



Patterns of Internationalization for Developing Country Enterprises

(Alliances and Joint Ventures)



UNITED NATIONS
INDUSTRIAL DEVELOPMENT ORGANIZATION

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This publication is based on more than 20 years of the United Nations Industrial Development Organisation (UNIDO) experience in assisting developing countries to formulate appropriate policies and tools at the country level and in assisting individual enterprises to assess and formulate joint venture agreements.

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Introduction	vii
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PART 1 THE INTERNATIONAL SCENARIO FOR BUSINESS AND DEVELOPMENT

1.1 Overview of international business.....	3
1.1.1 The evolution of multinational strategies.....	3
1.1.2 Terminology of multinational business.....	5
1.1.3 Global expansion and market entry strategies.....	7
1.1.4 Globalization of small and medium-sized enterprises.....	9
1.1.5 Patterns of expansion.....	10
1.1.6 Foreign market entry strategies.....	12
Review of chapter 1.1.....	24
1.2 Global manufacturing strategies of MNEs.....	27
1.2.1 The drivers of changing strategies.....	27
1.2.2 Implications for MNEs' operations.....	30
1.2.3 Global supply chains, global value chains and global production networks.....	34
1.2.4 Corporate social responsibility (CSR).....	38
Review of chapter 1.2.....	40
1.3 Opportunities for developing countries.....	43
1.3.1 Basic requisites for technological development.....	43
1.3.2 Technology development through value chains: linking, leveraging and learning.....	44
1.3.3 Development pathways; role of governments.....	46
1.3.4 Issues for developing countries.....	50
Review of chapter 1.3.....	52

PART 2 STRATEGIC ALLIANCES AND JOINT VENTURES

2.1 Business alliances: a broad concept and a blurred terminology.....	57
Review of chapter 2.1.....	61
2.2 Overview of alliance forms.....	63
2.2.1 Licensing.....	63
2.2.2 Cross-licensing.....	64
2.2.3 Franchising.....	64
2.2.4 Joint R&D; joint product development.....	66
2.2.5 Equity alliances; cross-holdings.....	66
2.2.6 Equity joint ventures: the essence of the concept.....	67
2.2.7 Other types of joint ventures.....	68
Review of chapter 2.2.....	71
2.3 Alliance constellations and keiretsu.....	73
2.3.1 Alliance constellations.....	73
2.3.2 Keiretsu.....	75
Review of chapter 2.3.....	77

2.4	Strategic alliances	79
2.4.1	Characterization of strategic alliances	79
2.4.2	Reasons to develop strategic alliances	81
2.4.3	Costs and risks of alliances	84
2.4.4	Organizational complexity.	85
2.4.5	Learning and knowledge flows	86
2.4.6	Strategic alliances as an alternative to mergers and acquisitions	86
2.4.7	Strategic alliances vs. joint ventures.	87
	Review of chapter 2.4.	88

PART 3 IMPLEMENTING JOINT VENTURES

3.1	Joint ventures in developing countries: a conduit of foreign direct investment.	93
3.1.1	Historical overview	93
3.1.2	Drivers of FDI and the joint venture option	95
	Review of chapter 3.1.	99
3.2	The joint venture as a framework for cooperation and development.	101
3.2.1	Possible departures and motives	101
3.2.2	The partners' inputs	102
3.2.3	Benefits for host country; role of governments and other players . .	104
	Review of chapter 3.2.	108
3.3	Development of a joint venture relationship	111
3.3.1	From the early stage	111
3.3.2	... through the pre-negotiation stage	113
3.3.3	... to the negotiation process	114
	Review of chapter 3.3.	118
3.4	Selected issues for consideration.	119
3.4.1	Joint ventures and host country laws.	119
3.4.2	What can be invested; the valuation of inputs.	119
3.4.3	The balance of power; keeping relevance as a partner	120
3.4.4	Letter of intent and other preliminary agreements.	122
3.4.5	Confidentiality, secrecy and non-disclosure agreements.	123
3.4.6	Incorporation: forms and advantages	124
3.4.7	Foundation documents	125
3.4.8	Ancillary agreements.	126
	Review of chapter 3.4.	128
3.5	The joint venture agreement: overview of drafting issues	131
3.5.1	Formation of the joint venture	131
3.5.2	Organization and management.	138
3.5.3	Financing and financial policy	140
3.5.4	Setting up facilities and operations	142

3.5.5	Accounting and auditing.	142
3.5.6	Staff recruitment and management.	143
3.5.7	Products	145
3.5.8	Marketing.	147
3.5.9	Insurance	147
3.5.10	Duration and termination	147
3.5.11	Miscellaneous clauses	150
	Review of chapter 3.5.	153

PART 4 INTERNATIONAL BUSINESS NEGOTIATIONS

4.1	International business negotiations	159
4.1.1	Introduction; principles of negotiation.	159
4.1.2	Negotiation teams	161
4.1.3	Negotiation strategies, tactics and techniques.	162
4.1.4	The negotiation phases.	168
4.1.5	Cross-cultural considerations.	169
4.1.6	Rules of negotiation conduct	170
	Review of chapter 4.1.	171
4.2	Contracts and contract drafting	173
4.2.1	General considerations	173
4.2.2	The importance of a written document.	173
4.2.3	Contracts: meaning and characteristics.	174
4.2.4	Model contracts: role and limitations	176
4.2.5	Who should draft the contract?	176
4.2.6	Anticipating problems: what could go wrong?	176
4.2.7	Contract drafting and legal systems	177
4.2.8	Form and structure of contracts	178

Glossary	183
Annexes: sample documents.	193
Bibliography	219
Index	221

This training package is addressed to entrepreneurs and policy makers in developing countries. It deals with issues of internationalization at the enterprise level and their impact on economic growth and social development at the national level. Globalization brings with it an aggressive competitive environment and a scenario of continuing and accelerated change requiring timely and effective responses; it also brings opportunities which are opened by the liberalization of markets and the evolving strategies of multinational enterprises (MNEs). In particular, it is important to understand and, when possible, to exploit the MNEs' market entry strategies and the way they organize and manage their manufacturing activities at the global level in order to minimize risks and take advantage of cost savings and efficiency gains associated to different locations.

Foreign direct investment (FDI) and other forms of association to MNEs operations, such as subcontracting, original equipment manufacturing (OEM), participation in global value chains (GVCs), global manufacturing networks (GMNs), joint ventures (JVs) and various kinds of alliances have been the movers of technological progress, economic growth and success in international markets for many developing countries. Success stories are widely known and will be highlighted in this work. But it has to be emphasized that success is not an accident, and successful experiences cannot be simply transplanted. MNEs take their strategic and locational decisions on the basis of their stakeholders' interests, and this includes perception of risks, profit expectations and pursuit of increased market share; host countries, on the other hand, have their own set of values and endowments, cultural and social patterns, and development policy options. Furthermore, the characteristics of industry competition and factor markets are constantly changing, which adds to the complexity of the situation confronting developing countries and their enterprises, in particular those with inadequate levels of technological capacity and insufficient access to information on opportunities for internationalization.

This training package is intended to be an instrument to help firms of developing countries improve their competitive position and grow domestically and internationally by linking with foreign partners, leveraging the relationships with them, and learning further in order to achieve technological self-sufficiency and innovative capabilities of their own. In this connection, particular attention will be given to joint ventures and alliances, including the motivations of the participating enterprises, the opportunities for partnerships, and their negotiation, implementation and management. While the main expected users of this package are developing country entrepreneurs, and special focus is given to the subject of alliances and joint ventures, it was found convenient to frame the package with a supplementary body of knowledge based on two kinds of considerations:

First, the development of entrepreneurial activities involves issues that are of interest to policy makers. When thinking of technological progress at the enterprise level in developing countries, and the contribution of joint ventures and alliances to achieving this aim, one has also to consider the role and interplay of many enabling factors, such as:

- international political and development agenda, related rules and conventions, and multilateral and bilateral agreements and what they mean for a country in terms of constraints and opportunities;
- the country's macro-economic and policy environment with its institutions and regulatory framework and how they influence entrepreneurial activities and induce the activities of foreign enterprises;
- the physical and technological infrastructure available in the country, the national innovation system, and the mechanisms in place to support technological development and innovation at enterprise level.

Second, the opportunities for internationalization available to firms of developing countries are dependent upon the business strategies of multinational companies and the way they manage their global operations.

This training package will therefore bring to both policymakers and managers of enterprises of developing countries not only an awareness of the international development scenario and the competitive forces they have to cope with, but also an understanding of the strategies and behaviour of multinational companies, of the opportunities available for growth and internationalization in that context, and of how to seize and take advantage of such opportunities. Related to this, the package will enable the users to handle the practical issues associated to the preparation, formation, negotiation and management of the various types of alliances and joint ventures that firms of developing countries may wish to enter into with foreign partners.

The envisaged purpose is to focus on joint ventures and alliances as a path for growth and internationalization for developing countries' firms and at the same time shed light on the conditions under which they have to operate, find their opportunities and make their choices. To achieve its objectives the package will be developed in four main parts as follows:

Part 1 presents the international development scenario, the competitive environment and the drivers for the global expansion of enterprises. It highlights the patterns of multinational expansion, the various types of inter-enterprise collaboration agreements, the global manufacturing strategies of multinational enterprises (MNEs) and the related challenges and opportunities for developing countries.

In this context, part 1 elaborates on the role of global value chains (GVCs) and global production networks (GPNs) as elements of MNEs' global operations management and as vehicles for the technological development of developing countries' firms. Attention is also given to the role of developing countries' governments in creating suitable locational conditions for MNEs and in providing critical support to domestic enterprises in their path for technological capability building and internationalization.

Part 2 deals with the subject of business alliances in its broad scope, first, by attempting to clarify the currently used and sometimes blurred terminology; then, by reviewing the main forms of business alliances together with their specific and distinctive features; and, subsequently, by moving into the more specific areas of strategic alliances and joint ventures. It analyses the concept of strategic alliances and highlights their main characteristics and the relevant issues associated to them, and introduces the various types of joint ventures found in international business operations, focusing on the notion of equity joint venture as a form of cooperation between international companies or multinational enterprises (MNEs), on the one hand, and domestic enterprises of less-developed or less-industrialized countries, on the other.

Part 3 is at the heart of the package. It covers the whole process of implementing joint ventures, both as a form of foreign direct investment and as a framework for cooperation and development where foreign investors, their partners in developing countries and the host governments, all have specific interests and expectations that have to be accommodated.

With this reality in the background, part 3 elaborates on the partners' motives and possible ways of obtaining their engagement, the various steps and phases in the development of a joint venture relationship, and the joint venture agreement as the instrument that, together with the applicable laws of the host country, sets out the rules that govern the

relationship between the partners and the formation, incorporation and management of the joint venture company as a separate legal entity.

Part 4 deals with the subject of negotiations and contracting, having in mind that the success of a joint venture as a long-term business relationship depends to a great extent on the ability of the parties to negotiate and bridge their specific and individual interests to achieve mutually acceptable deals.

Part 4 is developed around two main components. One of them covers the aspects of international business negotiations, including the basic principles of negotiation, negotiation strategies, tactics and techniques, and the cross-cultural aspects involved. The other component highlights, on the one hand, the importance of a contract as a legal instrument that sets out the agreement arrived at by the parties and governs their business relationship and, on the other, provides guiding principles for proper contract formulation and drafting.

In terms of structure, the package comprises the following basic elements:

- A textbook component, intended to cover the overall body of knowledge and presented in a way that is both comprehensive and easy to read;
- A glossary of terms and definitions aimed at supplementing the textbook with further explanations and clarifications on selected terms and concepts;
- A set of annexes containing samples of different types of contracts and other legal instruments, such as letters of intent and memoranda of understanding, to illustrate how the issues of negotiation are reflected in the drafting practice;
- A set of visuals directly related to the overall content of the package, in particular to the textbook part, and intended to support the implementation of training programmes addressed to managers and government officials of developing countries concerned with the development and internationalization of their enterprises.