International Business (chapter 7). In: E. Horská (Ed.). International Marketing: Within and Beyond Visegrad Borders, p. 138-139.**

## Section 2 : The international joint-venture



International joint-ventures are commonly seen as a strategic weapon in global competition. They emerged as a new and preferred organizational form for expanding a geographical market. Research on this topic is extensive as well as increasing in the field of international business (Table 1-2), many topics surrounding IJVs were studied, such as motives for the creation of the JV, the evolution of trust and control, the impact of cultural differences, partner selection, cooperation and conflict...etc.

**Table 1-2 : Growth trend in IJV literature 1989-2011**

Period of studies	Number of studies	Percentage
Up to 1980	7	1%
1980-1989	61	9.5%
1990-1999	236	37%
2000-2011	340	52.5%
Total	644	100%

Source: R. Dash, “Life and Death of International Joint Ventures (IJVs): A Review of Literature and Theories”, 3<sup>rd</sup> Biennial Conference of the Indian Academy of management, 2013, p.3.

### **1.2.1. International Joint-Ventures Defined:**

- **Origin:**

Partnerships and contracts were common legal concepts of antiquity. The joint venture, as a commercial device for the conduct of business, can be traced back to early history.

Such nations as Egypt, Syria, Phoenicia and Babylonia appear to have utilized the joint venture to support sizeable trading enterprises.

In the ancient world, individuals and families almost entirely conducted business. Then, because of the insufficient capital that these families possessed, various forms of organizations manifesting characteristics of partnerships and joint-ventures were developed.

With the spread of civilization through Western Europe, trade and commerce grew tremendously and business organizations, including the joint venture, were adopted and improved. Although it continued to be used occasionally in Europe, Joint ventures as business organizations were brought to the United States with the commerce of England<sup>36</sup>.

- **Definitions:**

Throughout the literature, many definitions of the IJV were proposed, some defined it as a special type of strategic alliances in which two firms join together to create a new business entity that is legally distant from its parents<sup>37</sup>.

(Beamish, 1988) defines international joint ventures as *shared equity undertakings between two or more parties, each of which holds at least five percent of the equity*<sup>38</sup>.

A very broad definition was adopted by (Friedman & Kalmanoff, 1961) in their pioneering study on joint-ventures where they mentioned that *a joint-venture comprises any type of association which implies collaboration for more than a transitory period*<sup>39</sup>.

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<sup>36</sup> Henry W. Nichols, Joint Ventures , Virginia Law Review, Vol. 36, No. 4, May, 1950, pp.427-428.

<sup>37</sup>Ricky W. Griffin, Mike W.Pustay , "International Business: A managerial Perspective", Second Edition, Wesley Publishing, 1998, p.451

<sup>38</sup> Paul W Beamish, "Multinational Joint Ventures in Developing Countries", London: Routledge, 1988, p.3.

<sup>39</sup> W.Friedman, G.Kalmanoff, "Joint International Business Ventures", New York: Columbia University Press, 1961, p.6.

Furthermore (Luostarinen, 1990) differentiates the joint-venture from the mixed venture.

He argues that a mixed venture exists if one or more of the owners is/are government-owned firm(s) or agency (ies), others being private ones. While a joint venture is partially owned by the mother and one or more domestic country private partner companies<sup>40</sup>.

Although the most common form of joint ventures is the one that consists of two partners, some ventures may comprise multiple participants that can have more complex nationality or cultural backgrounds<sup>41</sup>.

Another definition of JVs given by Holton (1981) is *one in which a multinational cooperation from one of the industrialized countries has a significant share, say at least 25%, in an operation outside the multinationals home country, while the remainder of the equity held by a company located in the same country as the joint venture operation*<sup>42</sup>.

We notice the disagreement between the writers about the equity level held by each partner of the IJV (for instance, Beamish and Holton's definitions), therefore, (Makino & Beamish, 1998) took a step further and created a typology of JVs based on the percentage of equity.

They argue that if the foreign partner owns more than 50% of the venture, it is called a majority-owned venture, however, if the ownership is equal to 50%, it is considered to be a co-owned venture and if the foreign partner has less than 50% equity stake, the JV is identified as a minority-owned venture<sup>43</sup>.

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<sup>40</sup> Reijo Luostarinen, "International Business Operations", Helsinki School of Economics, Helsinki, 1990, p.157.

<sup>41</sup> Aimen Yan, Yadong Luo, International Joint Ventures: Theory and practice, M.E Sharpe, New York, 2001, p.4

<sup>42</sup> R.H.Holton, Making international joint ventures work. In: The management of head-quarters subsidiary relations in multinational corporations, Otterbeck, Lars. London, 1981, p.256.

<sup>43</sup> S.Makino, Paul W. Beamish, Performance and survival of joint ventures with non-conventional ownership structures, Journal of International Business Studies, Vol 29, No.4, 1998, p.797.

### **1.2.2. Motives to an International joint-venture:**

The main reason why a firm opts for an IJV is during its process of internationalization. As mentioned before, JVs are one of the market entry modes so the main motive is to conquer a new market.

Therefore, it may be assumed that the decision to enter a joint-venture rests in the top management of an organization, after examining the other alternatives<sup>44</sup>.

However, there are other reasons for the firm to collaborate in an IJV regardless of its previous international arrangements. These motives were divided into three types: internal benefits, competitive benefits and strategic benefits<sup>45</sup>.

- Internal benefits:

The partners usually seek the internal strengths provided by their collaboration, these benefits include sharing risk and costs, obtaining resources especially the scarce ones, having access to information, obtaining managerial and technological know-how as well as retaining innovative staff.

- Competitive benefits:

Vertical integration and consolidation of firms make JVs a powerful tool for creating a competitive advantage. These benefits include influence over industry structure, defending current strategic positions against forces that are too strong for one firm to withstand. Moreover, joint ventures could create more effective competitors through the combined internal resources of diverse firms, joint ventures could create more effective competitors.

- Strategic benefits:

IJVs allow firms to implement change in their strategic position through creating and exploiting synergies, technology or other skills, enabling product diversification and thus reducing market risks associated with being reliant on only one product, and last but not least, accommodating host government policy by building links with local companies.

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<sup>44</sup> Sameer Vaidya, "International joint venture: An integrated framework", *Competitiveness Review: An International Business Journal*, Vol. 19, No. 1, 2009, p.9.

<sup>45</sup> *Ibid.* p.10.

Another approach to the existence of IJVs was earlier suggested by (Kogut, 1988) who proposed that IJVs primarily exist due to three reasons and he discusses them in term of three perspectives or approaches. They are<sup>46</sup>:

- Transaction cost approach: In order to minimize the cost of production, the IJV is a viable option when the production cost of internalizing exceeds that of externally sourcing.
- Strategic behavior approach: this approach points that External environment pressures cause the formation of the JV. Thus, firms that wish to improve their competitive position by maximizing their profit opt for IJVs. Moreover firms form a JV in order to reduce risk against strategic uncertainties.
- Organizational learning approach: JVs allow the partners to acquire skills and valuable know-how from one another.

In the same vein, (S.Schular *et.al*) summarized the motives of IJVs formation into eight common reasons<sup>47</sup>: host government insistence, to gain rapid market entry, increased economies of scale, to gain local knowledge, to obtain vital raw material, to spread the risks, to improve competitive advantage in the face of increasing global competition and Cost effective and efficient responses forced by globalization of markets.

In conclusion, there could be single or multiple motives for the formations of IJVs, and for many firms, one or many of the reasons mentioned above affect the firm's decision of conducting a joint-venture.

### **1.2.3. Types of International joint-ventures:**

There are different forms in which a JV can occur; one typology was mentioned before in section 1 where we distinguished contractual JVs from non-contractual JVs. The difference between the two lied in their legal dimension. We also mentioned another typology that divided IJVs based on the percentage of equity (page 16). Nevertheless, there are other dimensions to classify IJVs.

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<sup>46</sup> Sameer Vaidya, *Op.Cit*, p.10.

<sup>47</sup> Randall S.Schuler, E.Susan *et.al.* ,“Formation of an international joint venture” , Human Resource Planning, volume 14, No.1, 1991, p.53.

- **Dimension of economic relationship:**

JVs can be classified by the economic relationship between the partners, the way in which the partners contribute is referred to as “vertical” or “horizontal”. On one hand, a vertical alliance *describes the collaboration between a company and its upstream and downstream partners in the supply chain, which means a partnership between its suppliers and distributors*<sup>48</sup>.

On the other hand, horizontal alliances *are formed by firms that are active in the same business area. Such partners in the alliance used to work together to improve market power compared to other competitors*<sup>49</sup>.

- **Temporal dimension:**

IJVs can have the form of a project-oriented JV, which is defined *as a collaboration in which the partners create a project with a relatively narrow scope and a well-defined timetable*<sup>50</sup>.

Thus, they differ from a traditional joint-venture in many aspects: First, project based JVs are of temporary nature as their life span is limited to the creation of a project. Second, the parent companies do not necessarily seek ownership and control; instead, they contribute their expertise, knowledge and personnel in order to obtain financial returns at the end of the project<sup>51</sup>. (See table 1.3).

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<sup>48</sup> Baojun Yu, Hangjun Xu, Feng Dong, “Vertical vs. Horizontal: How Strategic Alliance Type Influence Firm Performance?”, Sustainability 2019, vol 11, No 6594, 2019, p.3.

<sup>49</sup> Ibid.

<sup>50</sup> S.T.Cavusgil, G.Knight & J.R. Riesenberger, “International Business :The New Realities”, Australasian Edition, Pearson Australia, 2012, p.446.

<sup>51</sup> S.T.Cavusgil, G.Knight & J.R. Riesenberger, *Op.Cit.*, p.446.

**Table 1.3. : Comparison between project-oriented and traditional JV**

<b>Nature of comparison</b>	<b>Project-based JVs</b>	<b>Traditional JVs</b>
<i>Life span</i>	Finite (dissolution after project completion)	Indefinite (on-going)
<i>Strategic planning</i>	Short-term oriented	Long-term oriented
<i>Time to rectify default</i>	During contract period	On-going process
<i>Decision making</i>	Relatively quick	Relatively slow
<i>Management style</i>	Operational - task oriented	Strategic – business oriented
<i>Partner relationship</i>	Short-term oriented	Long-term oriented
<i>Information flow requirement</i>	Must be quick	Ongoing-process
<i>Operational activity</i>	Defined by contract	Ongoing- process
<i>Control</i>	Hierarchy	Team work
<i>Primary objective</i>	Completion of project on time	Business objectives
<i>Potential benefits</i>	Possible win-lose situation	Win-win situation

**Source: Martin Rohm,” Modelling Critical Success Factors of International Joint Ventures in Real Estate Development: Perspective of a Capital Investor”, University of Gloucestershire, July, 2017, p.17. Adopted from “Business Alliances Guide”, by R. P. Lynch, 1993, p. 26.**

- **Organizational dimension:**

The joint-venture can be classified in two forms according to its organization, namely, the integrated JV and the non- integrated JV<sup>52</sup>:

In integrated JVs, the profits and risks are jointly shared by all partners. Also, the decisions are made by JV officers and followed by the other partners. Moreover, communication is extended to all levels of the JV organization.

By contrast, in non- integrated JVs, the partners divide a project into specific tasks, and each partner is primarily responsible, technically and financially, for its assigned tasks and is able to make decisions without any formal consent from other partners.

<sup>52</sup> Xuan Mo, O. Abdelnaser , K. P. A, Hamid, “Factors affecting Malaysian-China construction joint venture Project”. Economics, Management, and Financial Markets, 2012, p.14.

#### **1.2.4. Life stages of an International joint-venture**

There are different ways to structure IJV lifecycle stages, depending on the focus of the research. In IJV literature, the lifecycle of IJVs has not been unanimously defined and agreed<sup>53</sup>.

However, researchers agreed that the life cycle of an IJV can be divided into separate life cycle stages. Most of them, mentioned three different stages as outlined in the study of (Le, 2009).

The three life cycle stages defined by (Buechel, 2000) were: formation stage, adjustment stage and Evaluation stage<sup>54</sup>.

- **Formation stage:**

The process of forming the joint venture is the first stage of its development; the formation progresses through two phases, informal and formal phase.

During the informal phase, each partner identifies its strategic motives for entering into a joint-venture, focusing on its own strategic intent independent of the intent of the other. After that, the partners negotiate their motives internally and agree about pursuing formal negotiations. The outcome of this formal phase will be the joint venture agreement.

- **Adjustment stage:**

After reaching an understanding between the partners about the domain of activity, the tasks, and the joint intent, the adjustment stage is characterized by alternating divergence and convergence. The joint venture starts its operational activities and implements the business plan created in the formal formation phase.

- **Evaluation stage:**

The two stages adjustment and evaluation are connected since each issue of conflict noticed during the adjustment stage represents a point that needs evaluation. In situations of performance evaluation, the parties assess the partnership in terms of the degree of fulfillment of parental expectations, deviations from the original business plan, or degree of equitable contributions.

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<sup>53</sup> Nguyen Huu Le, "Parent Control Dynamics and International Joint Venture Performance », International journal of Business and Management, Vol.4, No.4, 2009, p.30.

<sup>54</sup> Betina Buechel, "Framework Of Joint Venture Development: Theroy-Building Through Qualitative Research", Journal of Management Studies , vol.37, No5, July, 2000, pp.645-654.

Kogut (2002), assumes that, like any organization, a joint venture undergoes a cycle of creation, institutionalization, and, with high probability, termination<sup>55</sup>.

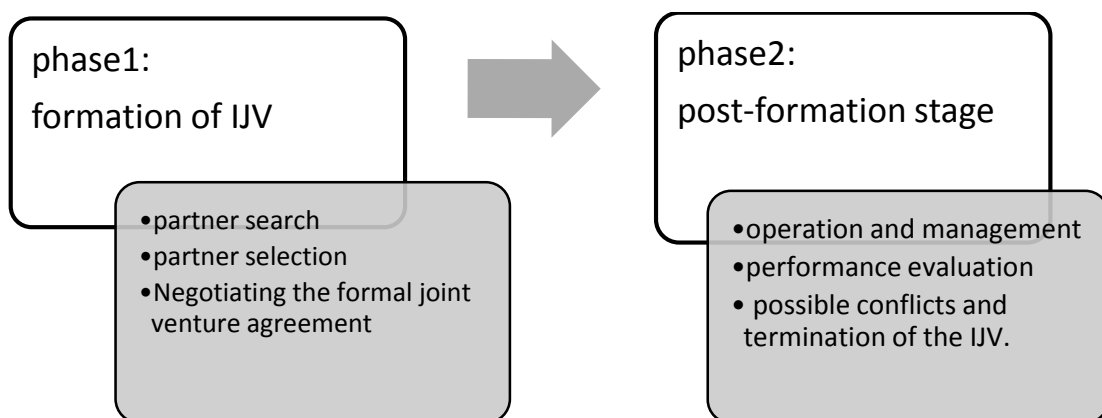
Another more detailed typology was proposed by Styles and Hersch (2005), who suggested five stages of IJVs: need determination, partner search and partner selection, negotiation, operating the IJV, exceeding expectations or non-contractual contributions.

Although, the most detailed division of IJV life cycle was given by (Parkhe, 1996) in his study on IJVs where he mentioned 11 stages, namely: introspection and internal audit, partner scanning, pre-contractual negotiation, courtship, partner selection, negotiation stage, formal contract design/informal role specification, JV initial, JV implementation, organizational learning and JV outcome.

In summary, researchers divided IJV life cycle stages according to the field and aim of study, hence, the existing literature has paid significant attention to the early stages of International joint venture development, such as formation.

In this dissertation, we divide the IJV life cycle into two stages as shown in Figure 1.5 since it includes partner search, selection, and signing the agreement.

**Figure 1-5 : IJV life cycle stages**



**Source: Adapted from Martin Rohm, "Modelling Critical Success Factors of International Joint Ventures in Real Estate Development: Perspective of a Capital Investor", University of Gloucestershire, July, 2017, p.21.**

<sup>55</sup> Nguyen Huu Le, *Op.Cit.* , p.30.

- Formation stage:

(Eisenhardt & Schoonhoven, 1996) describe JV formulation as *a complex phenomenon that offers major opportunities, and satisfies the needs for cooperation of successful partners*<sup>56</sup>.

IJVs are formed upon different motives and strategies. It is highly important to find an appropriate partner and also to find the right location.

During the formation stage, also called entry stage or investment, potential partners should examine their alignment of interest.

1. Partner search: it is the initial phase and it begins with the recognition that partnering is essential to gain competitive advantage. Generally, firms make a profile of desired features and start looking for a compatible partner<sup>57</sup>.
2. Partner selection: Once, the list of possible partners is ready, the firm should select the best one following these criteria: first, the firm should consciously select its own partner rather than rely on requests from outsiders. Second, previous experience should be taken into account while choosing the compatible partner since there is a “learning curve” effect in cooperation. Third, financial commitment should not be the main criteria but the choice should be based on other complementarities<sup>58</sup>.
3. Negotiating the formal joint venture agreement: when the partner is chosen, informal discussions and meetings are held in order to discuss the different matters concerning the cooperation. Then, the partners enter the stage of signing the contract once they agree on the business plan . This contractual agreement should specify the relationship between parent companies and between the child (the IJV) and parent companies.

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<sup>56</sup> Eisenhardt, K.M. and Schoonhoven, C.B. (1996) ‘Resource-based view of strategic alliance formation: Strategic and social effects of entrepreneurial firms’, *Organization Science*, Vol. 7, No. 2, March–April, p.148.

<sup>57</sup> James Hamill, Graham Hunt , “Joint Ventures in Hungary: Criteria for Success” In: “Creating and Managing International Joint Ventures”, Ed. Woodside, Arch G. & Robert E. Pitts, Greenwood Group, London, 1996, p.84.

<sup>58</sup>James Hamill, Graham Hunt , *Op.Cit.* p.86-87.

- Post-formation stage:

This stage starts after the implementation of the IJV, the parent companies' focus on its operation and management. This phase is an important part of the parent firm's collaborative strategy, influencing the overall outcome of the IJV. It is described as more dynamic and as a *turning the joint venture contract into actual performance*<sup>59</sup>. However, many barriers to succeed may emerge at this stage and may lead to the dissolution of the IJV.

### **1.2.5. Key issues and conflicts in IJVs**

The causes of conflict in an IJV mainly arise from the fact that there is more than one parent company and culture; this may lead to disagreement around the setting of strategic objectives, the distribution of decision-making power, or an attempt of one of the partners to retain centralized control<sup>60</sup>.

In the literature, two main types of partner conflicts have been identified<sup>61</sup> :

- Conflicts arising from unproductive differences: they include dissimilarities in strategic direction, technology systems, goals, organization culture, risk perception, each party's leadership, cultural differences, perception of risk, management styles, and forms of governance.
- Conflicts arising from maximizing private interests: deceitful behaviors in distribution of resources, engaging in opportunistic behaviors, imitating knowledge, and competing in downstream markets.

These conflicts may impact the partnership's outcome, thus, it is important to understand how they emerge and how to manage them.

(Lin & Germain, 1998) have proposed four strategies to manage conflicts in Joint-ventures<sup>62</sup>:

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<sup>59</sup> Newman, W.H., "Launching a viable joint venture", California Management Review, Vol.35, No.1; 1992, p.8.

<sup>60</sup> James Hamill, Graham Hunt, *Op.Cit.* p.82.

<sup>61</sup> C. Westman, S. Thorgren, "Partner Conflicts in International Joint Ventures: A Minority Owner Perspective", Journal of International Management, Vol.22, No.2, 2016, p.169.

<sup>62</sup> X, Lin, R. Germain, "Sustaining Satisfactory Joint Venture Relationships: The Role of Conflict Resolution Strategy", Journal of International Business Studies, Vol.29, No.1, 1998, p.181.

- Problem-solving: involves searching for solutions that satisfy both parties' needs by discussing openly concerns, priorities, ideas, and issues.
- Compromising: both parties try to find a middle ground between the initial positions of the two parties so that no one wins or loses.
- Forcing one's position: one party attempts to dominate decision-making and press the other party by calling upon its technical or management expertise.
- Adopting a legislative strategy: managing conflicts through resorting written contracts and informal binding agreements to obtain the desired outcome.

We can plainly assume that the fourth strategy seeks fairness, unlike forcing one's position, because adopting a legislative strategy involves using documents that were agreed on by the two parties in the IJV formation stage. This shows the importance of written contracts and legal aspects in solving conflicts and even avoiding them.

#### **1.2.6. Legal aspects of IJVs:**

Contractual agreements carry heavy weight in collaborative businesses in general, whether they are technical services contracts, licensing agreements or management contracts. They remain a crucial step to take before making any financial transactions or assuming risks and responsibilities. In the case of IJVs, these contracts are called "formation agreements" and they are mainly used in the establishment of equity joint ventures. They are not necessary for JVs that are not a separate legal entity<sup>63</sup>.

More commonly today, the IJV can take the form of a limited liability company, a corporation or one of the many other forms of entity available under applicable national, state or local law. The relationship between the IJV parent companies should always be governed by a definitive written agreement containing the essential terms governing the overall relationship<sup>64</sup>.

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<sup>63</sup> Karl Kreuzer, "Legal Aspects of International Joint Ventures In Agriculture", FAO Legislative study, Rome, 1990, p.8.

<sup>64</sup> Milton.R. Stewart, Ryan D. Maughn, "International Joint Ventures, A Practical Approach", Davis Wright Tremaine, Portland, 2011, p.2.

The IJV agreement is usually based on the first document signed by potential partners – the letter of intent (LOI) or memorandum of understanding (MU) as a result of successful initial negotiations between partners. They are, then, used as guidelines for the IJV agreement<sup>65</sup>.

The LOI and MU affirm both parties' obligations and they should include the official legal names and addresses as well as a clear description of the potential IJV's objectives and fields of activity. This non-binding document is used to express the partners' willingness in further developing the business relationship to the level of IJV creation<sup>66</sup>.

In the final IJV agreement, the following matters must be dealt with thoroughly<sup>67</sup>:

1. Management.
2. Governance (specify the structure of boards of directors).
3. Relative Contributions of partners, tangible and intangible ones.
4. Allocation of risks and rewards (Dividend distributions, capital calls and allocations of losses).
5. Alternative Dispute Resolution Provisions and Deadlock Provisions (Detailed provisions and procedures for mediation and/or arbitration).
6. Regulatory Issues (export and import controls, foreign corrupt practices act, competition law...etc.).
7. Governing Law (provide a choice of law from a neutral jurisdiction that is convenient for both parties).
8. Ownership Transfer.
9. Termination Provisions (when and how the agreement and joint venture terminate.)
10. Governing Language.
11. Non-competition, Non-disclosure, Non-Disparagement and Non-Solicitations Provisions.
12. Intellectual Property Provisions.

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<sup>65</sup> Vladimir Kvint, “ Strategy for the Global Market: Theory and Practical Applications”, Routledge, New York, 2016, p.169.

<sup>66</sup> Ibid.

<sup>67</sup> Milton.R. Stewart, Ryan D. Maughn, *Op.Cit.*, p.5.

## Conclusion

In conclusion, International Joint Ventures are a powerful tool as a form of business collaboration, and a popular vehicle for international business activities. It is an efficient investment mode used by both MNCs and SMEs that wish to expand abroad.

As a legally independent organization, the International joint venture is owned and managed by two parent companies, one of them is the foreign company and the other is selected by this latter in order to achieve together a collaborative advantage. Both partners share equity and control over the new born entity.

Many motives can drive a company to embark upon an IJV, yet, the most convenient one is to conquer a new market and achieve a successful internationalization process without having to deal with a high degree of uncertainty and political and economic risk for all parties.

Regardless of the different forms of IJVs, the relationship between the parent companies should be determined and clear in order to avoid conflict of interests between them. Therefore, the IJV formation agreement is signed by both parties and helps them reach an adequate degree of trust. It also explains their intentions properly.

**Chapter 2: Partner selection**  
**within International Joint-**  
**ventures**

## Chapter 2: Partner selection within International Joint Ventures

### Introduction

*“If you don’t seek out allies and helpers, then you will be isolated and weak.”*

— Sun Tzu, *“The Art of War”*

While IJVs enjoy popularity as an organizational form and have many theoretical advantages, their performance turns out to be quite poor in some cases. Research has confirmed that strategic alliances as a whole and IJVs in particular are unstable organizational forms and they often end up internalized, sold or liquidated. Consequently, research on success and failure factors of effectively managing IJVs has been a topic of growing research interest since the late 1980s<sup>1</sup>.

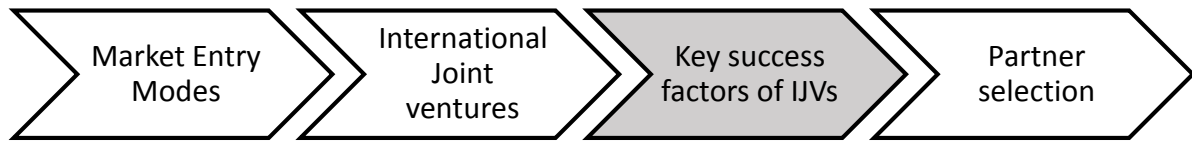
In this chapter, a summary of the key success/failure factors identified throughout the literature are presented. Apart from that, the selection of a suitable partner is not just a step that needs to be taken during the IJV formation stage, it is also considered to be one of the factors that affect the expected IJV performance, thus, the quest for a compatible partner is crucial and firms must analyse certain characteristics that will allow them to make the right choice.

The aim of this chapter is to present a theoretical overview on the main factors that affect IJVs’ success throughout their life cycle and to take a closer look at the partner selection concept. At first, the major theories used to study IJVs are presented, then, the concept of success and performance as well as a typology of factors affecting this latter are explained. Another main goal of the chapter is to examine how firms differ with regard to the paths they take in selecting their IJV partners, the phenomenon of IJV partner selection is examined from a process-oriented point of view, taking into account the main criteria that affect this process.

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<sup>1</sup> Michael Nippa, Schon Beechler. "What Do We Know about the Success and Failure of International Joint Ventures? In Search of Relevance and Holism, "Philosophy of Science and Meta-Knowledge in International Business and Management, 2015; p.365.

## Section 1: Key Success/Failure factors of International Joint Ventures



Despite the great increase in the number of Joint ventures during the past two decades, recent studies have confirmed a growing failure rate for this type of business cooperation. As a result, many researchers have shown interest in studying the critical factors that may lead to the IJV's success or failure.

Similarly to other cross-border business alliances, problems are often arising for both parties in implementing the IJV. The main challenges that are likely to occur are derived from managerial issues, cultural diversity, partner-related issues and financial and political challenges that should be taken into account in order to ensure the success of the venture.

In fact, IJV success is not just about realizing the objectives set in the agreement by the parent companies. It also includes the venture's overall business performance. This latter is defined as *the operational ability to satisfy the desires of the company's major shareholders*<sup>2</sup>.

### 2.1.1. Theories of IJV performance:

It is important to understand and determine what makes some businesses more successful and/or perform better than others. This specific subject has attracted much attention especially in the field of International management; it is a controversial topic since there has not been any universal theory developed, despite the numerous attempts by academic researchers and practitioners working in different areas.

The inconsistency in results about IJV's performance determinants is mainly due to the different overlapping theories adopted by IJV studies. These major theoretical paradigms were mentioned by (Robson, Leonidou, & Katsikeas, 2002) in their study about the factors influencing IJV Performance, namely: transaction cost economics, agency theory, resource-based view, behavioral perspective, organizational learning/ knowledge, political economy, and strategic management. The most common theories are described below:

<sup>2</sup> T.M. Smith, J.S. Reece, "The relationship of strategy, fit, productivity, and business performance in a services setting", *Journal of Operations Management*, Vol.17, No.2, 1999, p.153.

- Transaction-cost economics (TCE):

As a principal theoretical approach to explaining IJVs' development, TCE is based on transaction costs, i.e., *the expenses incurred for writing and enforcing contracts, for haggling over terms and contingent claims, for deviating from optimal kinds of investments in order to increase dependence on a party or to stabilize a relationship, and for administering a transaction*<sup>3</sup>.

The idea of TCEs was developed by (Williamson, 1975) who proposed that companies make the decision on how to transact by minimizing the sum of production and transaction costs.<sup>4</sup>

- Resource-based view (RBV):

Unlike TCE that emphasize the minimization of costs, resource-based view (RBV) is focused on the maximization of resources. Resources are defined *as those (tangible and intangible) assets which are tied semi-permanently to the firm*<sup>5</sup>.

In the case of an IJV, each partner will bring valuable resources in order to prove effective because relying on one type of resources, for instance, physical assets, is not sufficient to help the venture create a sustainable competitive advantage and improve performance.

The RBV directs research interests to tangible or intangible resources as main drivers of IJV success. (Das & Teng, 2000) argue, that from a resource-based view, firms are not only interested in acquiring their partner's valuable assets through an alliance, but they also wish to protect their own valuable resources. As a result, the IJV's performance would be based on the partner's consideration for these two issues simultaneously: *being able to procure valuable resources from another party without losing control of one's own resources*<sup>6</sup>.

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<sup>3</sup> Bruce Kogut, « Joint Ventures: Theoretical and Empirical Perspectives », Strategic Management Journal, Vol. 9, No. 4, Wiley, 1988, p.320.

<sup>4</sup> Ibid.

<sup>5</sup> B. Wernerfelt, "A resource-based view of the firm", Strategic Management Journal, Vol.5, 1984, p.172.

<sup>6</sup> T.K. Das, B. Teng, "A Resource-Based Theory of Strategic Alliances", Journal of Management, Vol. 26, No. 1, 2000 p.44.

- Knowledge-based view:

Based on this school of thought, acquiring new skills and capabilities from the parent companies may enhance the IJV's competitive position. Thus, IJVs are considered to be *a repository of valuable information and provide a platform for acquiring a partner's tacit experiential knowledge or even obtaining new knowledge developed by the IJV itself*<sup>7</sup>.

- Behavioral perspective:

This theory highlights interactional characteristics, such as trust and commitment, to assure goodwill among parties. The proponents of this perspective argue, that instead of control, which may cause conflict between partners, firms can attempt to develop social control in the form of commitment, which would definitely increase cooperative behavior and limit conflicts<sup>8</sup>.

The literature on IJV performance focused on three aspects: Critical success factors and determinants influencing IJV performance, measurement of performance and perspective of performance measurements in IJVs. In this section, the first aspect is brought to light.

Critical success factors are defined as *the limited number of areas, in which satisfactory results will ensure successful competitive performance of the individual department or organization. CSFs are the few key areas where 'things must go right' for the business to flourish and for the managers' goals to be attained*<sup>9</sup>. In other words, CSFs involve important areas of business activities that should perform well in order to achieve the parent companies' objectives and outperform their competitors.

Studies have shown that these factors can vary according to the industry, the company and they may even change over time<sup>10</sup>. (Robson, Leonidou, & Katsikeas, 2002) have divided CSFs according to three dimensions: partners' domain, Venture domain and external influences.

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<sup>7</sup> Matthew J. Robson, Leonidas C. Leonidou and Constantine S. Katsikeas " Factors Influencing International Joint Venture Performance", Management International Review, Vol. 42, No. 4 , 2002, p.391.

<sup>8</sup> T.H., Reus, D., Rottig, "Meta-analyses of International Joint Venture Performance Determinants", Management International Review, Vol.49, No.5, 2009, pp.609–610.

<sup>9</sup> C.V. Bullen, J.F. Rockart, "A primer on critical success factors", Cambridge, MA: Center for Information Systems Research, MIT.1981, p.7.

<sup>10</sup> J.M. , Geringer, L. Hebert, " Measuring performance of international joint ventures", Journal of International Business Studies,1991, pp.46-47.

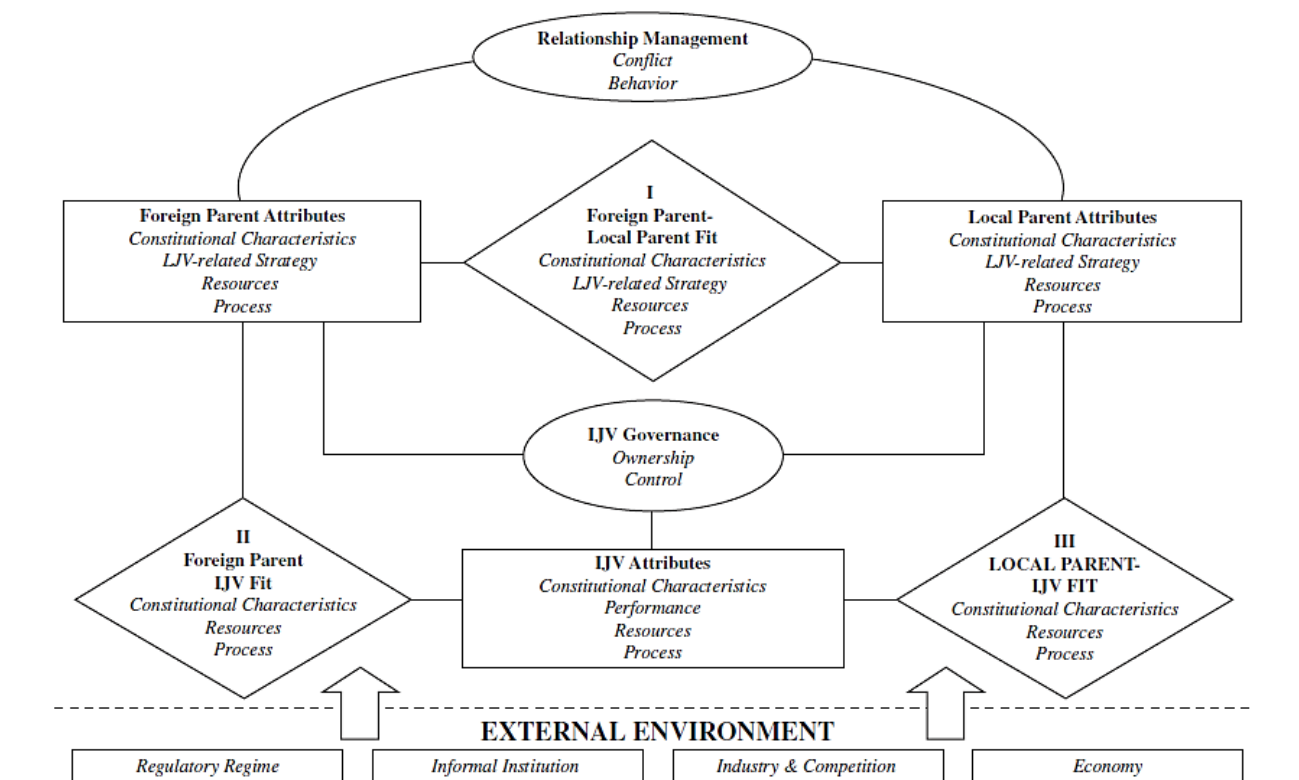
First, the factors related to partners’ domain comprise two variables: (1) intra-partner characteristics that concern the foreign partner’s organization, and (2) interpartner fit that is relevant to partner choice and include goal congruence, resource complementarity, etc.

Second, factors that concern the IJV domain and its development involve (1) structural factors, for instance, JV demographics, contractual elements, managerial characteristics and objective attributes. (2) Strategic factors relating to the IJV functions that show its effort to attain a high level of performance, such as: R&D intensity, production strategy, marketing strategy and human resources strategy. (3) Processual factors are more about control and supervision within the venture, relational aspects and organizational learning.

Third, factors that have external influence are the ones that cannot be controlled by the firms, and they fall into two categories: industry characteristics and regulatory environment.

Later, (Nippa, Beechler, & Klossek, 2007) developed a conceptual framework using a resource-based view. It was mainly inspired from the fact that IJVs are cooperative, organizational arrangements that involve three entities, at least two parents from different countries and the IJV itself. Thus, the primary focal point of their model was constituted from these three organizational entities and their linkages.

**Figure 2-1: Conceptual framework of Success Factor- IJV performance link**



Source: Michael Nippa, Schon Beechler, Andreas Klossek, “Success Factors for Managing International Joint Ventures: A Review and an Integrative Framework”, Management and Organization Review, Vol. 3, No.2, p.280.

According to (Nippa, Beechler, & Klossek)'s study, the attributes of both the parent companies and the IJV are considered to be KSFs. They used identical subcategories across the three parent and IJV 'fit' categories, namely: constitutional characteristics (e.g., size, culture, industry and technology), resources (e.g., human, financial, knowledge), process, and IJV-related strategies which include *frequently analyzed variables such as goals, exit strategies and performance expectations, must be distinguished with regard to the foreign and local parents*<sup>11</sup>.

Two years later, (Reus & Rottig, 2009) proposed a simple model of IJV performance, using the theoretical foundation in agency theory and behavioral perspective. Their model contained dependent variables that have been dominating quantitative research on CSFs since the beginning; specifically: cultural distance, IJV partner conflict, hierarchical control and commitment<sup>12</sup>.

Most recently, in a more detailed research, (Zheng & Larimo, 2014) subdivided the determinants of IJV performance into three stages: the first stage contains environmental factors which represent macro level and involve background information such as cultural, economic, political and technological dimensions.

Then, the second stage contains situational factors at IJV formation stage, these factors reflect factual data from the partners while establishing the IJV. Finally, the third stage examines factors related to IJV operation stage.

The concept model given by this study includes factors that affect different variables, these variables are evidence of IJV's success, such as financial performance, competitive performance, ownership stability, market position, sales and market share and overall satisfaction<sup>13</sup>.

The potential IJV performance determinants mentioned by the authors throughout the three stages are summarized and presented in table 1, afterwards, the main CSFs are explained thoroughly.

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<sup>11</sup> Michael Nippa, Schon Beechler, Andreas Klossek, "Success Factors for Managing International Joint Ventures: A Review and an Integrative Framework", *Management and Organization Review*, Vol. 3, No.2, p.281.

<sup>12</sup> T.H.Reus, D. Rottig, D, « Meta-analyses of international joint venture performance determinants: Evidence for theory, methodological artifacts and the unique context of China", *Management International Review*, Vol.49, No.5, p.610.

<sup>13</sup> X. Zheng, J., Larimo, " Identifying key success factors for International Joint Ventures in China: A foreign parent perspective from finnish firms", *Ekonomika a management*, Vol.2, 2014, p.110.

**Table 2-1: An overview of potential determinants of IJV performance**

<b>Determinants of IJV performance</b>					
<b>1. IJV Local Environment</b>		<b>2. IJV Formation Stage</b>		<b>3. IJV Operation Stage</b>	
<b>Determinants/ Drivers</b>	<b>Classification/Explanation</b>	<b>Determinant s/Drivers</b>	<b>Classification/Explanation</b>	<b>Determinants/ Drivers</b>	<b>Classification/Explanation</b>
<b>Culture</b>	Organizational culture, national culture, cultural sensitivity	<b>Motivation of entry</b>	Motivation to enter the specific country motivation to establish IJVs from both foreign and local partner's sides, goal congruity	<b>Commitment</b>	Resources commitment, psychological commitment, level of commitment
<b>Economy</b>	Local country GDP, growth rate of GDP, economic policies	<b>Firm size</b>	Foreign parent firm size, local partner firm size	<b>Bargaining power</b>	Resource-based power, context-based power
<b>Government policy</b>	Stability of government policies , cooperation and efficiency of local government	<b>Partner selection</b>	How to find a local partner? How to evaluate and select a local partner?	<b>Control</b>	Strategic control, operational control, structure control, output control, process control, social control
<b>Technology</b>	Technology available, technology and knowledge transfer	<b>IJV experience</b>	Prior FDI and IJV experiences both in the local country and internationally	<b>Trust</b>	Interpartner trust, interpersonal trust, trust between partners and local and foreign government
<b>Infrastructure</b>	Logistics and transportation system, telecommunication capacity	<b>Resource</b>	Capital resources, non-capital resources	<b>Justice</b>	Distributive justice, procedure justice, interactional justice
<b>Labor</b>	Labor skills, labor availability, labor attitude, wage level	<b>Timing of entry</b>	When to establish IJVs affects IJV performance, early entry vs. late entry	<b>Conflict</b>	Task conflict, conflict resolution
<b>Market potential</b>	Market size, market type, local competition level, consumer confidence level	<b>Ownership structure</b>	Percentage of share of ownership, equity and non-equity share of ownership	<b>Conflict resolution</b>	Joint problem solving , forcing domination, compromising
<b>Legal system</b>	IP protection, local government regulations and legal protection	<b>Sales orientation</b>	Sales directed to a target country or countries	<b>Cooperation</b>	Cooperation between partners, cooperation between partners and local and foreign government
<b>Quality of life</b>	Cost of living, safety and social security system	<b>Long-term focus</b>	Intended duration of IJVs, short-term vs. long-term focus	<b>Age of the IJV</b>	Age of the IJV unit, age of partner relationship

**Source: X. Zheng, J., Larimo, " Identifying key success factors for International Joint Ventures in China: A foreign parent perspective from finnish firms", Ekonomika a management, Vol.2, 2014, p.110.**

### 2.1.2. Environmental factors

The main environmental factors that many studies were interested in, are corporate and national cultural differences as well as knowledge and technology transfer.

- Corporate and National Cultural differences

Culture is bound around IJVs all the time, and despite not being considered as a key determinant by all researchers, it remains the most extensively examined variable in previous research<sup>14</sup>. Culture is defined as *the collective programming of the mind which distinguishes the members of one human group from another*<sup>15</sup>, or *the sum total of the beliefs, rules, techniques, institutions, and artifacts that characterize human populations*<sup>16</sup>. In the business context, the concept of corporate culture is introduced, and it refers to the way managers and employees within a particular company tend to behave. It comprises *the shared values, traditions, customs, philosophy, and policies of a corporation; also, the professional atmosphere that grows from this and affects behavior and performance*<sup>17</sup>.

When it comes to IJVs, both partners come from different cultural backgrounds, so the differences in corporate cultures show the distinction between IJV partners based on their management practices, which are essential for the functioning of their respective organizations as well as their national beliefs, values and habits that they will bring to the venture. Therefore, some studies argue that the smaller the corporate cultural differences, the greater the extent to which the performance expectations are met<sup>18</sup>.

Moreover, researchers have found a way to understand and measure national cultural differences through measuring cultural distance between the firms. The most commonly used measure is Hofstede's dimensions. He originally identified four cultural dimensions, i.e., Power Distance, Uncertainty Avoidance, Individualism-Collectivism, and Masculinity-Femininity. Then, he added a fifth dimension- long-term orientation. The reason why

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<sup>14</sup> X. Zheng, J., Larimo, *Op.Cit.*, p108.

<sup>15</sup> G. Hofstede, "Culture's Consequences: International Differences in Work Related Values", Beverly Hills, Sage Publishing, 1980.

<sup>16</sup> D. A. Ball, W. H. McCulloch, "International Business: The Challenge of Global Competition", 7th edition, Boston, Irwin McGraw-Hill, 1999, p. 258.

<sup>17</sup> Alan.M. Rugman, Simon Collinson, "International Business", fourth edition, Prentice Hall, Edinburgh Gate, 2005, p.130

<sup>18</sup> Merve Bener, Keith W. Glaister, "Determinants of performance in international joint ventures", *Journal of Strategy and Management*, Vol. 3; 2010, p.195.

Hofstede's dimensions are still preferable is that they allows for the comparison of a large number of different cultures in a quantifiable manner<sup>19</sup>. Moreover, they do not only state the extent to which cultures are different, but also in which aspect they differ<sup>20</sup>.

Results regarding the influence of national culture distance on IJV performance have provided mixed empirical evidence. On one hand, some studies consider cultural differences as a major failure factor, for instance, (Nielsen, 2002) identified four negative effects of cultural distance on the IJV performance, he stated that cultural distance may : *(1) lead to communication problems, which may hamper knowledge exchange and inter-organizational learning, (2) increase managerial conflicts due to misunderstandings, which may lead to additional costs, (3) influence partner firm approaches to conflict resolution, which may adversely impact operations, and (4) erode applicability of certain partner competencies, which may decrease the potential benefits from cooperation*<sup>21</sup>.

On the other hand, there is also evidence that suggests that differences in national culture can be beneficial, as a source of admiration and challenge, leading to a higher level of communication and more sustained collaboration between the partners. The reason why it can have a positive impact is that managers tend to spend much effort on avoiding misunderstandings in international alliances, than they would in domestic alliances. Thus, sometimes, increased differences in national culture can lead to higher IJV performance<sup>22</sup>.

- Technology and knowledge transfer:

One of the motives to engage into an IJV is for each partner to gain access to existing knowledge gained by the other partner and develop new knowledge. The concept of knowledge is defined as *a fluid mix of framed experience, values, contextual information, and expert insight that provides a framework for evaluating and incorporating new*

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<sup>19</sup> H.G., Barkema, F. Vermeulen, « What differences in the cultural backgrounds of partners are detrimental for international joint venture?», Journal of international business studies, Vol.28, No.4, 1997 ,p.864.

<sup>20</sup> *Ibid.* p.860.

<sup>21</sup> B.B. Nielsen, “Determining international strategic alliance performance”, Copenhagen Business School, Copenhagen, Department of International Economics and management, pp.16-17.

<sup>22</sup> Merve Bener, Keith W. Glaister, *Op.Cit.* , pp.194-195.

*experiences and information. It originates and is applied in the minds of knowers*<sup>23</sup>. (Gao, Li, & Clarke, 2008) divided knowledge into two categories, personal knowledge and organizational knowledge. The former belongs to the person that possesses it, whether it is tacit, i.e., action-based and unformulated, highly personal and hard to transfer, or explicit, i.e., formalized and written knowledge, expressed in the form of data, scientific formulae, specifications, manuals, or textbooks. The latter (organizational knowledge) refers to knowledge and know-how developed and owned by the organization and it can further be defined as organizational static substance knowledge or organizational dynamic process knowledge (see Table 2.2).

**Table 2.2. :A framework of organizational knowledge**

	Knowledge	Criteria	
<b>Static substance knowledge</b>	Visionary knowledge	Vision; mission; ethics; moral	
	Objective and/or subjective knowledge; generic knowledge	Science	Justification; falsification
		Technology	Advancement; novelty; applicability
		Management	Performance; applicability
		Information	Reliability; simplicity; timeliness
Data	Objectivity; accuracy; reliability		
<b>Dynamic Process Knowledge or Human Activity System (HAS)</b>	Autonomous (HAS) distinct mission	Publications; copyrights; patents; new products and service	
	Semi-autonomous (HAS) (defined goals) General (HAS) (defined problems)	As above New products and service; patents; patents publications copyrights	

**Source: Fei Gao, Meng Li, Steve Clarke, "Knowledge, management, and knowledge management in business operations", Journal of Knowledge Management, Vol. 12, No. 2, 2008, p.8.**

<sup>23</sup> Thomas Davenport, Laurence Prusak, "Working Knowledge: How Organizations Manage What They Know", Ubiquity, Vol.1, 1998, p.4.

More specifically, knowledge transfer refers to *the migration of knowledge between parent firms, either directly or through the JV*<sup>24</sup>. In this case, the IJV is the organizational channel by which transfer most often occurs<sup>25</sup>.

Empirical evidence shows that companies that can transfer knowledge effectively have a greater chance to succeed than the less effective and experienced ones<sup>26</sup>.

### 2.1.3. Formation stage factors

- Partner selection

The selection of an appropriate partner is considered to be vital to the success of any joint venture<sup>27</sup>. It is the first difficult but critical decision of alliance formation and it can determine the success or failure of an IJV.

Although relationships do not travel the same path, according to (Kanter, 1994) , successful alliances generally unfold to five important phases in which the first stage is selection and courtship. In this stage, certain criteria have to be met in order to achieve the best organizational relationship ( see Figure 2-2)

Kanter also pointed out that, being a good partner has become a key corporate asset whatever the duration and objectives of business alliances. She stated that *successful relationships between companies begin, grow, and develop -or fail- much like relationships between people*<sup>28</sup>.

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<sup>24</sup> Paul Beamish, Iris Berdrow, "Learning from IJVs: The Unintended Outcome", Long Range Planning, Vol.36, No.3, 2003, p.287.

<sup>25</sup> Ibid.

<sup>26</sup> K. P. Rotsiosa, N. S. Sklavounosb, Y.A. Hajidimitriou, "Trust, knowledge transfer and control in IJVs: The case of four Greek firms", Procedia Economics and Finance, Vol.9, 2014, p.232.

<sup>27</sup> Keith W. Glaister and Yu Wang, " UK Joint Ventures in China: Motivation and Partner Selection", Marketing Intelligence & Planning, MCB University Press, Vol. 11, No 2, 1993, p.13.

<sup>28</sup> Rosabeth Moss Kanter, "Collaborative Advantage: The Art of Alliances". Harvard Business Review, August 1994, <https://hbr.org/1994/07/collaborative-advantage-the-art-of-alliances>, accessed 06/08/2020 at 2:00pm.

**Figure 2-2 : Eight I's that create successful We's**

**Source: Darko Milosevic, “Collaborative Advantage: The Art of Alliances”, Harvard business review, Vol.72, No.4, 2019, p.98.**

### ➤ Experience

According to organizational learning theory, the prior experience of both partners may have an effect on the venture's performance and it should be taken into account. In the literature, four distinct categories may be especially relevant: host country market experience, international experience, collaborative experience, and industry experience<sup>29</sup>.

Prior host country market experience comprises knowledge about the target country's environment, market and customers. Thus, it facilitates the expedition of the learning

<sup>29</sup> Michael Hunoldt, “Factors influencing international equity joint venture performance: a Meta analytical review”, International and Strategic Management School of Economics and Business Administration, Friedrich Schiller University of Jena, 2009, p.6.

process, reduces uncertainties and minimizes mistakes in various decisions. Ultimately, this should result in an increased possibility for better IJV performance<sup>30</sup>.

Besides, international experience affects the organizational fit between partners in the early stages of joint venturing, especially the local partner's international experience, through import and export business or cooperative projects with other foreign investors. It proves to be a very desirable attribute and it provides superior knowledge, skills, and values regarding modern management methods. Thus, it is considered to be critical to the success of intercultural and cross-border venturing activities<sup>31</sup>.

Evidence has shown that collaborative experience, i.e., parent companies previous experience in forming alliances and JVs, has the potential to confer benefits for IJV performance through assisting the companies to develop realistic expectations and avoid gross mistakes when establishing and managing further international ventures<sup>32</sup>.

Altogether, experience is expected to avoid management mistakes, facilitate the learning process and enhance the efficiency in managing IJVs<sup>33</sup>. Moreover, (Child & Yan, 2003) indicate that IJV partners' combined experience predicts IJV economic system performance more strongly than their separate experiences. Overall, a favorable effect of experience on IJV performance is expected.

#### **2.1.4. Operation stage factors**

Some significant factors influencing the IJV performance during its operation stage have widely been identified in the literature, the most common factors cited in previous studies are Control, trust and commitment.

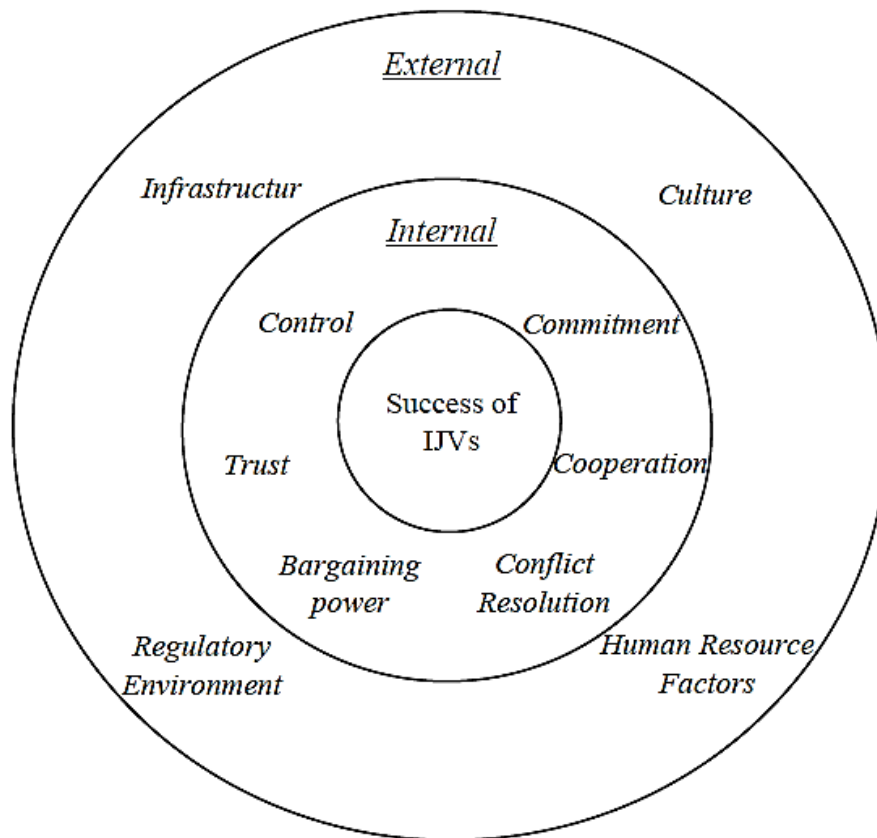
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<sup>30</sup> Michael Hunoldt, *Op.Cit.* p.6.

<sup>31</sup> Yadong Luo, "Partner Selection and Venturing Success: The Case of Joint Ventures with Firms in the People's Republic of China", *Organization Science*, Vol.8, No.6, 1997, p.653.

<sup>32</sup> John Child, Yanni Yan, "Predicting the Performance of International Joint Ventures: An Investigation in China", *Journal of Management Studies*, Vol.40, No.2, 2003, p.288.

<sup>33</sup> Michael Hunoldt, *Op.Cit.*

**Figure 2-3 : Key Determinants of IJV performance at operation stage**

Source: T.Gewiss, J. Oestersporkmann, “Key Success Factors Of International Joint Vnetures operating in China”, *Advances in Economics, Business and Management Research (AEBMR)*, Vol.37, Atlantis Press, 2017, p.855.

- Control

Control refers to *the process by which one entity influences, to varying degrees, the behavior and output of another entity through the use of power, authority and a wide range of bureaucratic, cultural and informal mechanisms*<sup>34</sup>.

The concept of control in IJVs is considered to be a central aspect of management, and essential in any system that holds the managers accountable for their actions and decisions<sup>35</sup>, previous studies have highlighted the complexity of IJV control and the literature focused on three dominating aspects developed by (Geringer & Hebert, 1989),

<sup>34</sup> J. Michael Geringer, Louis Hebert, “Control and Performance of International Joint Ventures”, *Journal of International Business Studies*, 1989, pp.236-237.

<sup>35</sup> J. Child, D. Faulkner, P.B. Tallman, “Cooperative Strategy”, Oxford University Press, 2005, p.15.

who argued that they were interdependent and complementary, namely: control mechanisms, control focus and control extent.

Control mechanisms consist of a variety of instruments that are available to firms to exercise effective control over their members including formal control and social control, the former depends on *hierarchies, standards, codified rules, procedures, goals, and regulations that specify desirable patterns of behavior*<sup>36</sup>. While the latter refers to various mechanisms such as *informal communication, information exchange and training, mentoring, development of a common organizational culture, and establishment of personal relationship with IJV managers*<sup>37</sup>.

Focus of control is the degree of control exercised and it can be further divided into broad control and narrow control. On one hand, the parent firms that choose broad control attempt to exercise control over the entire ranges of IJV's activities; on the other hand, those that exercise narrow control focus on the performance dimensions they consider to be critical, such as activities related to technology and/or market related activities<sup>38</sup>.

The extent of control refers to the degree of tightness of control which is exercised over the venture, it could be loose, meaning that the parent companies' focus their control on only one or two areas using only one or two control mechanisms. In contrast, the extent of control can be tight, providing one partner with a high level of certainty since it gives the right to make or approve the key decisions.

The partner influences the joint venture through control, to behave in ways that lead to attainment of the organization's objectives<sup>39</sup>. (Geringer & Hebert, 1989) have proposed a model in which IJV performance is mainly a function of the fit between the international strategy of the parents, the IJV strategy, and the parameters of control (Figure 2-4).

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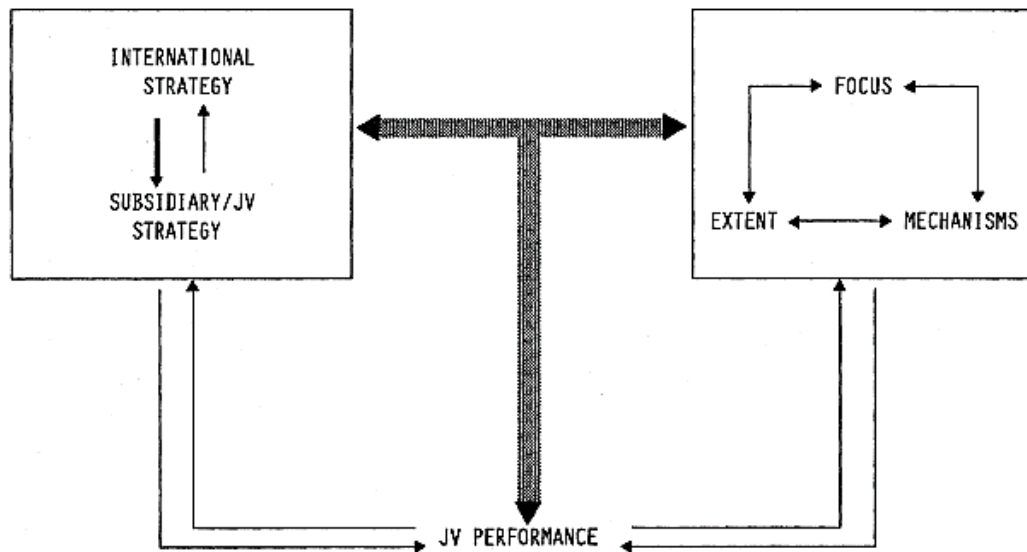
<sup>36</sup> Nguyen Huu Le, "Parent Control Dynamics and International Joint Venture Performance", International Journal of Business and Management, Vol.4, No.4, 2009, p.31.

<sup>37</sup> *Ibid.*

<sup>38</sup> *Ibid.*

<sup>39</sup> X. Zheng, J., Larimo, *Op.Cit.*, p.107.

Figure 2-4: A strategy-Control Model of IJV performance



Source: J. Michael Geringer, Louis Hebert, "Control and Performance of International Joint Ventures", *Journal of International Business Studies*, 1989, p.250.

- Trust

Trust is defined as *the mutual confidence that no party to an exchange will exploit another's vulnerabilities*<sup>40</sup>. It has emerged as a KSF because it helps mitigate potential concerns in interorganizational relationships. Moreover, the presence of trust is an important success factor given the impossibility of complete contracts and the lack of full hierarchical control, besides, Uncertainty about the other party's conduct and the risk based on dependence on the other party makes the level of trust in the other party crucial.

This is reflected in one widely accepted definition of trust: *the willingness of a party to be vulnerable to the actions of another party based on the expectation that the other will perform a particular action important to the trustor, irrespective of the ability to monitor or control that other party*<sup>41</sup>.

<sup>40</sup> Charles F. Sabel, "Studied trust: building new forms of cooperation in a volatile economy", *Human Relations*, SAGE social science collections, Vol.46, No.9, 1993, p.1133.

<sup>41</sup> R.C. Mayer, J.H. Davis, F.D. Schoorman, "An integrative model of organizational trust", *Academy of Management Review*, Vol.20, No.3, 1995, p.712.

Accordingly, research has found trust to be related to lower negotiation costs and less conflict, lower transaction costs and greater sharing of information, and overall increased performance of collaborative relations<sup>42</sup>.

- Commitment

Commitment refers to *the extent to which the partners are bound to the stability and success of the relationship*<sup>43</sup>. Mutual commitment between the partners creates a feeling of shared identity and facilitates the development of voluntary cooperation and mutual trust between partner firms. Thus, mutual commitment not only reduces conflicts but it also increases cooperation between IJV partners. As a result, the feeling of fairness is increased and relationships between partners are stabilized.

Moreover, mutual commitment improves IJV performance both directly and indirectly. Its direct effect is through aligning interest and its indirect effect is through minimizing conflict<sup>44</sup>. Evidence has shown that the more satisfaction the partner reports with the IJV relationship, the more committed that partner is to the IJV<sup>45</sup>.

All in all, the success of International Joint Ventures is strongly related to the parent firms' ability to adapt in the international business environment, taking into account all the variables mentioned beforehand that cannot be controlled by the IJV itself.

Furthermore, this cooperative form of business can be deemed to failure since the formation stage if the wrong market, industry, time of entry or partner are chosen. Therefore, it is fair to assume that the first steps in the IJV formation are the most crucial and the relationship built between the partners should be well defined and strong, based on trust, commitment and understanding in order to attain the partners' mutual objectives as well as the IJV purpose.

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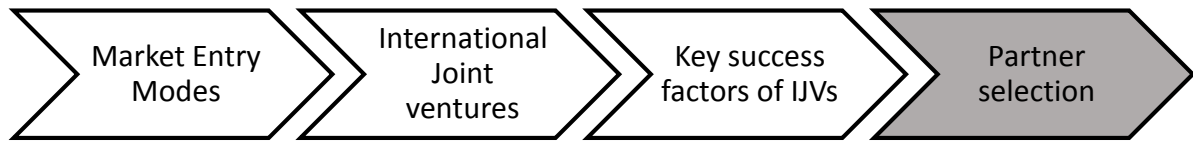
<sup>42</sup>G. Ertug, I. Cuypers, *et.al.*, "Trust Between International Joint Ventures Partners:: Effects of Home Countries", *Journal of International Business Studies*, Vol.44, No.3, 2013, pp.6-7.

<sup>43</sup> X. Zheng, J., Larimo, *Op.Cit.*, p.107.

<sup>44</sup> *Ibid.* p108.

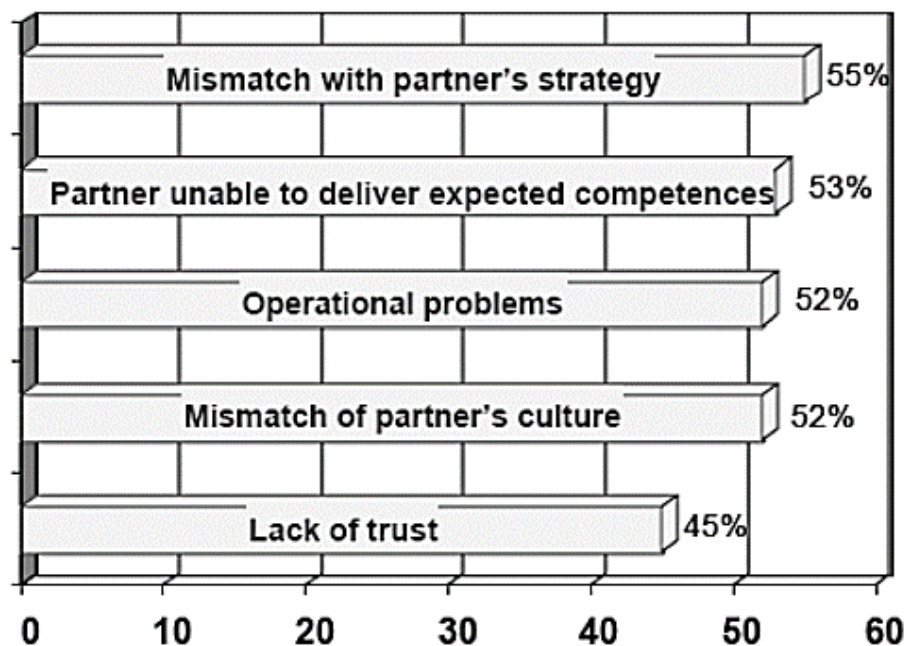
<sup>45</sup> Sameer Vaidya, "International Joint Ventures: an integrated Framework", *Competitiveness Review: An International Business Journal*, Vol. 19 No. 1, Emerald Group publishing Limited, 2009, p.12.

## Section 2: Partner Selection as a Process



As mentioned formerly, partner selection is viewed as crucial for formation, operation and subsequent success or failure of the venture, it is a key decision in the literature on international joint ventures as well as international strategic alliances. As a result, selecting a non-suitable partner may lead to great problems in management and decision making and it may even lead to the failure of the IJV. As depicted in figure 2-5, according to previous research, there are five main reasons for alliance failure, four out of them are related to partner selection.

**Figure 2-5: Five main reasons for Alliance failure**



Source: D. Duysters, J. Duysters, A.P De Man, "A Study into the Role of a Partner Selection Process in Alliance Capability Building", Eindhoven University of Technology, The Netherlands 2008, p.778.

As a means to avoid these problems, a thorough partner selection process must be implemented in order to take the right decision. However, although a number of IJV partner selection studies

declare the importance of the partner selection process, research has strongly focused on the selection criteria and their relative importance. In this dissertation, both topics are addressed.

In fact, partner selection for international Joint Ventures can be approached from several theoretical angles. For instance, according to transaction cost theory, an organization selects its IJV partner by balancing in between the transaction costs incurred in allying with this partner, and the ability to control this partner's actions. However, the resource-based view of the firm suggests that the selection of a suitable partner depends on finding a partner who can provide complementary capabilities.

### **2.1.1. IJVs partners' needs**

Mutual long-term need between partners is an important issue in assessing the potential of an IJV. Despite not being a fundamental topic in IJV literature, nearly all researchers have included reference to it in their studies.

There is a large number of potential partner needs and they can be classified into groups, according to (Beamish P. W., 1987), who conducted a comprehensive study that involved 66 IJVs in developing countries, partner needs can be classified into five groups, each one of them includes different partner-needs items, as follows<sup>46</sup>:

1. Items readily capitalized: they include the need of capital, raw material supply, and technology or equipment.
2. Human-resource needs: they comprise the need for general and functional managers as well as the need to access low cost labor force.
3. Market access needs: it is possible for the local partner to need the foreign partner in order to gain better access to foreign markets for goods produced locally and vice-versa.
4. Government/political needs: they include the need to meet government requirements, the need to meet government import substitution policy, the need to satisfy forecast government requirements for local ownership and the need for local political advantages such as better political access.
5. Knowledge needs: they involve the need for general knowledge of the local economy, politics and customs, the need for knowledge concerning operating conditions, labor

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<sup>46</sup> P.W. Beamish, (1987). "Joint Ventures in LDCs: Partner Selection and Performance", Management International Review, Vol.27, No.1, 1987, p.26.

laws, factory regulations, customers and marketing methods as well as the need for knowledge of current business practices.

### 2.1.2. Partner selection criteria

The concept of “criterion” refers to *a standard of judging, any established law, rule, principle, or fact by which a correct judgment may be formed*<sup>47</sup>. Although the internal logic and the degree of explicitness of criteria may vary, they are an essential prerequisite to any decision, including the selection of an IJV partner<sup>48</sup>.

When seeking IJV partners, firms determine a list of selection criteria that would help them choose the suitable partner to join the venture. In fact, the first study to identify and focus upon partner selection as a distinct and separable decision within the IJV formation process was a study of joint venture process in India and Pakistan carried out by (Tomlinson, 1970).

The author identified six distinct categories of partner selection criteria, namely: “favorable past association” which was considered to be the most important criterion, “facilities”, “resources”, “partner status”, “forced choice” and “local identity”.

Later, (Geringer J. M., 1991) has conducted a study on US-based IJVs and was able to identify 27 different selection criteria. His study can be regarded as the ground-breaking work that focused on IJV partner selection.

According to Geringer, it is possible to distinguish between criteria associated with operational skills and resources acquired by the IJV and the criteria associated with the partners’ efficiency and effectiveness. In other words, the first category is task-related criteria which he defined as *those variables which are intimately related to the viability of a proposed venture operations regardless of whether the chosen investment mode involves multiple partners. The variables could be tangible or intangible, human or nonhuman, in nature*<sup>49</sup>. The second category is Partner-related criteria and it refers to *those variables which become relevant only when the chosen investment mode involves the presence of multiple partners*<sup>50</sup>.

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<sup>47</sup> J.M. Geringer, “Joint Venture Partner Selection: Strategies for developed countries”, Quorum Books, New York, 1988, p.7.

<sup>48</sup> *Ibid.*

<sup>49</sup> J.M. Geringer” Strategic determinants of partner selection criteria in International Joint Ventures”, Journal of International Business Studies, 1991, p.45.

<sup>50</sup> *Ibid.* pp.45-46.

Subsequent studies placed emphasis on various circumstances that partner selection categories are applied to. Other authors have determined the major task-related or partner-related criteria according to their interest.

In fact, both categories are a part of the single mechanism of evaluation in light of the whole selection process entity, although multiple firms follow the logic of task-related criteria, from a partner-related perspective *the choice of the “right” partner should be based on a consideration of how the chosen partner will best fit with the focal firm. Questions such as whether there has been favorable past association between the partners, whether the national and corporate cultures of the partners are compatible, and whether trust exists between the partners’ management teams, are important for determining the “optimal” collaborator*<sup>51</sup>

Table 2-3 summarizes examples of criteria from the two categories, subdivided into variables. Each variable is affected by some factors that would determine its extent and importance.

**Table 2-3 : Task-related and partner-related criteria for partner selection**

Criteria	Sub-criteria	Factors
<b>Task- related</b>	Asset	Patent, Technological know-how, Financial resources
	Human resource	Experienced manager workforce
	Market access	Marketing capabilities, distribution channel, market access, Market share
	Knowledge	General Business knowledge, management skills
	Network	Size and structure of organization, Alliance experience
<b>Partner- related</b>	Social status	Reputation, brand recognition, Nationality
	Culture	Organizational similarity, Management system, Management policy, shared Value

**Source: Adapted from: J.H. Hyun, “Host country perspectives on the partner selection criteria for the success of International Joint Venture: an empirical survey on Korean firms”, The 29th Euro-Asia Management Studies Association Annual Conference. 2012. p.5.**

<sup>51</sup> L. Dong, K.W. Glaister, “Motives and partner selection criteria in international strategic alliances: Perspectives of Chinese firms”, *International Business Review*, Vol. 15, No.4, 2006, p.581.

Some studies have provided a closer look to the criteria that should be considered while searching for the suitable partner. For instance (Williams & Lilley, 1993) described four important criteria, namely: strategic compatibility, complementary skills and resources, relative company size and financial capability<sup>52</sup>.

Strategic compatibility is essential in forming the joint venture, since differences in strategy leads to conflicts of interests among partners, therefore, the compatible partner is one with similar values and goals, in both short-term and long-term sense.

Another primary selection criterion is the potential partner's capability of providing the skills and resources needed by the firm. Similarly, Relative company size is a primary selection criterion since larger companies tend to offer greater staying power, however, some firms prefer to select a partner with the same size in order to avoid the problems related to control that may occur<sup>53</sup>.

Last but not least, financial capability is the prospective partner's ability of generating sufficient financial resources to maintain the venture's efforts, although it is hard to identify a company's financial limitations, it is possible to indicate potential problem areas through its financial history and overall financial standing.

The four characteristics cited by (Williams & Lilley, 1993) should reject certain firms as prospective partners while others should be shortlisted.

### **2.1.3. Partner selection uncertainty**

Given that the selection of alliance partners significantly affects the achievement of alliance goals and ultimately the performance of alliances, selection uncertainty must be reduced. Uncertainty generally refers to *the degree to which future states of the world cannot be anticipated and accurately predicted*<sup>54</sup>. More specifically, selection uncertainty is *a condition in which firms do not know a priori which alliance partners will best serve their interests*<sup>55</sup>.

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<sup>52</sup> R.G. Williams , M.M. Lilley, "Partner selection for joint ventures agreements", International journal of project management, Vol.11, No.4, 1993, p.233.

<sup>53</sup> *Ibid.* p.235.

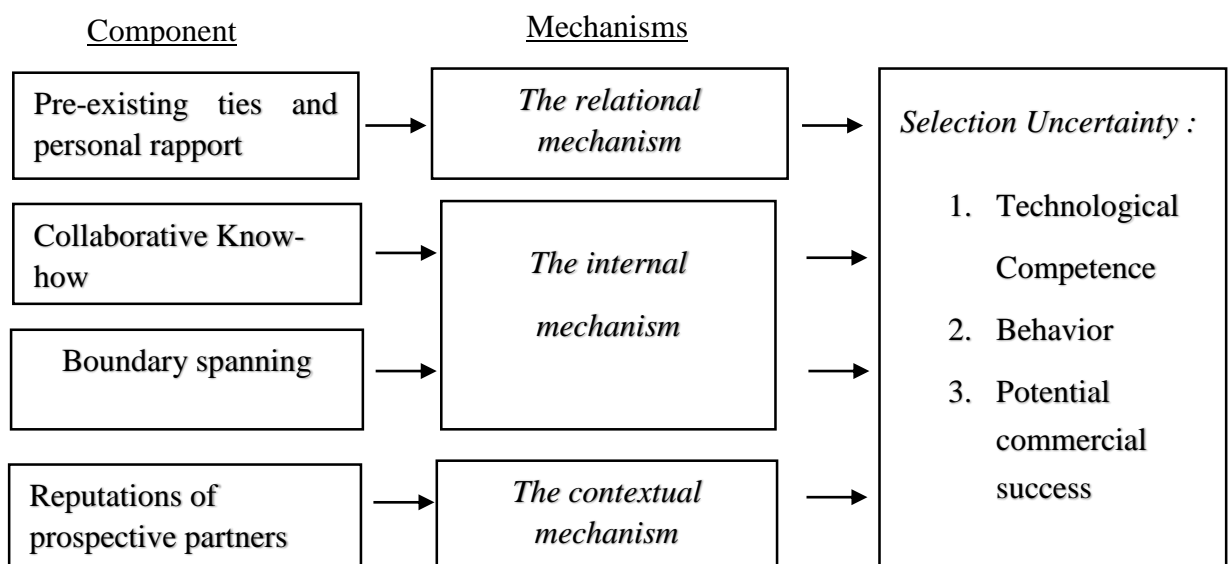
<sup>54</sup> J. Pfeffer, G.R. Salancik, "The external control of organization", New York: Harper & Row, 1978, p.67.

<sup>55</sup> Hitoshi Mitsuhashi, "Uncertainty in selecting Alliance Partners: the three reduction mechanisms and alliance formation processes", The International Journal of Organizational Analysis, Vol.10, No. 2, 2002, p.110.

Regardless of the agreement among researchers about the hazards of selection uncertainty, previous research has left the mechanisms for reducing uncertainty unexplored until the study of (Mitsuhashi, 2002) who divided partner uncertainty into three parts: (1) technological competence of prospective partners, (2) behavior of prospective partners, and (3) commercial success<sup>56</sup>.

Moreover, the author has determined three mechanisms that would reduce uncertainty in selecting partners. The first mechanism is the relational mechanism through embedding economic transactions in pre-existing and ongoing social relations and networks of personal rapport. Second, internal mechanisms that rely on internal capabilities and structures of the firm and third, the contextual mechanism which operates on the principle that firms rely on the reputation of prospective partners in order to reduce selection uncertainty.

**Figure 2-6: Partner selection uncertainty reduction mechanisms**



**Source: Hitoshi Mitsuhashi, “Uncertainty in selecting Alliance Partners: the three reduction mechanisms and alliance formation processes”, the International Journal of Organizational Analysis, Vol.10, No.2, 2002, p.126.**

Partner selection is defined as *management processes and routines which lead to a decision to form a partnership with a certain business partner selected from a group of potential candidates*<sup>57</sup>, therefore, the IJV literature includes process-oriented studies on IJV, however,

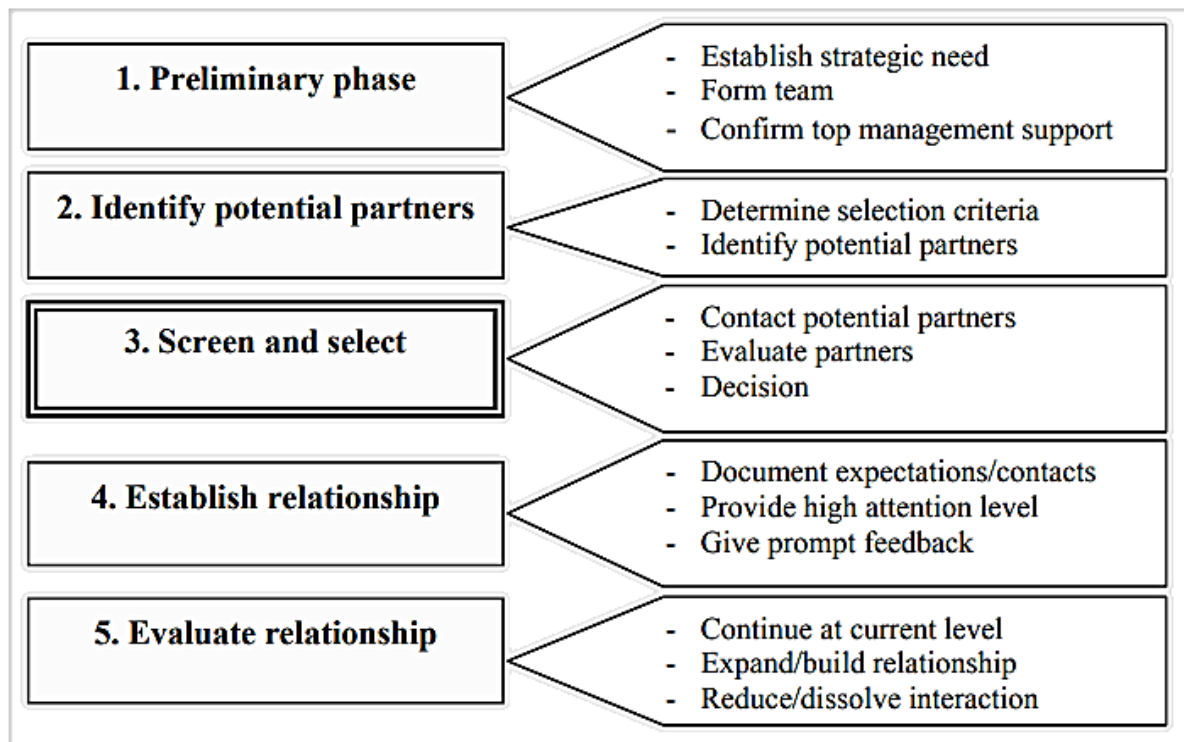
<sup>56</sup> Hitoshi Mitsuhashi, *Op.Cit.*, p.114.

<sup>57</sup> J. Varys, “Partner selection in knowledge intensive firms”. *Acta Universita*, 2004, p.26.

The literature is not entirely consistent with regard to the number and type of steps that are involved in partner selection.

For example, a partner selection process was described earlier by (Ellram, 1991), who divided the process into five stages, as shown in Figure 2-7.

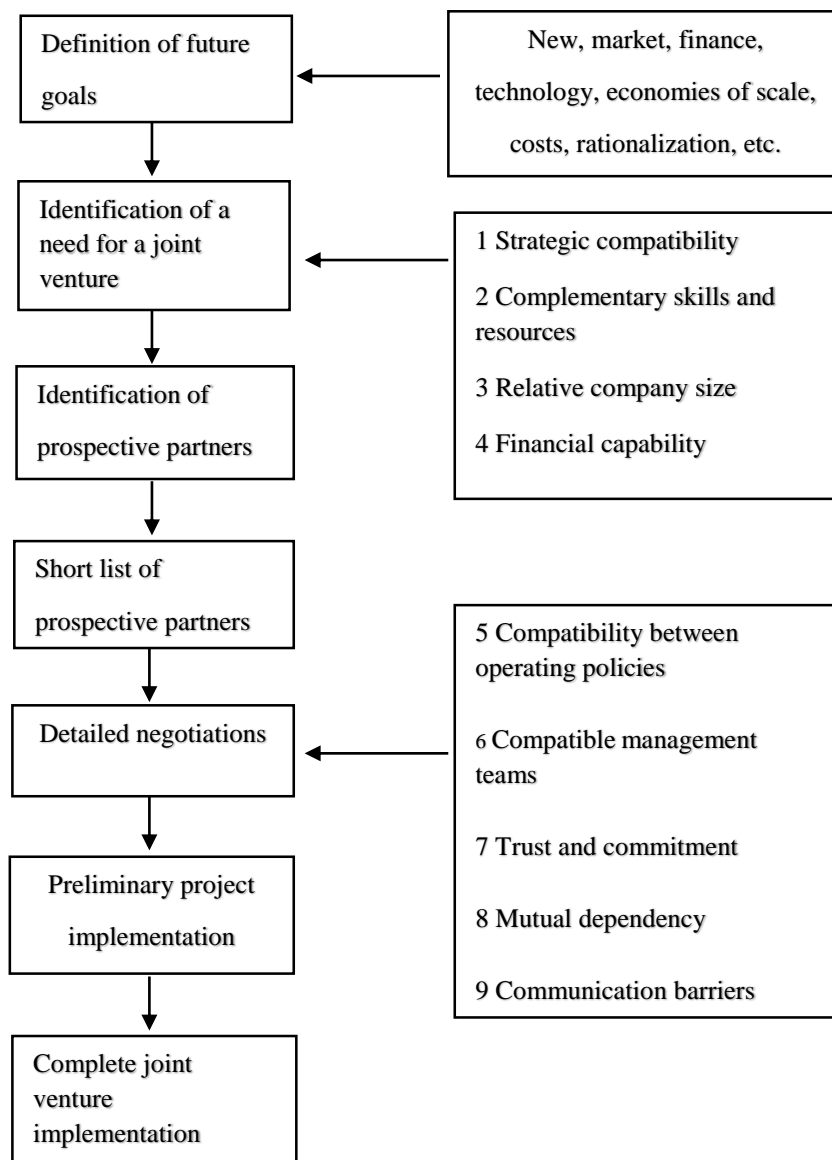
**Figure 2-7 : The partner-selection process by (Ellram, 1991)**



Source: J. Varis, K. Elfvengren, "A computer-aided framework for alliance partner selection", Lappeenranta University of Technology, 2003, p.2.

Another model of seven steps was presented by (Williams & Lilley, 1993), they suggested a flowchart of the phases including influences that come into play in particular stages.

Figure 2-8 illustrates their process.

**Figure 2-8 : Partner selection process by (Williams & Lilley, 1993)**

**Source: R.G. Williams, M.M. Lilley, "Partner selection for joint ventures agreements", International journal of project management, Vol.11, No.4, 1993, p.234.**

Later, motivated by reducing uncertainties, (Mitsubishi, 2002) suggested an interesting avenue for explaining the process of partner selection in terms of decision making under uncertainties.

His suggested approach consists of the following five phases:

1. Defining alliance opportunities: According to the author, firms define potential alliance opportunities and determine prerequisites for prospective partners on the basis of business strategies, current technical competence, and business domains in the life cycles of discovery processes.

2. Identifying prospective partners: There can be a single or multiple prospective partners that meet the determined prerequisites and fit the IJV opportunity schemes.
3. Making contacts.
4. Due diligence processes: After making contact with the prospective partners, the firms engage in due diligence processes in which they exchange confidential information, assess the partners' technological competence and reliability, conduct business research then select the appropriate partner and negotiate terms.
5. Making deals.

A more recent study was conducted by (Duysters & Duisters, 2011) in which they cleaned up differences between the authors' conceptualization of the partner selection process and tried to define a common dominator of 16 steps presented in Table 2-4 below:

**Table 2-4 : Steps in the partner selection process by (Duysters & Duisters, 2011)**

<b>Steps in the partner selection process</b>	
1.	The development of a partner selection team
2.	Identification of partnering needs of your company
3.	Identification of partnering opportunities in the market
4.	Definition of company's objectives for the alliance
5.	Definition of partner selection criteria
6.	Creation of long list of prospective partners
7.	Orientating meeting with prospective partners
8.	Determination of short list of prospective partners
9.	Screening of short listed partners against defined partnering criteria
10.	Beauty contest (inviting several possible partners to present themselves and their ideas about the alliance)
11.	Ranking of prospects (internal prioritization of potential partners)
12.	Final choice of Partner
13.	Negotiating the alliance with the prospected partner
14.	Organizing social event with selected partner
15.	Writing legal agreements
16.	Joint writing of the business plan

**Source: D. Duysters, G. Duisters, "The partner selection process: steps, effectiveness, governance", International journal of Strategic Business Alliances, Vol.2, N.1/2, 2011, p.10.**

Ultimately, the increase in international joint ventures is evidence of the interest in this market entry mode by both researchers and practitioners. Nevertheless, the success of such cooperation is not always obvious. This is the challenge that partners have to deal with regularly, especially when the relationship involves two partners of different nationalities. Several variables determine the success or failure of the relationship.

## **Conclusion**

The analysis of the literature enabled us to distinguish critical success factors that affect the IJV performance throughout its lifecycle, however, some of the results are mixed and contradictory at times, for instance, national cultures and corporate culture differences that represent an advantage according to some studies, are viewed as failures factor by others.

On the contrary, one of the KSFs that all researches agreed on its relevant role in IJV success is the selection of a suitable partner. This latter represents the first and most important decision to be made by the firm. By choosing the right partner, the potential difficulties caused by the control gap, lack of trust or uncertainty can be overcome. Therefore, firms execute their partner selection process by relying on criteria that determine the most compatible partner from the list of prospective partners.

So far, only a few empirical studies have focused on partner selection processes, these available studies differ in the number of steps that should be made to find the best partner, however, they have some steps in common, namely: the identification of prospective partners followed by creating a long list of partners then classify them according to criteria such as objectives, skills and resources compatibility, before ranking the prospects and making the final choice of the partner. Finally, the contracts are signed and the partners agree on the terms to start the operation stage.

**Chapter 3 : Current research on**  
**IJVs in Northwest Africa**

## **Chapter 3 : Current research on IJVs in Northwest Africa**

### **Introduction**

The existing research on IJVs is dominated by the advanced economies in Europe and North America, as well as the recently emerging economies of Asia and Latin America, therefore, there exists a need to discuss the African context in general and the Northwest African context in particular to see the ways it can shape IJV research in international business.

The countries of Northwest Africa also known as Maghreb countries differ on terms of their economic progress and political and social development, however, they share similar climatic and geographical characteristics. Economically, the Algerian and Libyan economies are dominated by the oil and gas sectors, while Morocco and Tunisia rely more on tourism, agriculture and light industry.

Despite facing constraints from global market actors backed by powerful states, Maghreb countries are managing to adapt their economies selectively, although, they are still relying on their natural resources (oil and gas, mineral exports, agriculture...), concessional loans and foreign direct investment. This latter is more particularly channeled in the region in the form of international joint-ventures.

As a result, there is a need to discover the interest given by researchers in the field of international business and economy to this type of market entry mode. Our study aims to narrow this gap by exploring the existing literature on major topics surrounding international joint-ventures in the region of Northwest Africa.

This chapter is organized as follows: first, a recent overview on the region's economy and its characteristics is presented in the first section, then, the literature review's methodology is explained and the findings of the selected studies are explored. Finally, the answers to the research gap are presented as well as propositions to guide future research.

## **Section 1: Overview on The Northwest African economy**



The vast region of Northwest Africa comprises almost 6 million square kilometers and 100 million people<sup>1</sup>, its six countries are called Maghreb countries and they are maritime economies strategically located between the developing economies of sub-Saharan Africa to the south and the advanced economies of Europe across the Mediterranean Sea to the north.

Sharing a common history, culture, and language to a large extent, the six countries: Algeria, Libya, Mauritania, Morocco, Western Sahara and Tunisia are geographically close but economically diverse.

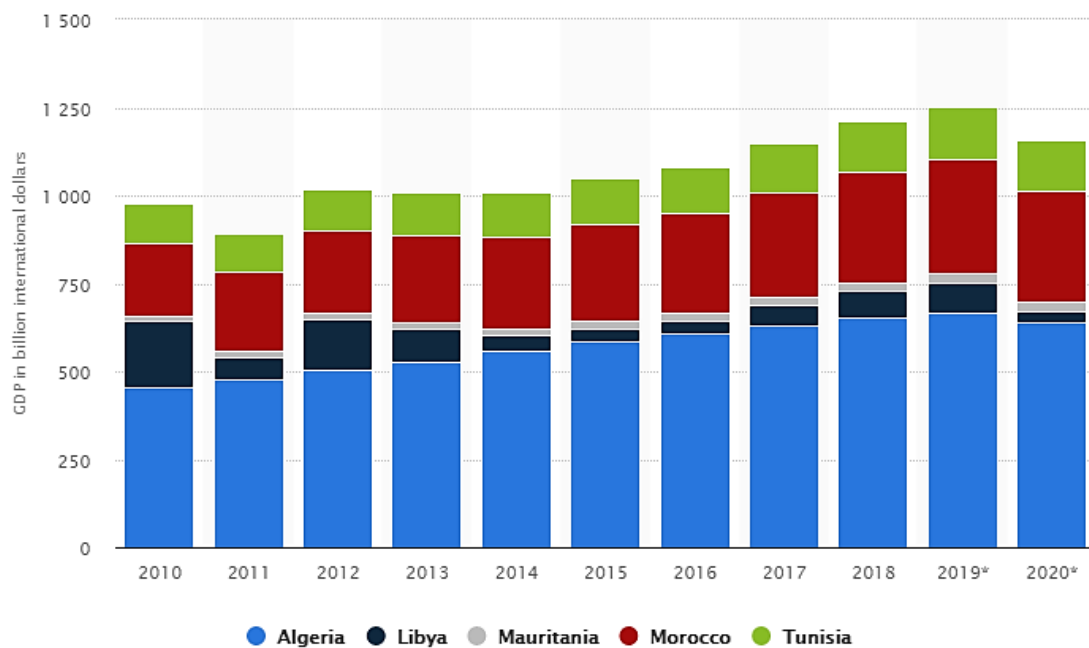
### **3.1.1. Presentation of the Northwest African countries**

The largest economy in the region is Algeria as an important gas and oil exporting country, it highly depends on hydrocarbon and faces important macroeconomic challenges caused by the fall in oil prices in 2014. Then comes Morocco, the second largest economy in the region, an important regional producer of cars and agricultural products. Libya, also a major gas and oil exporter like Algeria, has been in civil war that has led to instability with serious economic consequences since 2011.

As a lower-middle-income country, Mauritania is an important iron ore producer that is still growing despite the volatility of metal prices. Finally, Tunisia, is considered to be an important regional producer of electrical components, light machinery and equipment parts, olive oil, and garments.

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<sup>1</sup> Alexei Kireyev, Boaz Nandwa, Lorraine Ocampos, *et.al.* , “Economic Integration in the Maghreb: An Untapped Source of Growth”, International Monetary fund, Washington,DC, 2018, p.1.

**Figure 3-1 :Gross domestic product of Maghreb countries from 2010 to 2020**

Source: H.Plucher, “Gross domestic product of the Maghreb countries from 2010 to 2020”, [www.statista.com](http://www.statista.com) , published on June 3, 2020, consulted on 30/08/2020 at 04:00 pm.

**Figure 3-1** outlines the growth of Gross domestic product (*i.e.*, the total market value of all the finished goods and services produced within a country’s borders in a specific time period<sup>2</sup>) of the northwest African countries from 2010 until 2018 with projections up to 2020.

Algeria’s GDP in 2018 amounted to 658 billion international dollars, while Morocco’s reached 314.71 and Tunisia 144.63.

The economic performance varies in the five sub regions of Africa, North Africa (comprising Maghreb countries, Egypt and Sudan) is the second fastest-growing region with 3.7 % of the continent’s economic performance in 2018. While the best performing region remains East Africa with 6.2%<sup>3</sup>.

<sup>2</sup> Jim Chappelw, “Gross Domestic Product (GDP)”, [www.investopedia.com](http://www.investopedia.com) , consulted on 30/08/2020 at 3:56 pm.

<sup>3</sup> United Nations, “World Economic Situation and Prospects 2019”, 2019, p.119.

### 3.1.2. Investment in Northwest Africa

Taking advantage of their proximity to Europe, The Northwest African countries seek to expand their trade and investment activity where appropriate, in fact, European economies are their largest export destination. Eventually, the trading links between Europe and North Africa have been formalized to a degree in arrangements such as the Euro-Mediterranean Partnership (EMP), this latter was launched by a meeting of Foreign Ministers of the European Union and countries of the southern Mediterranean at a conference in Barcelona in November 1995<sup>4</sup>, it comprised 25 EU members and 10 Mediterranean partners including Algeria, Morocco and Tunisia.

The partnership involves a bilateral dimension as well as a regional one. Bilaterally, the EU negotiates association agreements with individual Mediterranean partners. On the regional level, a shared zone of prosperity through an economic and financial partnership was established<sup>5</sup>. The EMP aims to remove barriers to trade and investment between both the European Union and Southern Mediterranean countries, and between the Southern Mediterranean countries themselves.

Furthermore, Maghreb countries participate in international organizations that aim to promote regional and international cooperation, for instance, all Maghreb countries are part of the league of Arab states, founded in 1945, which strengthens the relationships among the countries in the MENA region.

Algeria, Morocco, Tunisia and Libya have also signed the Chinese Belt-and-Road initiative (BRI) which is a partnership agreement that focuses on strengthening economic cooperation through investment in infrastructure (including roads, railways, and power grids), the BRI also covers broader cooperation, by trade facilitation and providing technical assistance<sup>6</sup>.

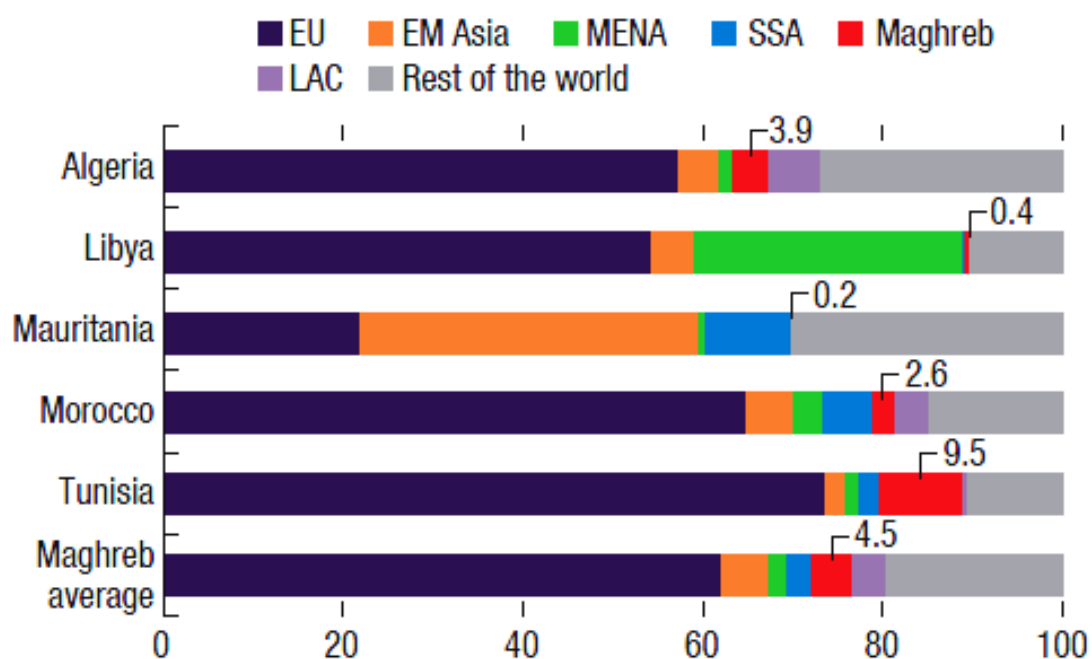
All of the previous arrangements share the same goal which is to strengthen international trade and investment among Maghreb countries and the rest of the world. Until now, Maghreb countries remain a destination of FDI especially for European investors, which are also their major trading partners. (See Figure 3-2).

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<sup>4</sup> Bichara Khader, "Le partenariat Euro-Méditerranéen", Economic Research forum, 1995, p.12.

<sup>5</sup> *Ibid.*

<sup>6</sup> Alexei Kireyev, Boaz Nandwa, Lorraine Ocampos, *et.al.*, *Op.Cit.*, p.7.

**Figure 3-2 : The Maghreb's Interregional trade by destination (% of total exports, 2018)**

EU = European Union; EM = Emerging Markets; MENA = Middle East and North Africa; SSA = Sub-Saharan African; LAC = Latin America and the Caribbean. Note: Exports are in US dollar.

**Source: Alexei Kireyev, Boaz Nandwa, Lorraine Ocampos, *et.al.* , “Economic Integration in the Maghreb: An Untapped Source of Growth”, International Monetary fund, Washington, DC, 2018, p.11.**

Except for Mauritania, whose first export destination is the Emerging market in Asia, over 60 % of the Maghreb's total exports are directed to countries in the European Union, mainly France, Italy, and Spain, which are geographically the closest advanced economies to the Maghreb.

In fact, North Africa overtook southern Africa as the largest FDI hub in the continent since 2018<sup>7</sup>. Also, Morocco is the third largest FDI recipient in Africa in 2018, after Egypt and South Africa. As for Algeria and Tunisia, they are in the list of the 15 largest FDI recipients in Africa according to three determining criteria: new projects, jobs created and capital invested<sup>8</sup>.

<sup>7</sup> Ernst & Young, “How can bold action become everyday action?”, EY attractiveness Program Africa, 2019, p.12.

<sup>8</sup> Ernst & Young, *Op.Cit.*, p.13.

Nevertheless, Northwest African countries have a very limited presence as a foreign investor worldwide. FDI outflows are very low comparing to its inflows as shown in Table 3-1.

**Table 3-1 : Inflows and outflows of FDI in the Maghreb region, 2001–2017**

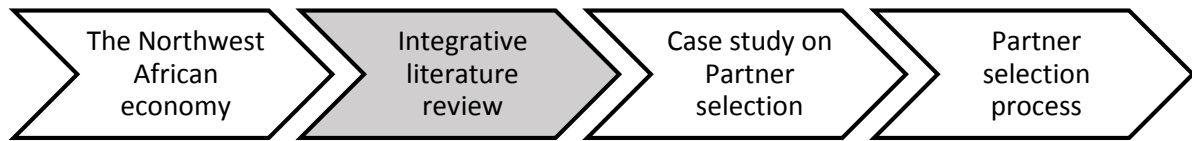
<b>Inflows, millions of dollars</b>					
	2001	2005	2010	2015	2017
<b>Algeria</b>	1,113	1,145	2,301	-584	1,203
<b>Libya</b>	-133	1,038	1,909	...	...
<b>Morocco</b>	2,807	1,654	1,574	3,255	2,651
<b>Mauritania</b>	77	812	131	502	330
<b>Tunisia</b>	487	783	15,135	1,003	880
<b>Outflows, millions of dollars</b>					
	2001	2005	2010	2015	2017
<b>Algeria</b>	9	-20	2,215	103	-4
<b>Libya</b>	175	128	2,722	395	110
<b>Morocco</b>	97	75	589	653	960
<b>Mauritania</b>	...	2	17	0	10
<b>Tunisia</b>	6	12	74	31	57

**Source: based on African Development Bank, "North Africa economic Outlook 2019: Macroeconomic performance and prospects", p.23.**

As outlined in Table 3-1 , Morocco is the first destination of FDI in the Northwest Africa in 2017, followed by Algeria. Morocco is also the first investor in the region since FDI outflows from Morocco kept increasing since 2001 to reach 960 million dollars in 2017.

However, FDI outflows are still very poor comparing to its inflows, therefore, more efforts to open up in new markets should be made by Maghreb countries in terms of investment. As for the destination of FDI outflows from the region, Europe attracted a very large share of FDI in the past decade, though, other FDI host countries emerged mainly Association of Southeast Asian Nations (ASEAN) member countries and Africa, but also the GCC member countries.

## **Section 2: Methodology of the research**



In this section we discuss the steps and methods utilized to achieve our study objectives. First, the need and purpose of our study are presented, then, the integrative literature review concept as well as the topic of the review are introduced. After that, the research design that we have followed to answer our research question is explained.

### **3.2.1. Need and purpose of the study**

The literature review is a complex process that can be defined as *an interpretation of a selection of published and/or unpublished documents available from various sources on a specific topic that optimally involves summarization, analysis, evaluation, and synthesis of the documents*<sup>9</sup>.

Our purpose is to examine the extant of IJV research in Northwest Africa to understand what we know so far, whether the Maghreb context is unique, and how we can advance future IJV research in Northwest African countries. We approached our objective through three research questions:

- 1) What do we know about IJVs in Northwest Africa?
- 2) What are the characteristics of IJV research in Northwest Africa?
- 3) What should be involved in future research on IJVs in Northwest Africa?

Our literature review and the answers to these research questions have enabled us to discuss the IJV context in Northwest Africa, shed light on its uniqueness and compare it with IJV context in developed economies. Moreover, we believe that this review will contribute to contextualized

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<sup>9</sup> A.J. Onwuegbuzie, K.M.T. Collins, *et.al.*, "A meta-framework for conducting mixed research syntheses for stress and coping researchers and beyond", 2010, p.173.

explanations in International Business research, enrich theory, and provide aspects that have so far been unexplored.

### **3.2.2. Topic of the review**

A review of literature is conducted to uncover the importance given to IJV research in North African countries. An integrative literature review enables us to critically examine IJV issues in the North-African context by integrating prior studies, summarizing existing IJV contributions in the selected geographical area, identifying variables that are relevant to the topic as well as explaining the main research methodologies and designs that have been utilized.

The type of literature review chosen for this study is an integrative literature review, which is *a form of research that reviews, critiques, and synthesizes representative literature on a topic in an integrated way such that new frameworks and perspectives on the topic are generated*<sup>10</sup>.

In such a review, the author is led to<sup>11</sup>:

- Describe how the issue is conceptualized within the literature.
- Explain how research methods and theories have shaped the outcomes of scholarship.
- Determine the strengths and weaknesses of the literature.

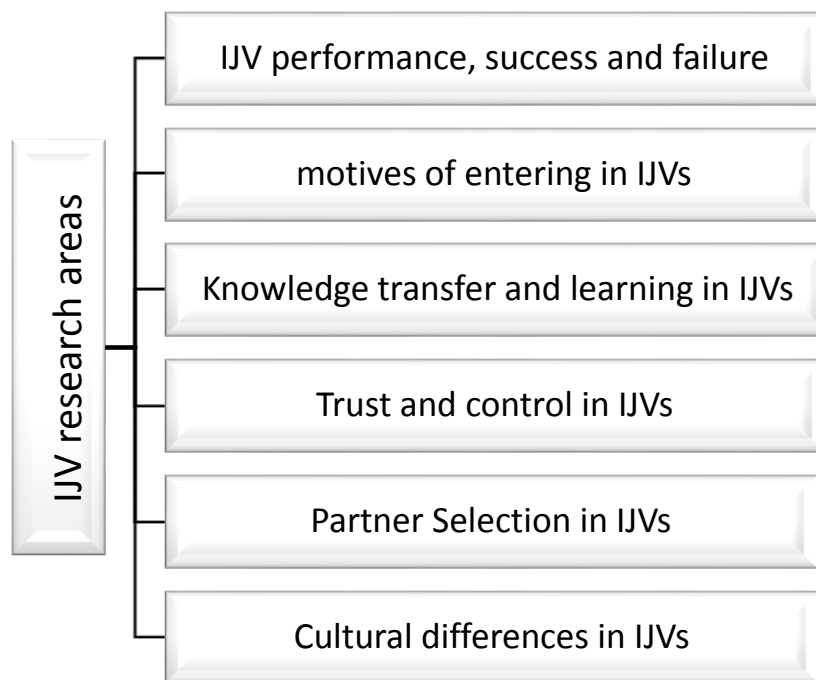
In order to conduct a successful integrative literature review of IJV topics, we have identified six major research topics that have had a great popularity in IJV literature throughout the years. They are illustrated in Figure 3-3.

Nevertheless, the existing IJV literature in the North African region is poor, although, North Africa is an attractive destination for FDI due essentially to its strategic geographical location.

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<sup>10</sup> R.J. Torraco, "Writing integrative literature reviews: Guidelines and examples", Human Resource Development Review, vol.4, 2005, p.356.

<sup>11</sup> Anthony J. Onwuegbuzie, Rebecca Frels, "Seven Steps to a Comprehensive Literature Review: A Multimodal and Cultural approach", SAGE publications, Los Angeles, 2016, p.29.

**Figure 3-3 : Major IJV research topics**

**Source: Own study**

### **3.2.3. Research design**

The literature review covered five of the six major topics mentioned earlier. It was established according to the “five C” characteristics of rigorous literature reviews that were highlighted by (Callahan, 2014), namely: concise, clear, critical, convincing, and contributive, following the 6Ws literature review design (Callahan, 2014) as follows:

- 1) Who (who conducted the search for “data?”): The search was conducted independently by the author.
- 2) When (When were the data collected?): Were all the data produced during a particular time frame?): The search was conducted on July- August 2020, the data selected was produced between 2004 and 2019.
- 3) Where (Where were the data collected?) : The articles were published in national and international journals, as well as dissertations as outlined in Table 3-2.

**Table 3-2: : Major publications in international journals and bibliographic details**

Authors	Journal name	CIA
(Elhachemi)	International Journal of Contemporary Applied Researches	2
(M.Elena Gómez-Miranda, Pérez-López, <i>et.al.</i> )	Personnel Review	23
(Maaref)	Innovations	1
(Lopez-Perez & Rodriguez-Ariza)	Central European Journal of Operations Research	11
(Argente-Linares, Lopez-Perez, & Rodriguez-Ariza)	Revue of Managerial science.	11
(Ghizlane)	International Conferences on Economics and Management of Networks - EMNet	0
(Hammoutene)	La Revue des Sciences Commerciales, INC,Algeria	2
(Cheriet, Le Roy, & Rastoin)	Revue internationale P.M.E. : économie et gestion de la petite et moyenne entreprise	17
(Kamoun Abdelkefi)	Academy of Marketing Science	0

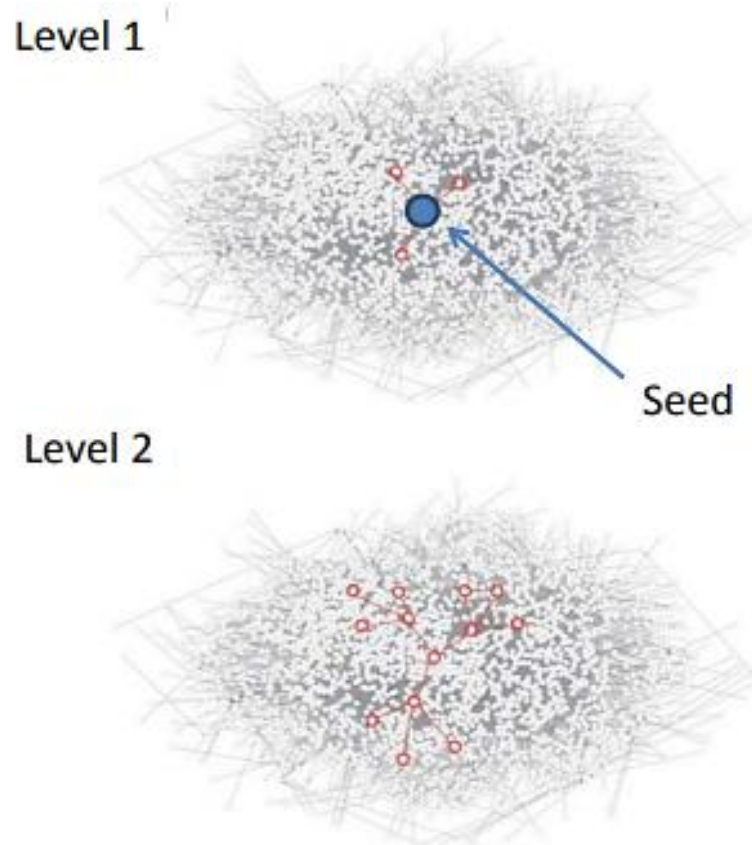
CIA: Citation index

**Source: Own study**

- 4) How (How was the data found?): The articles were selected from Google Scholar database in both French and English languages. Google Scholar is a natural choice as a citation database because (1) it is freely accessible to everyone, (2) it indexes most other academic databases and is thus more comprehensive. A keyword search for “Joint Ventures” and the names of each country in Northwest Africa (e.g., Algeria, Morocco, Tunisia, etc.) was done. First, the articles found were gathered, then the articles that cited them were collected and so on. This technique is known as the snowball sampling technique (Lecy & Beatty, 2012), it produces a network of relevant articles built around the first set of articles (seed articles) and facilitates insights into the broad context of the research (see Figure 3-4).

- 5) What (what did you find?): We have analyzed the existing studies on IJVs in North Africa, we then selected the most recent and relevant ones after discarding the articles that did not involve the keywords in their titles and abstracts, 9 relevant articles and dissertations that focus on IJV research were selected (Table 3-3)
- 6) Why (Why did you select the works that were included in your final data set?) : The main criterion used for the selection was the focus on issues within the scope of IJV research as identified in
- 7) Figure 3-3 , moreover, the authors are experienced International Business researchers.

**Figure 3-4 : Snowball Sampling from a Citation Network at two Levels**



**Source: Adapted from J. Lecy, K. Beatty, "Structured Literature Reviews Using Constrained Snowball Sampling and Citation Network Analysis", SSRN electronic journal, 2012, p.6.**

Table 3-3 : Selected studies on IJVs in Northwest Africa

Authors	Title of publication	Country	Year
(Elhachemi)	Knowledge Acquisition through International Joint Venture in Transitional Economies: the Case of Algeria	Algeria	2019
(M.E. Gómez-Miranda, Pérez-López, <i>et.al.</i> )	The impact of organizational culture on competitiveness, effectiveness and efficiency in Spanish-Moroccan international joint ventures	Morocco	2015
(Maaref)	Le transfert de connaissances dans un cadre de joint-venture : une approche des facteurs déterminants dans une logique interactive	Tunisia	2015
(Lopez-Perez & Rodriguez-Ariza)	Ownership and trust in the governance structures of Spanish-Moroccan SMEs constituted as international joint ventures	Morocco	2013
(Argente-Linares, Lopez-Perez, & Rodriguez-Ariza)	Organizational structure and success of international joint ventures in emerging economies: the case of Spanish–Moroccan SMEs	Morocco	2012
(Ghizlane)	Relational governance of international joint ventures: The case of IJV established in Morocco	Morocco	2011
(Hammoutene, 2010)	International Joint Ventures in Algeria: Factors in their success and failure	Algeria	2010
(Cheriet, Le Roy, & Rastoin)	Les alliances stratégiques asymétriques entre multinationales et PME : le cas de Danone - Djurdjura en Algérie	Algeria	2008
(Boudabbous)	Approche culturelle des rapports entre Tunisiens et Occidentaux dans le cadre des activités d'une entreprise en Joint-Venture	Tunisia	2005

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(Kamoun Abdelkefi)	Performance of International Joint ventures: An empirical study in Tunisia	Tunisia	2004
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**Source: Own study**

### **Section 3: Contextualization of the research findings**

The selected studies involve both qualitative and quantitative methods, at least one study has been conducted with regard to each of the IJV themes identified earlier (except partner selection which revealed zero publications). In this section, we answer the following questions: what do we know about IJV research in Northwest Africa? And what are the characteristics of the existing research?

#### **2.1.5. IJV performance, success and failure**

Two selected studies focused on IJVs' performance and factors affecting their success and failure. First, (Hammoutene, 2010)'s study combined two approaches: the case study method which involved five joint ventures from which the data was collected, and a qualitative evaluation of managerial perceptions which involved a sample of 350 companies.

Three leading factors of success of international joint ventures in Algeria were identified in this study:

1. The selection of a suitable partner: Both Foreign and Algerian managers agreed on the importance of this factor, however, foreign managers have ranked it as an extremely important factor while the Algerian ones have considered it important.
2. Autonomous decision-making powers: Algerian evidence suggests that shared responsibilities, control and decision-making lead to a greater satisfaction and contribution of local partners.
3. The competence of the mixed managerial team: the selection of local managers in the Algerian case is more related to sovereignty than to managerial skills and competencies, the local managers' appointment is subjective and based mostly on family connections.

However, the empirical results have shown that Algerian managers believed that competence was an important criterion.

Two leading failure factors were also defined:

1. Algerian and foreign managers' perceptions of unequal benefits and costs: If one or both partners perceive that the venture is not obtaining sufficient benefits in return for their contribution of resources, serious conflicts may develop which may lead to the end of the collaborative partnership. However, the Algerian experience indicates that the issue of unequal benefits and costs can be avoided if the foreign partner shows long-term commitment towards the joint-venture.
2. Unsatisfactory performance of the joint- venture: Algerian managers perceive unsatisfactory performance as a major failure factor while foreign managers considered it as unimportant. The criteria used to indicate whether the JV is successful or not differ from the two sides' point of view. Algerian managers consider the training of locals, technology transfer and the development of export activities are indicators of the JV's good performance, whereas, for foreign partners, the share of Algerian market as well as long-term profitability are the main indicators of performance. Therefore, it can be assumed.

The second selected study focusing on IJV performance is an empirical study of a sample of IJVs in Tunisia done by (Kamoun Abdelkefi, 2004). The author conducted a factorial analysis to determine the variables that have an impact on the performance of the IJV.

The findings of this study distinguished success and failure factors and they are summarized in table 3-4

**Table 3-4 : Summary of key findings of IJV performance study in Tunisia**

<b>Success factors</b>	<b>Failure factors</b>
Trust	cultural attitudes and business practices dissimilarities
Communication	Lack of communication

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Non-domination of one partner in conflicts	Domination of one partner
Joint solving problems	Avoidance of outside mediation

---

**Source: Own study**

Furthermore, the study identified factors that have no effect of IJV performance, namely: size similarity between the partners, the autonomy of the JV, ownership structure and partners' prior relationship.

### **3.3.2. Motives of entering in IJVs**

(Cheriet, Le Roy, & Rastoin, 2008) have studied asymmetric alliances between foreign MNCs and local SMEs in Algeria, they used a strategic analysis to determine motives that drive the local SME into investing in an International joint-venture.

Their findings suggest that SMEs seem to favor the contribution of intangible assets by the multinational firm, for instance, brand image, know-how, management and marketing expertise. Therefore, capital contributions are not considered as an essential motivation for forming an alliance with a foreign MNC.

From a strategic point of view, the local firm considers the JV as a defensive strategy to avoid a potential competitor and make a move before its other existing competitors in the market consider the alliance with the same partner.

### **3.3.3. Knowledge transfer and learning in IJVs**

As far as knowledge transfer is concerned, two studies were selected in our sample that treat the case of IJVs operating in the Maghreb. The first research was a multiple case study conducted by (Maaref, 2015) in which four JVs operating in Tunisia were chosen in four different sectors and the data was collected through 47 interviews with employees from the parent companies and the JV.

The aim of this study was to determine the factors that influence the process of knowledge transfer from three dimensions:

- The factors that determine the transfer of knowledge from the foreign parent company to the JV:

According to the study, the increasing willingness to transfer and the capacity to transfer knowledge are essential to the success of this transfer process. Another factor that is more influential in the success of the transfer phenomenon is the face-to-face interaction between the personnel of the different parties to provide the favorable conditions for the operation of the joint ventures and the transfer of the technical know-how necessary for their professional operation.

- The factors that determine the transfer of knowledge from the local parent company to the JV:

The local parent company participates in knowledge transfer either directly or indirectly through collaboration with the foreign parent company. It contributes in terms of understanding the local and regional business context, prospecting and marketing and knowledge of the specificity of the Tunisian market. They also offer rich expertise and experience in the field of activities of the joint venture. Thus, the size of the local parent company, the openness of its managers, and their familiarity with the local business environment are influential factors in the process of knowledge transfer.

- The factors that determine the transfer of knowledge from the JV to the parent companies.

The results confirmed that joint ventures have an important role to play in the successful sharing and dissemination of knowledge between the different parts of the joint venture. The joint venture personnel were able to develop contextual skills from their experience, skills and knowledge accumulated over time. This transfer is accelerated or slowed down depending on the joint venture personnel's capacity to absorb the knowledge transferred by the parent companies and their motivation to learn. These skills accumulated may be, in turn, transferred to the parent companies.

- The factors that influence the three dimensions of knowledge transfer:

The findings of the study conclude that Both the parent companies and the joint venture must have the following factors in order to successfully transfer knowledge: mutual trust, joint venture performance, quality of contributions, balance of bargaining power, strategic compatibility and cultural compatibility. They are determining factors in all three knowledge transfer processes.

The second selected study about knowledge transfer and acquisition is based on knowledge-based view and transaction cost economics theories. The research done by (Elhachemi, 2019) in Algeria aimed to determine potential factors that can affect the process of IJV's knowledge acquisition. The author proposed a conceptual framework containing the three following factors:

- **Absorptive capacity:** the author argues that an IJV should have the capability to formulate new knowledge and the ability to recognize, process, and apply valuable external knowledge.
- **Transfer mechanisms:** Transfer mechanisms are described as the ways through which firms transfer knowledge, they require replication and adaptation of the given knowledge from the parent firms.
- **Environmental uncertainty:** the author defined environmental uncertainty as the degree or variation of instability in environmental factors. In the Algerian case, highly unpredictable market and consumer demands, hostile competition, and abrupt changes in legal, political, and economical constructs may affect the process of knowledge acquisition by joint-ventures.

#### **3.3.4. Trust and control in IJVs**

In a study about ownership and trust in Moroccan JVs conducted by (Lopez-Perez & Rodriguez-Ariza, 2013), a survey was conducted via a questionnaire that received 210 valid replies from CEOs of Spanish- Moroccan IJVs.

The findings of the survey concluded that trust is essential to diminish the fear of opportunist behavior by one of the partners. Thus, positive expectations regarding the partners' intentions

facilitate the simplification of governance structures and decrease the perception of risk. The results obtained in the study show that trust is a substitute of hierarchic control.

The results also showed that the main element determining a company's governance structure is that of ownership, via its participation in the different levels of governance. This participation assures the control of decisions.

Another study in Morocco was conducted by (Ghizlane, 2011) about the relationship between organizational structure of the IJV and its success. The results of this study show that the degree of satisfaction is influenced by whether or not the foreign partner has the control.

### **3.3.5. Cultural differences in IJVs:**

Two relevant studies about the influence of culture on IJVs were selected in our review, the first one was conducted by (Boudabbous, 2005) and it consisted of an exploratory survey on 20 IJVs operating in Tunisia, Both Tunisian and foreign managers were interviewed in order to determine whether the difference in cultures caused problems in managing the IJV or not.

First, the study analyzed cultural dimensions of both French and Tunisian employees within the JV. We summarized the findings of this analysis in Table 3-5.

**Table 3-5 : Differences in cultural orientation: Tunisian vs. French IJV partners**

Tunisian employees and managers	French employees and managers
<ul style="list-style-type: none"> <li>- The company implies a form of fatherly organization with informal decision-making centers.</li> <li>- A strong consideration of the status of persons.</li> <li>- A strong cooperation between individuals and departments.</li> <li>- An informal operation in a highly responsive network.</li> <li>- Use informal networks of decision and information.</li> </ul>	<ul style="list-style-type: none"> <li>- A "professional" place, distinct from the private space which implies a form of functional, compartmentalized and competitive organization.</li> <li>- A clear distribution of tasks and areas of responsibility.</li> <li>- Rely more on official organization charts and the official circuits of information.</li> <li>- Value procedures, planning, anticipation and the use of time.</li> <li>- Separate work time and private or religious time.</li> </ul>

- 
- Operate in real time, adapt their actions or deadlines and more easily undertake many tasks at the same time.
  - Do not set a clear boundary between work time and private or religious time.
- 

**Source: S. Boudabbous, «Approche culturelle des rapports entre Tunisiens et Occidentaux dans le cadre des activités d'une entreprise en Joint-Venture », La Revue des Sciences de Gestion, Vol.3, No.213. 2005, p.90.**

The study suggests that cultural learning should be established in order to help each party to adapt with the other. In fact, French partners have assumed that this learning has allowed them to build a more coherent basis for interpretation and communication that has made it easier for them to assert their own culture and better motivate their teams and partners.

Conversely, the Tunisians, in a climate of trust, were more inclined to integrate and follow Western-style management procedures, as well as the planning methods recommended by their French counterparts.

The remaining selected study analyzed the impact of organizational culture on IJV performance dimensions. A survey was conducted by sending a structured questionnaire to CEOs of 80 Spanish-Moroccan IJVs trading in Morocco.

Three dimensions of performance were selected, namely: competitiveness, effectiveness and efficiency. The results of the survey determined factors that affect these dimensions:

- The involvement of the workforce: obtaining greater involvement of staff in management could improve the competitiveness of IJVs.
- The prevailing management interest in results or procedures: IJVs could be made more effective by orienting the focus of management attention more towards results than procedures the staff in corporate governance.
- The degree of centralization of decision-making: a greater centralization of decision taking would enable the IJV to achieve its goals more efficiently.

#### **Section 4: Comments and propositions**

The review of literature in the Northwest African context have enabled us to notice the following:

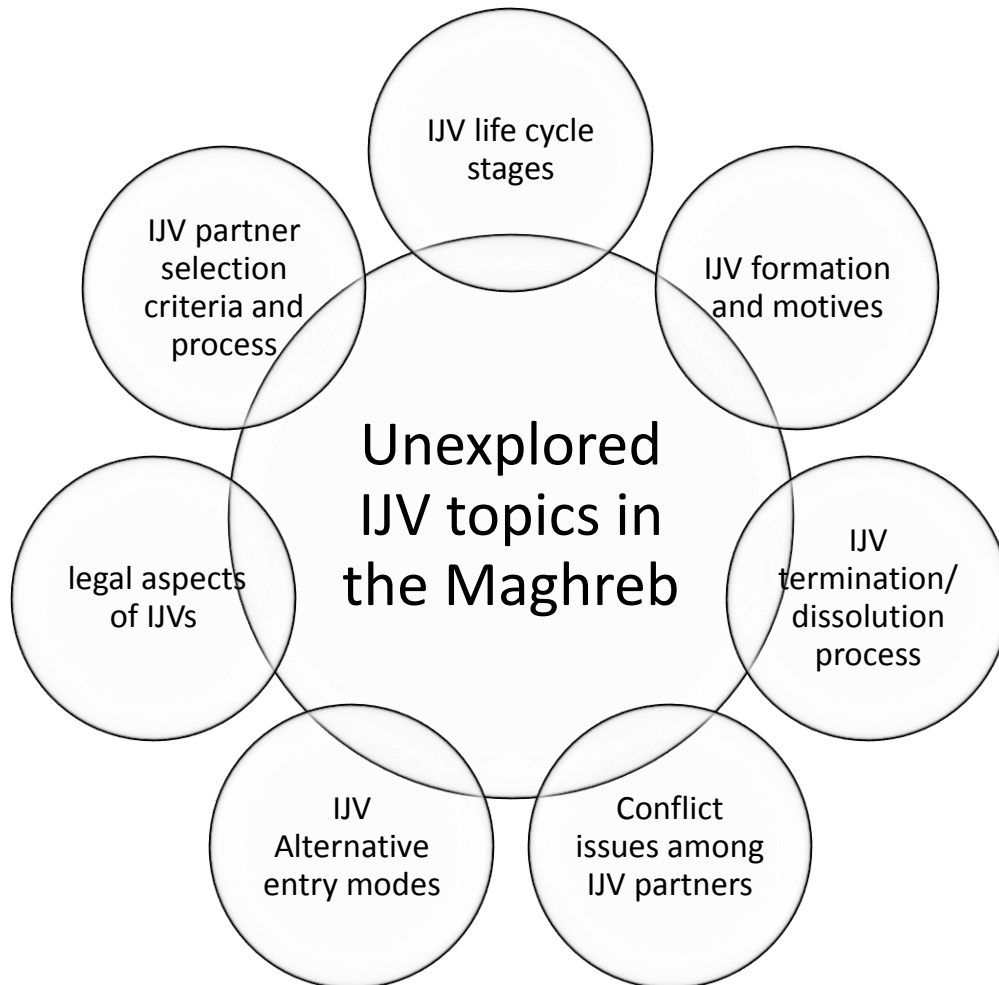
- The main topic treated by scholars and researchers is IJV performance and success.
- Lack of data on main motivations that drive foreign companies to invest in an IJV in the region.
- The existing studies on knowledge transfer have focused on the factors that affect the success of the learning process instead of the process itself, which is still vague.
- The existing studies involving control only focused on one of its three dimensions which is the extent of control neglecting the focus of control and its mechanisms.
- The cultural dimension was only analyzed in the case of European foreign partners while organizational culture of investors from other regions such as the emerging economies of Asia as well as African and Arab countries were not studied.
- The literature on trust and relationship development among the partners is poor and the existing one focused on the importance given to trust rather than the process of building trust.

We see less attention of local researchers to IJV themes. We believe it is critical that local researchers increase their contributions to the advancement of research in these areas.

Moreover, the comparison between existing literature on IJVs that was conducted by scholars and researchers worldwide for decades and the available data on IJV in Northwest Africa has

enabled us to identify topics that have not been treated in this region. Consequently, we believe that future research on IJVs in the Maghreb should be directed towards new themes as we outline in Figure 3-.

**Figure 3-5: Unexplored IJV topics in Northwest Africa**



**Source: Own study**

## Conclusion

In summary, the integrative literature review that we have conducted have helped us synthesize knowledge from the literature into a significant, value-added contribution to new knowledge on Northwest African-based IJVs, through analyzing the strengths and weaknesses of existing studies surrounding five major research topics on International Joint-Ventures.

The review involved three Maghreb countries, namely: Algeria, Morocco and Tunisia which are developing economies seeking to be part of the international business environment.

According to the selected studies, IJVs 'performance in the region is determined by choosing the right local partner, sharing decision-making and control, developing trust and choosing a competent managerial team. As for the motives that drive local companies to embark upon an IJV, the literature suggested that Maghreb companies seek foreign management and marketing expertise as well as other intangible assets that the foreign partner would provide.

As regards knowledge transfer, the selected studies identified factors that affect the process of learning in IJVs, taking into account the knowledge transferred from the parent companies to the JV and from the JV itself to the parent companies. However, the studies have neither determined the steps nor the challenges that the companies face during the learning process.

Concerning the cultural dimension, the literature have identified the cultural factors that may affect IJV performance, such as the degree of involvement of the staff and management interest in results or procedures.

The results of the selected studies are found to be insufficient to shape the literature on IJVs in the Northwest African region, therefore, more studies should be undertaken to help future researchers and professionals in the field.



## **Chapter 4**

# **Partner selection in IJVs: The case of Janssen Algeria**

## **Chapter 4: Partner selection in IJVs: The case of Janssen Algeria**

### **Introduction**

The analysis of IJV literature in Northwest Africa has shown that the partner selection aspect was not involved as an important topic in the studies, neither as an important phase in the IJV formation phase, nor as a key success factor to IJV's success in the region. Therefore, we conduct a qualitative study in this chapter in order to shed light on the partner selection criteria that firms consider before choosing the local partner as well as the different phases of the partner selection process.

At first, the case study is presented then the methodology used in the survey is explained as well as the objectives of the study. After that, the results of the study as presented and a framework that explains the partner selection process is proposed.

### **Section 1: Presentation of the Case Study**



A case study is a research strategy and an empirical inquiry that investigates a phenomenon within its real-life context. Case studies in business are based on an in-depth investigation of a single individual, group or institution to explore the causes of underlying principles. The case of a multinational company is studied in this chapter in order to withdraw essential data concerning our topic. In this section, we introduce the firm that we have chosen.

#### **4.1.1. Johnson & Johnson group**

As the world's largest and most broadly based healthcare company, Johnson & Johnson (J&J) and its subsidiaries have approximately 132,200 employees worldwide engaged in the research and development, manufacture and sale of a broad range of products in the health care field.

The holding company was incorporated in 1887 in the state of New Jersey in The USA<sup>1</sup>, its primary focus is products related to human health and well-being.

The principal management group at J&J is the Executive committee, this latter is responsible for the strategic operations and allocation of the company's resources. Besides, the committee provides strategic parameters to senior management groups at U.S. and international operating companies who are responsible for their own strategic plans and their companies' day-to-day operations. Each subsidiary within the business segments is, with limited exceptions, managed by residents of the country where located<sup>2</sup>.

The Company is organized into three business segments: Consumer, Pharmaceutical and Medical Devices<sup>3</sup>.

- The Consumer segment: It includes a broad range of products used in the baby care, oral care, beauty, over-the-counter pharmaceutical, women's health and wound care markets. These products are marketed to the general public and sold both to retail outlets and distributors throughout the world.
- The Pharmaceutical segment: It is focused on six therapeutic areas, including immunology, infectious diseases, neuroscience, oncology, pulmonary hypertension, and cardiovascular and metabolic diseases. Products in this segment are distributed directly to retailers, wholesalers, hospitals and health care professionals for prescription use.
- The Medical Devices segment: It includes a broad range of products used in the orthopedic, surgery, interventional solutions (cardiovascular and neurovascular) and eye health fields. These products are distributed to wholesalers, hospitals and retailers, and used principally in the professional fields by physicians, nurses, hospitals, eye care professionals and clinics.

In fact, there are more than 250 Johnson & Johnson subsidiaries in 60 countries, and they have hundreds of consumer health products associated with their various brands as well as dozens of

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<sup>1</sup> [www.jnj.com/about-jnj](http://www.jnj.com/about-jnj), consulted on 01/09/2020 at 10:15 pm.

<sup>2</sup> "Johnson & Johnson's Annual Report 2019", p.16.

<sup>3</sup> *Ibid.*

pharmaceuticals, medical devices, and even several food products<sup>4</sup>. (See Appendix B for all the J&J brands).

#### 4.1.2. Janssen Pharmaceutica

In 1953, in Beerse, Belgium, Paul Janssen, a young doctor, founded Janssen Pharmaceutica. Success came very quickly because the fifth molecule that he synthesized, proved to have original properties. In 1961, Janssen Pharmaceutica joined the Johnson & Johnson group and developed its capacity for innovation, which led to the discovery of more than 80 drugs, 4 of which appear on the list of essential drugs established by the World Health Organization<sup>5</sup>.

In 1994, Janssen Pharmaceutica merges with another J&J pharmaceutical subsidiary, Cilag (Chemical Industry Laboratory AG) creating Janssen-Cilag. Years later, on September 10, 2010, like all pharmaceutical companies of Johnson & Johnson Group, Janssen-Cilag changes its identity. The laboratory adopts a single name, Janssen, which conveys scientific ideas and values. A brand that embodies the culmination of a journey of excellence in which two pharmaceutical companies have come together.

Figure 4-1: Evolution of Janssen's logo



Source: Based on <https://www.logolynx.com/topic/janssen> , consulted on 01/09/2020 at 11.00 pm.

Today, Janssen is the leader of the pharmaceutical industry in the world, it was voted the 1st most admired pharmaceutical company in the world in Fortune magazine's 2018 ranking and the 4th most productive and innovative pharmaceutical company by Idea Pharma in 2017.

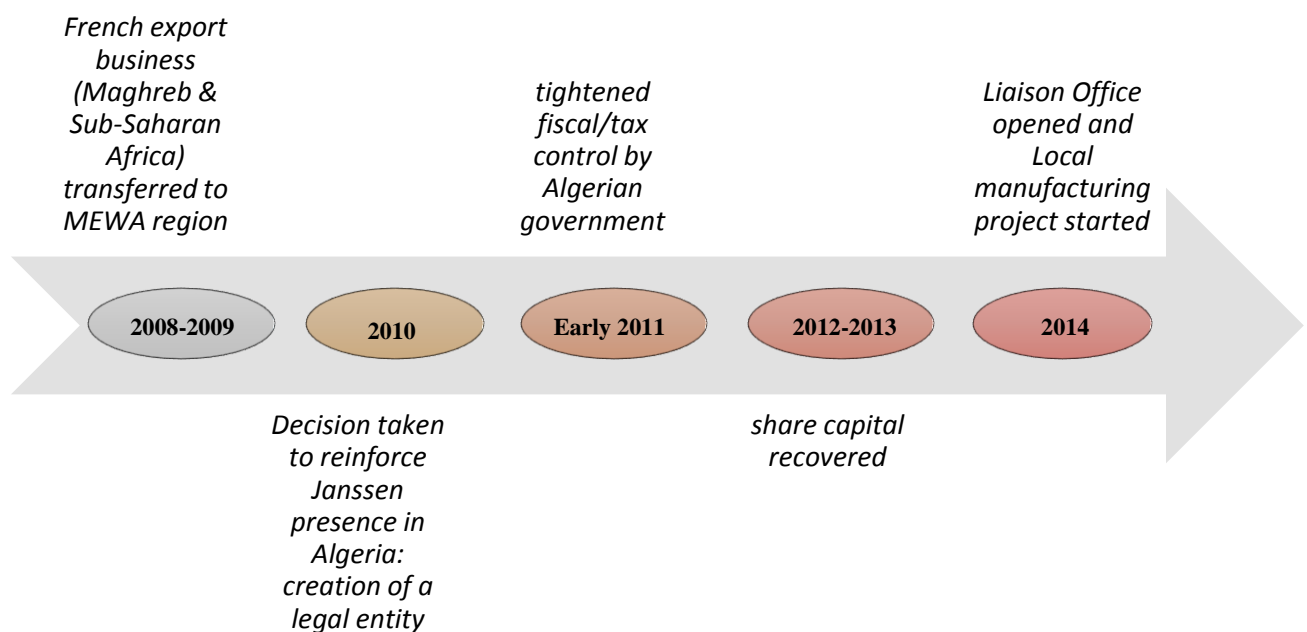
<sup>4</sup> Drugeport, "Brands Owned by Johnson & Johnson", <https://www.drugreport.com/brands-owned-by-johnson-and-johnson/#sources-links> , published on 23/03/2020, consulted on 01/09/2020 at 10:50 pm.

<sup>5</sup> <https://www.janssen.com/france/qui-sommes-nous/notre-histoire> , consulted on 01/09/2020 at 11:15 pm.

### 4.1.3. Janssen SPA Algérie

Since 1998, Janssen has been exporting its products to the Algerian market by associating with local intermediaries, they took in charge the distribution of Janssen's molecules to the Algerian market. One of the two distributors was PRODIPHAL, a local private pharmaceutical company situated in Rouiba, Algiers, with whom Janssen creates a joint-venture in 2010 to become "Janssen Algeria", the IJV is headquartered in Hydra, Algeria . Figure 4.2 illustrates the major events that marked the company's presence in Algeria.

**Figure 4-2: Janssen pharmaceutica's presence in Algeria**



**Source: Internal document of the company**

The JV & Local manufacturing project has allowed Janssen to<sup>6</sup>:

- Generate an additional business which cannot be achieved with actual scheme.
- Recover market share lost because of 2008 law
- Secure market share for all Janssen products
- Maintain a legal presence in Algeria (JV Janssen Spa) to help in discussions / negotiations with Algerian authorities.

<sup>6</sup> Internal document of the company.

## **Section 2: Research methodology**

Data on a qualitative study will be presented in this section. An instrumental case study, i.e., *a study designed to examine a particular case primarily to provide insight into an issue or to redraw a generalization*<sup>7</sup>, will be based on a study of Janssen pharmaceuticals Joint-venture in Algeria. Through a semi-structured interview, the selection process will be explained as well as the criteria used to choose the suitable local partner.

Qualitative research is a type of research that *collects and works with non-numerical data and that seeks to interpret meaning from these data that help understand social life through the study of targeted populations or places*<sup>8</sup>. Qualitative research methods are designed in a manner that helps reveal the behavior and perception of a target audience with reference to a particular topic.

The most common methods of qualitative research are: one-on-one interview, focus groups, ethnographic research, case study research and record keeping<sup>9</sup>. The method used in this study is one-on-one interview. This latter was defined as one-on-one oral reminder between two people, one of whom conveys information to the other on a predetermined topic. It is an oriented discussion, an investigative process using a verbal communication process to gather information in relation to set objectives. The interview consists of a questioning session addressed to a person or several people in order to collect information that confirm or invalidate the research hypotheses<sup>10</sup>.

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<sup>7</sup> Anthony J. Onwuegbuzie, Nancy L. Leech, Kathleen M. T. Collins, "Qualitative Analysis Techniques for the Review of the Literature", *The Qualitative Report*, Vol.17, No.56, 2012, p.5.

<sup>8</sup> Crossman, Ashley. "An Overview of Qualitative Research Methods.", ThoughtCo, Aug. 28, 2020, [www.thoughtco.com/qualitative-research-methods-3026555](http://www.thoughtco.com/qualitative-research-methods-3026555), consulted on 09/09/2020 at 8:00pm.

<sup>9</sup> "Qualitative Research: Definition, Types, Methods and Examples", [www.questionpro.com/blog/qualitative-research-methods](http://www.questionpro.com/blog/qualitative-research-methods), consulted on 09/09/2020 at 8:15 pm.

<sup>10</sup> H. Ouacherine, S. Chabani, « Guide de méthodologie de la recherche en sciences sociales », Taleb impression, 1st edition, Algiers, 2013, p.73.

#### **4.2.1. Objectives of the study:**

The aim of this study is to determine the major steps that foreign firms take in order to select an IJV local partner in the Northwest African market as well as the criteria considered to make this choice. Our objective is to answer the following questions:

- How do firms select their local joint-venture partner?
- What are the criteria that determine the choice of a suitable IJV partner?
- What are the steps that should be taken to insure an effective selection process?

We have therefore formulated hypotheses that answer our questions:

**Hypothesis 1:** The local partner's financial assets are a crucial selection criteria that can determine the suitable partner for the JV.

**Hypothesis 2:** The partner's reputation and previous experience is a crucial selection criteria that can determine the suitable partner for the JV.

**Hypothesis 3:** All firms should follow one process in the quest of a suitable IJV partner.

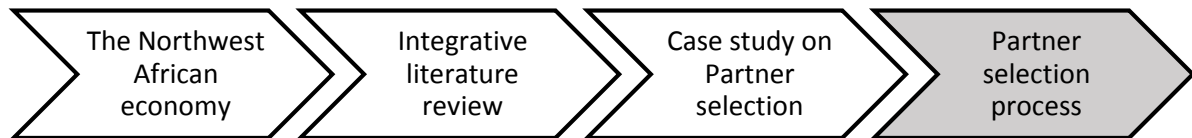
#### **4.2.2. Research design**

In order to provide the solution to our problem, we have carried out a qualitative study. We unfortunately did not have the opportunity to carry out physical interviews as a result of safety measures from the Covid-19 pandemic. We therefore opted for a semi-directive interview via Google Meet.

The interview was conducted as follows:

- Presentation of the object of study at the beginning of the interview.
- Request for authorization to record the interview.
- Request declined due to confidentiality measures.
- Taking notes of the respondent's answers
- Translating the transcript from French to English.
- Sending of the written version for confirmation of the transcribed statements.

### Section 3: The interview



We conducted one interview with the director of Janssen Liaison office and compliant officer of the Maghreb and West African region on 09/09/2020 at 2:30 pm.

#### **4.3.1. Results of the interview**

##### **1. What were the main factors that motivated Janssen Pharmaceutica to invest in Algeria?**

Janssen Pharmaceutica, the pharmaceutical company of Johnson & Johnson has been present in the Algerian market through distributors since 1998. The company introduced a number of its brands especially in psychiatry and dermatology within this business mode. In 2008, the Algerian authorities decided to ban from importation any medicinal product that was produced locally. As a result, direct presence in the country seemed to be the best option to protect the portfolio of the existing brands but more importantly to introduce innovative therapeutic solutions for the Algerian patients. Our company's credo is to always support patients and meet their needs.

##### **2. How did the firm identify a need for a joint-venture?**

To begin with, The Company collaborated with two Algerian distributors from 1998 to 2010: Prodiphil SPA and UPC (Union Pharmaceutique Constantinoise).

In order to serve the objectives mentioned above (introduce new therapeutic solutions and protect the existing portfolio), a local presence was necessary and three options were proposed, the first one was to continue the collaboration with existing distributors and recruit new ones. The second option was to choose to create a subsidiary in order to have a

production unit in Algeria, and the third option was to collaborate with a local pharmaceutical operator and create a joint-venture.

The 3<sup>rd</sup> option was retained by the company as collaboration with a local partner should bring more value and should offer the company more opportunities and facilitate its operations.

### **3. What were the criteria on which the selection of the joint-venture partner was based?**

The choice was much more based on a search for a company that has a good reputation and that is willing to invest money in the joint venture. Our preference was inclined towards a partner that already operates in the pharmaceutical sector, that speaks the same language and understands the market rather than choosing a financial investor that has no experience or knowledge in the sector.

Another criterion was the partner's financial soundness; the company reviews the financial statements of a potential partner for the last 3 years. The objective is to ensure that the potential partner will be able to face its financial engagements in the JV.

The size of the partner and its overall market share were also considered. The company was interested to collaborate with a local company who represents a significant business size. The objective was to use the partner's distribution channel including wholesalers and pharmacists; therefore, the commercial capabilities represented a significant part of the partner contribution in the JV.

The partner's Industrial potential was also important; we made an industrial evaluation of the factory to determine its production capacity and timelines. We also had to check whether the equipment meet the group's requirements in terms of quality, and that helped us choose the company that can take up the challenge to produce new molecules.

### **4. What were the different phases of the partner selection process?**

In such sensitive operation, we cannot really go gradually. We need to operate very quickly in the decision making for strategic and competition reasons. Several employees and

external consultants were engaged in the operation and the criteria that I have mentioned earlier were analyzed in more or less the same time.

However, a process had to be put in place in order to take the final decision. First, we did a screening of the Market, we made a list of potential investors, and then the list was shortened after we eliminated financial investors to leave the ones who operate in the pharmaceutical sector. Then, a Due-diligence was carried out to investigate the potential partners' situation on the market. The research was conducted by Janssen itself, but also by a specialized company that we recruited to gather all the important data on the partner in order to avoid any possible conflict of interests or financial issues.

Once we analyzed the industrial and commercial potential, the choice of Prodiphal was made, it was already a company that we have been working with for more than a decade.

A Project manager was selected, he led the business case, organized the discussions and authorization, then the two partners proceeded with the legal creation of the joint venture and the formation of the social capital. The joint-venture was formed in April 2010 and it took one year to sign the final contract.

**5. In your opinion, do all the firms go through the same process to select their IJV partners?**

I think that it depends on the objectives of the firm and its internal processes, but there are certain steps that are essential, for instance, analyzing the partner's capabilities and reputation as well as the financial strengths are important aspects that all the firms must consider.

**6. In Janssen's case, what are the responsibilities of each partner towards the IJV?**

It is important to know that there is a contract that explains the responsibilities and commitments of each partner before the creation of the JV. PRODIPHAL has agreed to

pay a 30% share of the capital, in return, the company earns annual dividends from the commercial activity.

A shareholder's agreement was signed between J&J and PRODIPHAL prior to starting the collaboration and creating the JV. The agreement mentioned all related obligations and rights for each partner. For instance, the main objective of the JV, governance of the JV, financial aspects, transfer of shares, non-competition, anticorruption law, and confidentiality. After the signature of the agreement, the JV was created with Prodiphal as shareholder of 30% of the JV capital while J&J took the remaining 70% of the share capital.

Both parties agreed to go further in the collaboration and decided to proceed with two other agreements to implement the commercial strategy. A manufacturing agreement was signed in 2012 to start the manufacturing part of the project; this agreement included financial investment from J&J as well as technology transfer to the local partner. A second agreement was signed in 2013 to carry out the supply part.

#### **7. Do you consider the JV as a successful one? If yes, what indicates this success?**

As of to date, the JV is still in place 10 years later and the financial situation is stable, we have entered what we call "a routine phase". The collaboration has been producing positive results for years. Besides, the JV allowed the company to control its operations in the country and to work directly with the healthcare professionals and healthcare authorities.

Beyond that, a local manufacturing project was launched in 2013 in collaboration with Prodiphal and the JV is conducting the operations. Six company brands are produced locally. The company is working to introduce more brands technologically sophisticated such as the latest innovations in Oncology, hematology and psychiatry.

We were also able to transfer the technology to the local partner successfully, which is an element of negotiation with the authorities since the Algerian government encourages international groups to provide knowledge and technology.

Thanks to this engagement in the Algerian market, J&J is recognized by local Healthcare community (doctors, patients and authorities) as strategic partner helping patients and their families as well as contributing to the economic development of the country.

### **8. What was the role of the partner selection in the JV's success?**

First of all, if we had chosen a partner that had bad reputation in the market or that encountered incidences of corruption, we would have had a lot of worries because we are an American group that has obligations under FCPA American law (Foreign Corrupt Practices Act); we have to respect this law and we can't be involved in any questionable transactions, so we protect our brand image by associating with a company that is well regarded.

It is important that the partner honors its financial commitments, both in terms of financing the JV and financing the production. If we had chosen a partner who was not commercially representative, we could have lost money by investing in distribution channels. Finally, if we had selected a partner who was not at the top industrially, we would have lost valuable time by having to build a factory or delay the production project.

The company is currently successful thanks to its employees and the quality of its partner. Prodiphil contributed a lot in this success especially by being quickly reactive in the technology transfer and in the production-launching period.

We consider that the selection of an appropriate partner is key to ensure that objectives of the company are reached. It is important to anticipate both short and long-term needs and choose the right partner to achieve the objectives.

### **9. How do you describe the relationship between the two partners?**

It is a professional relationship and each partner needs the other. On one hand, Prodiphil increased their volume of the business by producing more brands. They additionally invested in new facilities bringing more added value. On the other hand, J&J group could fully control its operations in the country and could introduce innovative solutions for Algerian patients and their families.

Thus, it is a win-win relationship that is generated daily, as long as both parties have an interest and their objectives are defined, it is a joint-venture that will continue to exist.

#### **4.3.2. Summary of the interview findings:**

From the interview that was conducted, the following can be highlighted:

- The Algerian Market is considered as a great opportunity for investment through joint ventures.
- The local partner must have a good reputation and relevant experience in the sector.
- A local firm that is stable and strong financially is more likely to be chosen as a potential IJV partner.
- Foreign firms seek partners with a large size and market share in order to insure a successful implementation in the market.
- The local partner's Industrial potential is a key criterion for foreign firms that aim to manufacture their products locally.
- Partner selection process can be divided into eight phases: (1) screening the market, (2) identifying potential partners, (3) Carrying out Due-Diligence, (4) Analyzing the Industrial and Commercial potential of the firms, (5) selecting the partner, (6) selecting the project manager to lead the business case, (7) Negotiations and discussions, (8) legal creation of the joint venture.
- Partner selection process differs according to the foreign firm's objectives and expectations from the market.
- Foreign firms are willing to ensure technology transfer and training of local staff which is encouraged by the Algerian government.
- In industrial Joint-ventures, three agreements must be signed: the partnership contract, the manufacturing contract, and the distribution contract.
- Partner selection has an important role in the joint venture's success, the choice of a compatible partner makes it much easier to penetrate the Algerian market.

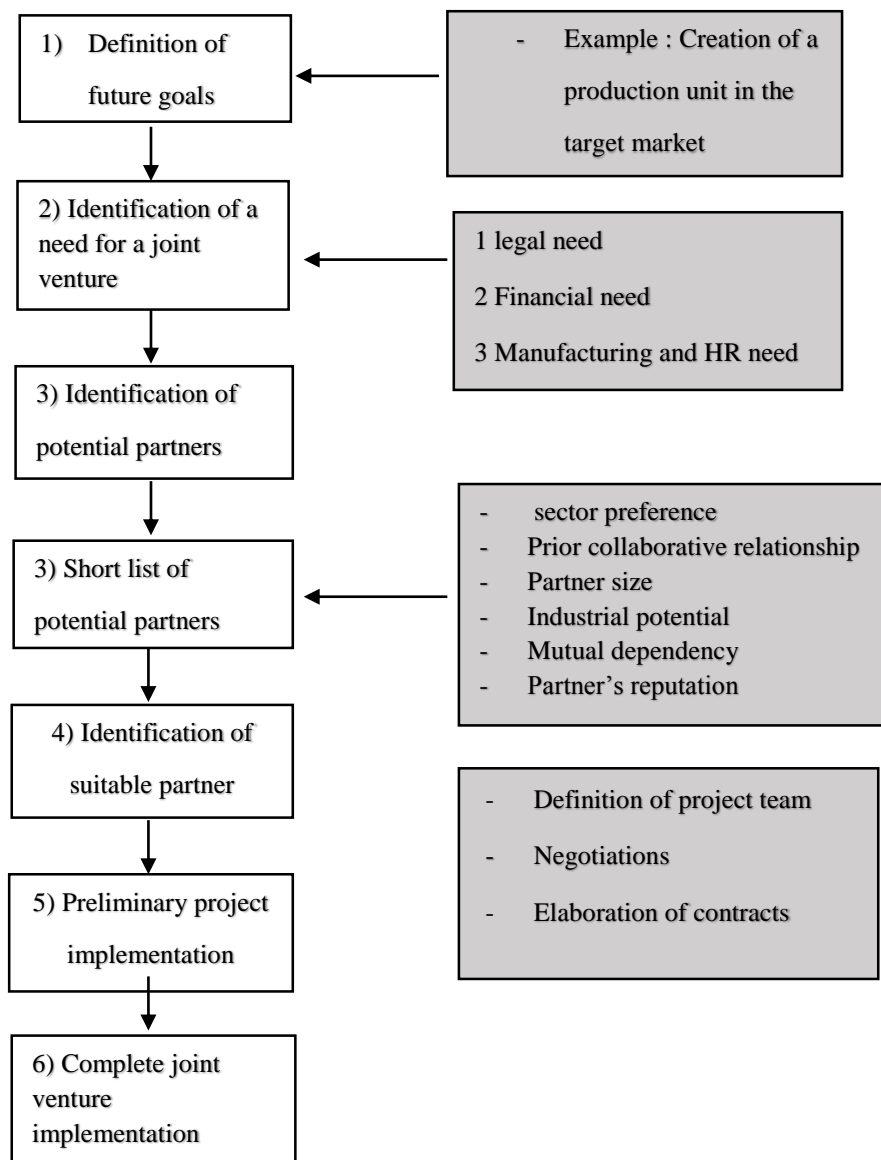
### 4.3.3. Analysis of the results

According to Janssen's case in Algeria, there are five selection criteria, on which the choice of the suitable partner is made:

- Reputation in the market: favorable local partner reputation has a positive impact on the relationship development between the partners; it can show the local partner's trustworthiness and value.
- Prior collaboration with the local partner: In Janssen's case, the fact the PRODIPHAL was their distributor for years has definitely accelerated the selection process, therefore, the partners' prior relationship is a factor that helped the creation of the JV.
- Financial soundness: the local partner's positive financial situation is a proof of its stability and ability to provide financial support to the JV, for instance, PRODIPHAL participates with 30% of the venture's capital, besides, it covers production and distribution costs.
- Size and commercial potential: the fact that the company is large, it provides job opportunities and it is active commercially helps create a positive brand image in the market.
- Industrial potential: this criterion is specific for IJVs that operate in industrial sectors; it involves the local partner's equipment and machinery as well as its manufacturing ability and distribution channels.

Based on the partner selection model developed by (Williams & Lilley, 1993) and the data collected from Janssen Algeria 's case study, we propose the following framework of partner selection process for firms that wish to embark upon a JV in the Maghreb region.

Figure 4-3: Partner selection process based on Janssen Algeria Case



Source: Own study

## Conclusion

The aim of this study was to find out how foreign firms, that wish to invest in an IJV, make the strategic decision of choosing a suitable local partner. The case of Janssen, the pharmaceutical companies of Johnson & Johnson, one of the most popular groups that operate in health care sector was studied. Janssen has chosen to expand its activity in the Northwest African market by creating an IJV with its former Algerian distributor PRODIPHAL. The choice of this mode of entry was based on legal, financial and industrial needs that were fulfilled by the IJV agreement.

We answered our research questions by conducting a qualitative study, based on data collected from a semi-directed interview. The findings have helped us identify the important criteria that the firm used to choose the compatible partner that share the same vision and objectives. Moreover, we have summarized the important phases that firms go through in order to implement the joint-venture.

# **Conclusion**

This research had a double- objective, the first one was to analyze the current situation of IJV research in the region of Northwest Africa by conducting an integrative literature review. This latter involved good-quality research using the 6W procedure and selected nine relevant studies. The findings of the studies have helped us define the characteristics of IJV research in Northwest Africa that have proven to be insufficient to shape the literature on IJVs in the Maghreb.

The existing literature have covered five key topics surrounding IJVs: IJV performance, success and failure, local firms' motives of entry into IJVs, factors that determine knowledge transfer within IJVs, the importance of trust in IJVs and cultural differences between IJV partners. Nonetheless, other important IJV topics were left out in the literature for the Northwest-African context; therefore, we have suggested a list of unexplored topics that would be relevant for future research.

The second objective of this dissertation was to determine how foreign firms choose their IJV partner. According to the results of the interview that we conducted in JANSSEN Algeria:

- We confirm the first hypothesis H1 that stated that the local partner's financial assets are crucial selection criteria that can determine the suitable partner for the JV.

In fact, (Tomlinson, 1970) had as an object of his study partner selection process and his findings have mentioned the partner financial assets as an important criterion, moreover, (Geringer J. M., 1991)'s task-related criteria involved the financial capability of the partner. It was also one of the four important criteria described by (Williams & Lilley, 1993) . Finally, according to our case study, foreign firms conduct a thorough analysis of the potential partner's financial situation as it proves the stability of the company.

- As for the second hypothesis H2, it also deserves confirmation, which means that the partner's reputation and previous experience are crucial selection criteria that can determine the suitable partner for the JV.

Similarly to the partner's financial assets, (Tomlinson, 1970) has also identified favorable past association and the partner's local identity as important selection criteria. They were also proposed in (Geringer J. M., 1991)'s list of partner-related criteria. Besides, data collected from

Janssen Algeria's study has confirmed that the firm's choice was inclined into its past distributors and it was also related to the company's reputation.

- The third hypothesis that assumes that there is only one partner selection process that all firms should follow is declined, as the criteria and different steps are specific for each case, although some important phases are similar, the whole process is unique for each company.

The partner selection processes that were proposed by (Ellram, 1991), (Williams & Lilley, 1993), (Mitsuhashi, 2002) and (Duysters & Duisters, 2011) had a lot of points in common but they all suggested a different number of important phases, therefore, the firms have to adapt the partner selection process to their need and strategy rather than following one model and considering the same criteria.

During our research, we had to deal with certain difficulties which arose before us, in particular the very few resources related to our subject at the level of our library, the lack of data concerning the Northwest African case, and more importantly the lockdown caused by the health crisis due to Covid-19 pandemic which led to the interruption of the progress of our internship.

Moreover, this work is not without limitations and the theme of IJVs remains a rather broad subject that offers many possibilities of analysis in relation to the different parameters that compose it. Besides, the extent to which our findings can be generalized is somewhat limited as it only included a single case study.

Finally, we hope that this humble work will accompany Algerian and Northwest African researchers and students as long as the ideas presented in this paper remain profitable and open to other exploitations and other research works in order to deepen or complete this modest work.



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# **Appendices**

## Appendix A: The Maghreb region map



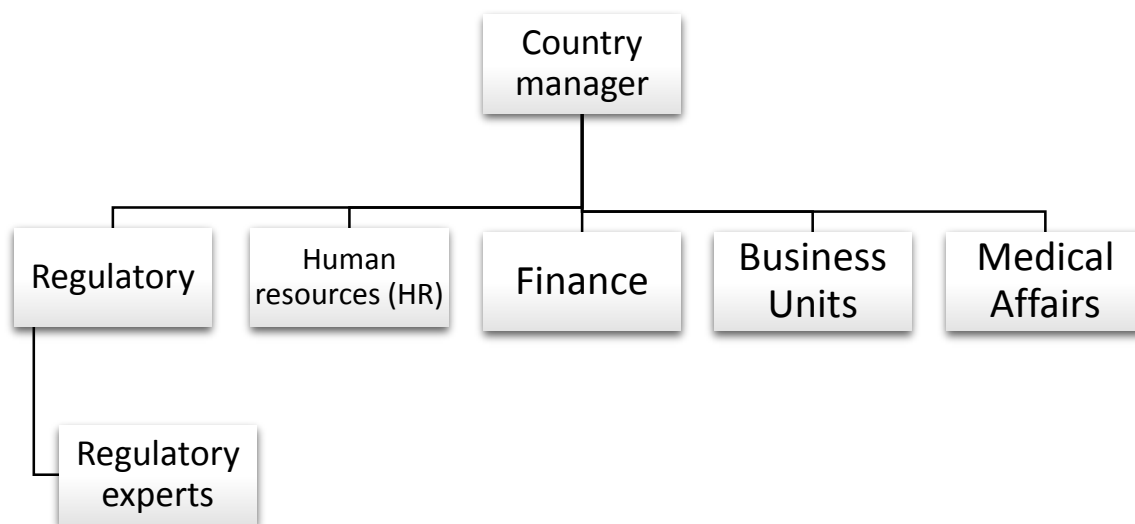
Source: « Carte politique du Maghreb et du Sahel avec les capitales et les frontières nationales », <https://www.alamyimages.fr>, consulted on 29/08/2020 at 1:15 pm.

**Appendix B:  
Brands owned by Johnson & Johnson**

Consumer Health	Skin Care
	
Pharmaceutical	Medical Devices
	
Vision	Consumer Goods
	

Source: Drugeport, “Brands Owned by Johnson & Johnson”, <https://www.drugreport.com/brands-owned-by-johnson-and-johnson/#sources-links> , published on 23/03/2020, consulted on 01/09/2020 at 10:50 pm.

**Appendix C:**  
**Janssen SPA structure**



**Source: Internal document of the company**

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## **Appendix D:**

### **The interview guide**

1. What were the main factors that motivated Janssen to invest in Algeria?
2. How did the firm identify a need for a joint-venture?
3. What were the criteria on which the selection of the joint-venture partner was based?
4. What were the different phases of the partner selection process?
5. In your opinion, do all the firms go through the same process to select their IJV partners?
6. In Janssen's case, what are the responsibilities of each partner towards the IJV?
7. Do you consider the JV as a successful one? If yes, what indicates this success?
8. What was the role of the partner selection in the JV's success?
9. How do you describe the relationship between the two partners?