SELECTING PARTNERS FOR JOINT INTERNATIONAL BUSINESS VENTURES: A GUIDE FOR SMALL/MEDIUM ENTERPRISES

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ABSTRACT
Regardless of the type of business, all investors, whether foreign or local, take a partner into a joint-venture for the purpose of gaining from that partner some skill or resource that they lack. In these very austere lines in Nigeria’s economic history, international business joint-ventures no doubt are veritable means by which Nigerian business can grow by leaps and contribute even more rapidly to the realization of the goals of SAP. Failure rate among international joint-venture are relatively high and one major failure factor commonly identifiable with this situation is wrong choice (or suboptimal selection) of partners. For profitable alliances, the selection of associates involves a special decision process, one which is usually initiated by the foreign partner. Existing typologies of reasons for selection are inadequate. Ideally, such a typology should be defined through a specific interdisciplinary research project examining the nature of the motivation involved. In the end, however, partner selection and negotiation should ideally be a game in which there is no winner or loser among the players.

Keywords: Small/Medium enterprise, business, joint-venture, partner, international.

INTRODUCTION
A joint-venture is one of the means for a company that has overseas sales volume (or a potential sales volume overseas) justifying a foreign facility abroad, to enter the international business arena. Essentially, a joint-venture is a partnership arrangement between a foreign based company (or a multinational firm) and a local company or partner for production, finance, marketing, and management of operations. It is an investment entailing shared-ownership and decision-making. More significantly, it is a commitment for more than a very short duration, of funds, facilities, and services by two or more legally separate interest, to an enterprise for mutual benefit.

At the present stage of the implementation of SAP, joint-ventures are increasing in frequency and in strategic importance for Nigeria’s smaller business enterprises operating or contemplating operation in international markets. In line with the prevailing austere economic climate; and the SAP effected to bring about a long-term turn-around of the economy, a joint international business venture has no doubt become a critical tool for attaining corporate goals in both large and small/medium business enterprises. Through such a venture, this may reduce risk, attain economics of scale or scope, overcome government-imposed investment barriers and pool complete lentary technologies or other resources.
Combinations of business interests motivated either by complementary attributes or by defensive considerations such as the sharing of business and non-business risks, are nothing new. They are relatively common within both developed and developing countries. Yet, more widespread utilization has been somewhat constrained by their historically low levels of performance and their tendency to be «short-life» undertakings. Expectedly, failure rate among international joint-ventures are quite high, relative to other forms of international business arrangements. Although many factors can influence performance of joint-ventures, one factor commonly cited by managers with proven joint-venture experience is the choice of which partner(s) will participate in a venture.

Decisions concerning choices of partners influence the resources which are available to the venture, including financial, human and technical capabilities. Furthermore, each partner typically participates actively in major strategic decisions which introduce additional complexity to joint-venture acumen. Thus, partner selection is quite a vital (or strategic) issue which must be critical for managers contemplating sharing ownership in joint international business ventures.

Local partners are always the key to success in joint-ventures abroad. One has to select a foreign (i.e. local) partner rather in the same way as a bride. The normal financial and personnel checks cover some of the ground, but the final assessment is always dependent upon subjective considerations. Incidentally, most of the scanty literature in the country on international business practice, as well as the workshops and seminars in this area have principally focused attention on motivations for forming a joint venture, as well as on management of the venture once it gets off ground. This emphasis on “motives” and “management” is of course necessary and desirable. It is also understandable. However, it may be considered “second-place matter” among the factors that contribute to most lasting and effective (in terms of level of performance) cooperative alliances. In contrast therefore, the purpose of this article is to layout, and emphasize, the process of “selecting” joint-venture associates because this phase of the joint-venture invariably turns out, in the final analysis, to be the “maker” or “breaker” of the association, its (lofty) “motives” or good “management”, notwithstanding.

This discussion is based primarily on results of interviews with approximately 100 executives of private companies (small and medium enterprises, SMEs) in three commercial nerve-centers of Imo State (Owerri, Orlu and Okigwe), regarding the international joint-venture experiences of their business organizations. These executives, most of whom were either owners or part-owners/managing directors and executives of their companies had been initially involved in the process of identifying and selecting partners for one or more international joint-venture. The discussing addresses how these executives perceive the partner selection process. With some emphasis on how prospective partners are identified and who is typically involved in the selection process. This article is thus aimed at guiding managers and business owners of SMEs of seeking to form long-term joint relationships, rather than the short-life, mere transitory forms of share-own-erships.

IDENTIFICATION AND SCREENING OF PARTNERS
Finding and wooing a partner for an international joint venture (IJV) can be quite an expensive process. Cost are not only limited to negotiating and writing the legal (and, of course, the operating aspect) of the (IJV) agreement. Frequently, substantial amount of time and screening prospective partner prior to formal negotiations. This is particularly imperative when a company’s owners or managers have limited experience with the proposed joint—ventures products or market although costs can still be substantial, notwithstanding company owners’ (or managers’) ready and through knowledge of the task, managers and owners may hesitate to devote a significant amount of company resource to the process of identifying an extensive list of potential associates.
This is notably the case when a partner with the minimum technical requirements appears to have been found—through, say, an introduction at a business workshop/seminar or trade association, or some other means. Often partners appear to have been chosen for reasons not fully relevant to the organization’s objectives and without a stringent comparison of alternatives. Many partners seem to have been selected almost by accident or at least without full consideration of how they influence the venture’s operations. This apparent disregard for thorough planning and evaluation may help account for the widespread that joint-venture tend to be fraught with problems and that they commonly "fail", or are easily threatened with "discontinuance" within a relatively short period of time.

**NEED FOR RESEARCH IN PARTNER IDENTIFICATION**

The importance of research in the world of business generally, cannot be over-emphasized. Research is even more imperative in the area of international business. Thus, as with many other aspects of joint-venture formation, identification of potential associates (partners) is a research task. This is particularly true if the venture is to include local partners from an unfamiliar region. At a minimum, partners should be able to provide the additional capabilities which, in both the short and the longer-term, are necessary to give the venture some competitive advantage(s); this implies that a manager must analyze the venture’s anticipated target market, as well as the businesses which prospective partners are currently in or likely to enter in the relatively near future, in order to identify possible cooperative relationships. At all events unless a manager has a thorough knowledge of the venture’s industry and the potential players, reliance on superficial scanning efforts is unlikely to result in an optimal partner selection decision.

Some Specific Partner Selection Criteria:

From the point of view of a foreign investor, one can group the possible reasons for which a specific partner may be selected into six categories.

1. Forced: Cases in which the choice is effectively forced upon the foreign investor either because of explicit host government direction or indirectly because the associate preempts an exclusive license.

2. Facilities: Convenience to the foreign partner of local facilities under the control of the associate. Among these would be a site or plant, marketing or distributive facilities, or a strong market position; cases in which the associate was already in the same line of business as that of the proposed joint-venture.

3. Resources: Convenience of local sources of managerial and technical personnel, materials, components, or local capital which can be contributed by the association.

4. Status: Status and capacity of the partner in dealing with local authorities and public relations. This subset would also include status defined in terms of general financial and business soundness and standing.

5. Past: Favourable past association with the partner when the latter had been an agent, licenses, major customer, or partner in a previous joint-venture. The category include special cases in which there might have been strong personal contact between individuals in the foreign and local parent companies, possibly even individuals common to both.

6. Identify: Cases in which a partner would be chosen chiefly to obtain local identity, often through association with a potential "sleeping partner".

When identifying partners, there is no single approach which will be preferable in all situations. However, the evaluation should consider such factors as:

- the peculiar characteristics of the industry;
- the firm’s competitive position;
- the venture’s anticipated requirements for capital and other resources;
- the partner’s local influence and standing, e.g. being able to cope officialdom, and having
"contacts" and political know-how; and
the possession of a sound domestic marketing network.

Typically, among the first potential partners to be considered are the distributors, suppliers and customers for the industry of the proposed venture. Yet, even these companies must be examined to see which ones are available for venturing and which might be pre-empted from participation due to prior agreement with competitors, sociopolitical basis or for similar reasons. Of course, extensive search and screening effort are not always feasible. Sometimes, the nature of the proposed investment dictates a limited range of prospective partners. For instance; there might be only one firm with access to the technology of raw material needed by the joint venture. In other cases, government regulations regarding foreign ownership may sharply limit the number of available partner prospects. However, even if only one or a few visible partner prospects exist, screening these companies for suitability as joint venture colleagues is still a critical task. Unless the partner is likely to be compatible, it might be good to pursue other non-joint venture alternatives, such as licensing, contractual relationships (e.g., long-term supply contracts) or even full equity ownership. Conflicts between partners are best avoided if anticipated before the venture is established; extreme care should be exercised in selecting the other party or parties. Prospects must be evaluated not only on the basis of complementarities of task-related capabilities—such as manufacturing or marketing expertise—but also on organizational compatibility. The additional effort expended up front in selecting the “right” partner may repay itself many times over in avoided costs of misunderstandings, delays, and divorce.

ROLE OF JOINT-VENTURE PROMOTERS (THE "DRIVING FORCES", AND THE FINAL DECISION-MAKERS)

The theory of general interest in connection with the foreign investment

Uccision process suggests that overseas investments are likely to be motivated primarily by influential individuals or groups. (Even in large firms. The most important decisions are effectively taken by very small groups). Accordingly, in evaluating and selecting partners, there are people from each company who play a particularly critical role in the process.

Examination of prior ventures (in the course of our interviews) reveals that there are usually one to three key individuals, or promoters ("driving forces"), who are critically to the partner selection decision and to efforts to successfully implement a joint venture agreement. More specifically, it seems that such people would also be those who have either considerable experience in the country concerned, a special interest in promoting overseas investments, or both. Typically, these individuals become involved very early in the formation process and occupy line rather than staff positions in the upper middle to upper levels of the firm’s management hierarchy. The joint venture promoters serve as "driving forces" for the process of identifying, evaluating and negotiation with prospective partners. Because they function as the catalyst for the ventures formation, their continued involvement in the process is essential. For this reason, the existence of more than one catalyst in each partner company typically enhances prospects for successful venture formation. When a company has only one such driving force, loss of that individual (due to transfer, turnover or other costs) frequently result either in termination of formation efforts or significant delays in the negotiation process while relationships are established with a new promoter. In contrast, when more than one promoter exists, loss of one of them may create problems, but the process of forming and operating the venture is generally able to proceed with only minor delays.

Because of their central roles in the formation process and the breadth of activities which must be addressed, certain types of managers seem to have been most effective as joint venture promoters. In general, successful promoters evidence entrepreneurial skills and are characterized by broader and more generalized managerial training, rather than embodying more narrow
technical specialties such as law, accounting, or other support functions. To ensure that it will be economically viable, promoters must be able to understand and integrate the broader strategic issues regarding the proposed joint-venture’s activities. Functional myopia associated with a narrowly trained manager might result in these critical issues not being fully addressed, and thereby threaten venture performance. Yet, in addition to their general management orientation, at least one promoter from each company should also evidence fluency with the critical functional activities of the venture, such as R & D, manufacturing, or marketing. To further enhance decision-making efforts and to communicate organizational commitment to prospective partner adequately, it is critical that promoters evidence a level of hierarchical responsibility commensurate with the purported strategic importance of the venture. If the promoter lacks sufficient hierarchical power, an organization may inadvertently send the message to its employees that the venture lacks top management support, virtually ensuring that employees will not fully commit themselves, and thereby harming prospects for venture success.

When promoters embodying the above traits, their ability to evaluate and negotiate with prospective partners is significantly enhanced. Yet, despite this caveat, a surprising number of firms delegate responsibility for partner selection and negotiation to lower level line managers or to staff members, especially lawyers, who may be ill-equipped to function as full-fledged promoters. As a result, the chosen employees are often unable to champion the venture effectively, further hindering formation efforts and prospects for successful long-term performance.

**AVAILABILITY OF ALTERNATIVE ASSOCIATES**
A problem commonly discussed in a connection with joint ventures in lee-developed countries is the lack of suitable local partners for foreign investors. On the one hand are the incompatibility of such potential partners as might exist, in terms of differences in business mores and objectives, technical capabilities, and the desperate sizes of local or foreign interest. This shortage has been cited particularly as a justification for mixed ventures with a host government.

Such a shortage does !01 seem !0 have been a significant problem for many foreign investors in Nigeria, though, in light of the fact that Nigeria is, in the West African sub-region at least a singular well-developed underdeveloped environment.

Thus, today and more than at any other limes, more potential associates are actually available in Nigeria than appear to be recognized by many foreign investors.

**THE ROLE OF TOP MANAGEMENT/BOARD OF DIRECTORS**
The decision to go into a joint venture, especially for "larger joint ventures, is usually of strategic importance to the management. Expectedly, it is crucial for top management to have some degree of direct participation in the partner selection process. These very senior level executives frequently do not assume an active role as one of the sponsors championing the venture. Nevertheless, top managers' participation is pivotal in successful venture formation and operation, due to their ability to communicate the extent of a company's commitment to prospective partners and to employees with their own firm. Top management involvement can help prevent or overcome deadlocks between the partners operating level personnel. Their participation also confers legitimacy to the proposed venture, helping to develop and sustain the critical level of commitment necessary to complete partner selection and venture formation successfully and enhance likelihood of satisfactory performance.

The final decision regarding partner selection is almost always made at the corporate headquarters level usually involving a vote of the board of directors. However, except for very large joint ventures and those which are intimately linked to a company’s core business activities, the actual decision
regarding partner selection and venture formation are - typically made by subsidiary or division level management, rather than at the corporate level. While the financial projection and overall strategic plans of the venture may be reviewed at corporate headquarters, such reviews typically is of a summary nature. Instead, joint venture formation decision are typically considered operating level and thus delegated to the level hierarchy where operational responsibility resides. This fact further reinforces the importance of assigning extremely competent individual to the joint venture task force, especially when those, individuals are expected to function as the venture’s sponsors.

THE ON-GOING NATURE OF JOINT-VENTURE NEGOTIATIONS

Managers should reorganize that joint-ventures are usually characterized by on-going negotiations, even after the initial stages of discussions are concluded and the venture is formally established. This is true regardless of the absolute sharing of the venture’s equity. A minority partner, consistently finding itself outvoted on important issues, is less likely to perceive that its strategic objective are being attained, particularly if they are experiencing sub-par returns from their participation. As a result, the probability that problems will arise is increased, and prospects for joint ventures longevity will be slim. Thus, regardless of whether the equity is split equally or if one partner has a majority share, consensus is still desirable on major decisions.

It is inevitable that unanticipated changes in the internal and external environment will occur. Under such circumstances, strict reliance on the initially negotiated contrast may produce less than satisfactory performance for one or both of the partners, thus threatening the venture’s long-term viability unless modifications are implemented. While not all aspect of a joint venture agreement may be subject to renegotiation, the principal impetus for re-opening discussion on some or all part of the joint venture agreement is concern over potential inequities or domination. This is particularly the case if there is also substantial disparity in the relative sizes of the partners. Since a balanced agreement is essential to the maintenance of trust, circumstance which produce perceived imbalances typical result in partner outcry and pressure for modification to the agreement.

To the extent that partners perceive incompatibilities between themselves and their venture mates and an inability to rectify the situation, what begins as a relatively minor annoyance may mushroom into a significant, and possibly fatal, source of friction?

One means of minimizing problems within a joint venture is to maintain continuity among the venture’s key personnel. Because of their on-going relationship with their peers in the partner organization, these individuals are a critical element in the maintenance of mutual trust. Personnel changes, especially among the venture’s sponsors, can threaten the personnel rapport which has been built up between partners and necessitate further negotiations to re-establish this human balance. In the course of our study, several firms were discovered to have consciously exploited this tendency as a means of re-opening negotiation. Such a strategy may however entail significant risk, to say the least.

THE DANGERS OF ZERO-SUM GAME MENTALITY

In the end the partner selection is always dependent upon subjective considerations. In other words it is generally based on non-quantifiable human judgment, especially the judgment of those individuals serving as the venture’s driving-forces. In this regard managers should refrain from a tendency to approach negotiations as a zero-sum game. Because of the presumed long-term nature of the association and the need fostering mutual trust and commitment, attempting to “neat the partner” in the negotiation stage will generally prove antithetical to the course of the alliance in the long-run. In plain language, approaching joint-venture negotiations as a game which will have a winner and a loser is a tragic approach. Regardless of the size or type of business, a jointventure must be found and operated in the spirit of compromise and cooperation. A company unwilling to reorganize this principle should consider pursuing other, non-joint venture option or it is likely to find itself
Confronting constant difficulties. An inequitable agreement, unless remedied, can result in deadlock or dissolution, causing the partner to suffer foregone opportunities, lost capital and resources, and compromised proprietary information, as well as an enormous amount of stress and emotional anguish.

CONCLUSION
Joint venture marrying corporate partner can be a valuable option for many firms and projects and might be a less harrowing option than going it alone. But caution is necessary when selecting partner. It is easy for companies to get marry, yet if the courting ritual is not conducted in a through manner divorce is likely. The result (Long and acrimonious legal battles, parentless "children", and possibly serious scars) may place a company in a worse position than was the prior to the venture.

Success or failure of an international joint-venture depends not only on a venture’s underlying strategic rationale, but also, on how partner companies can work together, despite differences in management styles, strategies, resources and culture. The effect of such cooperate rapport is difficult to predict and control but it is a critical consideration since joint-venture agreements usually provide each partner with an on-going role in the venture’s management. Compatibility of partner beyond mere technical complementarity is an important prerequisite for successful corporate marriage. This is particularly important in partner selection due to the influence this decision may have on the venture’s operating policies and performance.

When identifying suitable partner prospects, analysis of existing specific approach which promises to provide optimal result in every situation. Rather, the method will be contingent upon the venture of the proposed investment. However, in developing selection criteria, it is essential that a partner offers strong prospects for developing an effective long-term working relationship. Partners have a tendency to crystallize into personalities, of which some types may not be conducive to the venture’s long-term viability.

Although satisfying the joint venture’s technical requirements is necessary element of the partner selection decision, it is generally not sufficient. It should also be apparent that the partners linked together, will form a complete business, both in terms of technical capabilities and their ability to interact successfully.

Management of joint-venture may differ from typical business activities, because it might involve a mixture of: and sometimes clashes between, different cultures, thought patterns and attitude toward competition. There is a strong tendency for managers, particularly those without significant prior joint venture experience, to view their prospective venture as unique. This often translates into a perception that the experience of other has only limited applicability for their own circumstance. However, adamant assertions of the "uniqueness" of a particular joint venture may often be overstated. Although each situation will evidence unique elements, there do seem be common element in some, if not all, aspects of the joint venture formation process. For this reason, the process of locating suitable joint-venture partners should, when possible, be carried out with the assistance of experienced advisers who thoroughly familiar with the law and business practices of the target industry and market.

Because of the presumed long-term nature of most joint ventures and the costs associated with premature dissolution, there tend to be relatively high financial and human costs associated with selection of partners for successful venture. Firms must be willing to incur substantial research costs, including those associated with developing selection and evaluating partners, as well as the extensive resources expenditures typically involved in the negotiation stage. In addition, the process needs to be approached with considerable patience and realistic expectations. A company unwilling to accept these preconditions should probably consider
other investment options, rather than trying to minimize resource expenditure by cutting on the quantity and quality of effort expended on the partner selection and evaluation process.

REFERENCES
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