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MANAGING INTERNATIONAL JOINT VENTURES IN ARAB COUNTRIES

Key Words

*International Joint
Venture (IJVs); Arab
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Strategic Management
of IJVs; International
Management.*

Abstract

International Joint Ventures (IJVs) in Arab countries are subject to risks and problems of both IJVs and Arab business. Therefore, their rate of failure is expected to be higher than IJVs in some other areas of the world. This paper attempts to analyze the nature of IJVs in Arab countries and develop a more comprehensive conceptual framework for effectively managing them. Such a case will fit the interest of both Arab and foreign investors and help Arab countries to enhance the success of their economic development plans.

Introduction

International Joint Venture has become a very common international business cooperation that might fit the interests of both foreign and local investors (Beamish, 1995; Austin, 1990). This might explain the tremendous growth of International Joint Ventures among many companies from developed and developing countries. Despite the fact that International Joint Ventures (IJVs) have a very good record of success and achievement in many cases, they have become increasingly subject to a vari-

ety of problems and obstacles that impede and preclude their success and increase their rate of failure which was estimated to be about 60 percent in one estimation (Business Week, 1986; Kaar, 1989) and about 70 percent in another (Lawrence, 1997).

Unfortunately, the situation of International Joint Ventures in Arab countries is not sufficient either to meet the needs or to match the strategic interests of Arabic countries. The Arabian Gulf, as a part of Arab World, is a region of strategic importance of the world economy. It provides the world with significant

portion of world needs of oil, recycled petrodollars and a market for customer and capital goods (Kassem and Habib *et al*, 1984).

The objective of this paper is to review the concepts related to IJVs in the literature in order to conclude about the concept that fits the needs of Arab countries, and to discuss the challenges of IJVs in these countries and, finally, to develop a conceptual framework to effectively manage IJVs in Arabic countries.

Clarifying the Misconceptions of Terms

There is a common misconception in the literature concerning the terms of strategic alliance and joint venture. Some scholars viewed both term differently, others viewed them as synonym. Finally others used the term IJV and strategic international alliance to explain some types of international Business practices. In order to clarify the above misconception, we suggest the following typology to these terms.

This typology depends on two main dimensions:

1. The competitive perspective of the partners of the venture: Partners can be classified into two groups: Competitors and non-competitors.
2. The geographic nature of the venture: Two types of geographic nature of the venture: (i) Local arrangement, where arrangement occurs between local partners from the same country; (ii) International arrangement, where at least one of the partners is from a foreign country.

A model presents four categories of business arrangements related to the issue of joint ventures and strategic alliances which are derived from the literature is shown in Table (1) and discussed below:

Joint Venture (JV): is a separate corporate entity jointly owned by two or more parent organizations. Joint venture can take place between orga-

Table 1
Typology of International Ventures' Types

Nature of Parteners	Non-competitors	Joint Venture	International Joint Venture
	Competitors	Strategic Alliance	International Strategic Alliance
		Local	International
Geographic nature of the Venture			

nizations within national boundaries, (Byars, 1992).

International Joint Venture (IJV): is a joint ownership of an operation in which at least one of the partners is foreign-based (Mason, Miller, and Weigel, 1981).

Strategic Alliance (SA) or Cooperation Alliance: is a cooperation between two or more competitors to establish a venture that enhance their cooperation (Ball, and McCulloch, 1990). Since the above definition does not require that some of the partners should be foreign based, we recommend that the partners of strategic alliance can be of local area.

Strategic International Alliance (SIA): is a business relationship established by two or more companies to cooperate out of mutual needs and to share risk in achieving common objectives (Cateora, 1993). In order to complete our typology, we recommend that some companies or partners in the above definition should be competitors and at least one of these partners should be foreign based.

The above typology might help in clarifying the misconception of the terms related to strategic alliances and joint ventures in the literature. For the purpose of our study we prefer to use the term IJVs in Arab countries as a joint ownership under the control of a host Arab country and at least one

of the partner is foreign based. Therefore, we exclude some other common international business practice such as:

Wholly Owned Subsidiary (WOS): A full ownership (100 percent) of equity stocks and control of a foreign operation (Asheghian and Ibrahim, 1990).

Licensing: An agreement that grants the rights to a firm in a host country to produce or sell a product of foreign corporation for a fee or royalties. In the case of licensing the foreign corporation does not have strong control over the operation (Deresky, 1997).

Motives for Forming IJVs

An investigation of the literature would reveal that the discussion of the reasons of forming IJVs has neglected the side of the partners of host countries who are mostly from developing countries. So, we have to discuss the motives of establishing IJVs from the perspectives of both host partners as well as parent partners.

1. Parent Partners Motives of Establishing IJVs

Parent partners of IJVs are usually multinational corporations (MNCS) or worldwide corporations. IJVs have become a very attractive strategic op-

tion which help foreign corporations to overcome uncertainties and share risk with local partners. This might explain the increase of the number of IJVs between many corporations from developed countries and partners from different areas of the world (Killing, 1983, Beamish, 1985, Austin, 1990). In the same manner, there is a significant number of IJVs between Multinational Corporations (MNCs) and partners from Arab countries in several areas of investment as shown in Table (2).

This table showed that there are a large number of IJVs in and with Arab

countries. However, we expect this number to be bigger in future because of the economic development and growth that took place in many Arab countries in recent years.

The literature addressed a variety of motives of parent partners, who are mostly MNCs, for participating in an IJV as summarized below (Austin, 1990):

(i) **Resource Mobilizer:** IJVs enable parent partners to increase the total capital pool while reducing each partner's contribution and to get some important resources. For example, Japan formed many IJVs to gain

Table 2
Number and Areas of IJVs in and with Arab Countries

Economic Sectors	Inter - Arab MNCs IJVs		Arab IJVs with MNCs		Total of IJVs Projects	
	No.	Capital in \$1000,000	No.	Capital in \$1000,000	No.	Capital in \$1000,000
Extractive	22	1,442	16	461	38	1,904
Manufacturing	53	3,787	76	5,356	129	9,143
Agriculture	28	1,747	24	308	52	2,055
Finance	69	6,253	97	5,264	166	11,517
Tourism and Hotels	24	514	15	437	37	951
Transport & Communi- cation	24	3,406	11	159	35	3,565
Building	21	541	15	88	36	529
Construction	11	191	15	191	26	382
Total	252	17,882	269	12,264	521	30,146

Source: Union of Arab Gulf Chambers, Dammam, Saudi Arabia, January 1989.

access to raw material and market in many developing countries.

(ii) Political Insurance: IJVs help foreign partners to reduce political risk of their investment. Local partners can provide more information and better relations to local government that might reduce the political risk of the IJV than wholly owned subsidiary (WOS) in developing countries. This might explain the tendency of MNCs to establish IJVs with local partners who have some association with their local governments.

(iii) Cultural Guide: Local partner of an IJV has better knowledge and experience in dealing with the culture of host country. Such a case will facilitate the management of IJVs and increase their level of success. Thus, better understanding of the social culture of a host country of an IJV becomes as primary skill of the local partner of IJVs (Beamish, 1985).

(iv) Competitive Advantages: Through establishing an IJV with a local firm, foreign partner(s) might be able to overcome barriers to entry, gain preferential market access, accelerate expansion, and reduce other rival competitive advantages (Porter, 1985).

In conclusion, from foreign partner's point of view, IJVs constitute an important strategy of entry to foreign market. It may help corporation of

foreign countries to overcome trade barriers, achieve economies of scale, secure access to raw materials, reduce risk associated with complex projects and improve their competitive position (Byars, Rue, and Zahra, 1996).

Local Partners' Motives of Participating in IJVs

Host partners of an IJV are mostly investors from developing countries. The interests and motives of host partners are related to the needs and interests of developing countries from foreign investment as summarized below:

(i) Source of Capital: IJVs help developing countries, as well as Arab countries to obtain a considerable part of their needs of capital to build their economic development. IJVs are more favorable than foreign debts because it contributes directly to the country's economic development (Austin, 1990).

Foreign Direct Investment (FDI) in Arab countries is characterized by significant year-to-year fluctuations as shown in Table (3). This is true in Arab-Asian countries because investment in oil exploration and other natural resources in these economies tends to be "lumpy". Therefore, these countries are beginning to make strong efforts to create business -

Table 3
Foreign Direct Investment Inflow in Arab Countries, 1991-1996
(Millions of Dollars)

Country	1991	1992	1993	1994	1995	1996
North African Countries	888	1755	1695	2366	1272	1639
Asian Countries	987	1043	2782	711	(-1784)	667
Total	1875	2798	4477	3077	(-512)	2296
% to World Total FDI	1.2	1.6	2.1	1.3	-	0.7

Source: UNCTAD (1997), World Investment Report, 1997.

friendly-environment to attract more foreign investment (Presley, 1992).

According to the dependencia the, FDI is sought to have some effect on political process in developing countries in even more direct way (Vernon and Wells, 1986). Therefore, Arab countries develop policies to promote the formation of IJVs. This might explain why many Arab countries do not insist that local partner must have 51 percentage of the ownership of the venture (El-Erian, 1994).

(ii) Source of Technology: IJVs play an important role in technology transfer from developed countries to developing countries; particularly, the sophisticated and long-time technology. Many countries have shown a preference for acquiring technology with the least possible foreign ownership. One of the reasons behind IBM's limited overseas expansion during 1960s and 1970s was that it insisted

on using wholly owned subsidiaries (WOSs) strategy for its international investment (Vernon and Wells, 1987).

(iii) Source of Market: Not only IJVs would help host countries to obtain goods and services produced by well known producers all over the world, but also, host countries can produce their products to fit the needs of their own citizens. For example, consumer's goods and food products produced by IJVs in Islamic countries should have met the requirements of Islamic laws regarding the prohibition of eating pork and drinking alcohol.

From another perspective, local firms in developing countries would be able to cope with globalization movement through the production and exportation of world-famous products at a price lower than other countries such as the case of Taiwan, China, and Korea (Vernon, and Wells, 1986). This might explain why many developing countries offers variety of incentives to foreign

investors to establish IJVs or other forms of international investments in their countries. For example, Egypt offers foreign investors free land and free tax for about 10 years in some areas of investment that fit the country's interest.

The Arab countries represent a good market for goods and services produced by most famous producers of the world. Several countries of Arab world are among the high and upper middle level of the World Bank classification of the world countries based on level of income as shown in Table (4). Moreover, the total number of population of Arab countries is about 250 million with GNP per capita over \$15,000 in several countries. This makes Arab countries a very attractive market for International Joint Ventures (Al-Shamaly, 1995).

(iv) Increasing National Income:

International investment helps developing countries as well as Arab countries to create many jobs with good income for a significant number of citizens. Improving the employment situation in developing countries may increase their national income, and improve economic position (Austin, 1990). This would explain the continuous efforts of Egyptian government to convince major world investors to establish ventures in Egypt.

IJVs' motives of host partners should not conflict with the motives of parent partners. For example, developing countries should prepare their labor force to have the skills required for working in foreign ventures in order to be appointed in the jobs offered by international ventures.

Table 4
Distribution of Arab Countries According to Income Classification by World Bank

Income Group	No. of Countries
High Income	3
Upper Middle	4
Lower Middle	9
Low Income	3
Total	22

Source : World Bank (1998)
World Development Indicator, Washington, D.C.

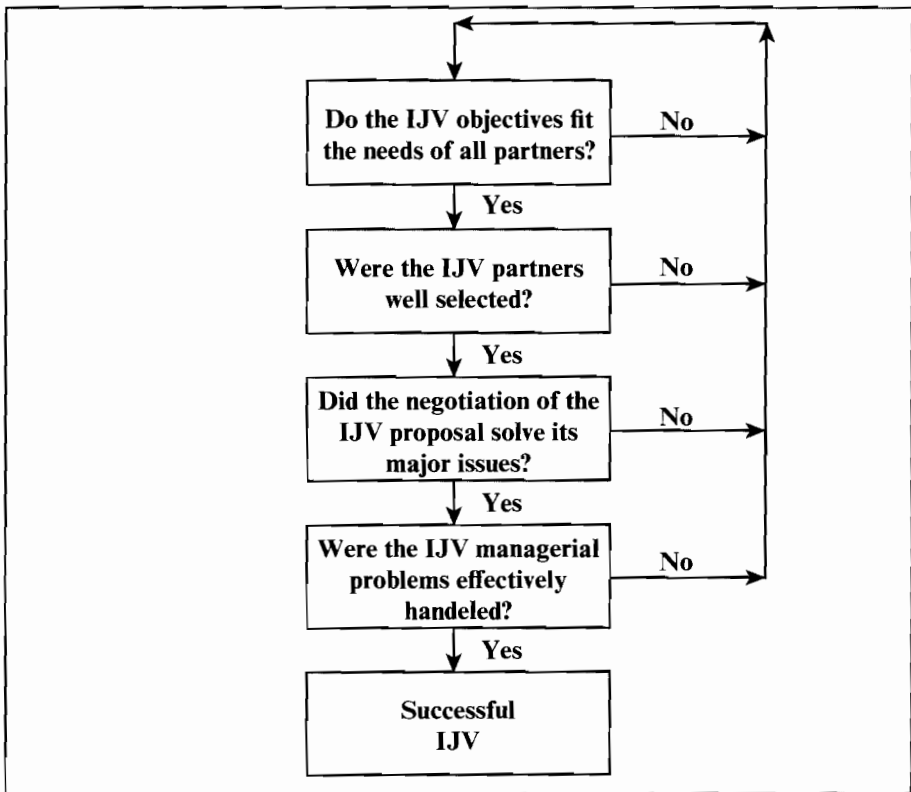
Conceptual Framework for Effective Management of IJVs in Arab Countries

The suggested framework of Zahra and Elhagrasy (1994) can be applied here with respect to the nature of IJVs in Arab countries. The basic steps of this model are shown in Figure (1).

The First Stage: Setting Clear Objectives of the Venture:

As discussed earlier in this paper, IJVs' objectives should be viewed from the perspectives of both foreign and local partner. Despite the fact that, the literature was in favor of the perspective of the foreign partner, there is a need to focus on the IJVs' objectives from the perspectives of both foreign partners and local partners as well.

Figure 1
Conceptual Framework for Effective Management of IJVs in Arab Countries



1. Foreign Partners' Objectives of IJVs:

The literature has addressed many foreign partners objectives of establishing IJVs as summarized below:

i) Achieving economies of scale through reaching the optimal size of production and minimizing the operating costs; ii) Improving the competitive position of the parent corporation in an international markets; and (iii) Dispersing the investment risk by expanding the corporation's products or services to various areas of the world, with different levels of risk. (Lawrence 1997; Kassem & Habib 1989). Arab countries have been trying to move toward friendly business environment in order to help foreign investors disperse their investment risk. There fore IJVs with Arab countries have been growing faster (Field, 1995; Rice & Mahmoud, 1996; Smith, 1994). For example Egypt offers

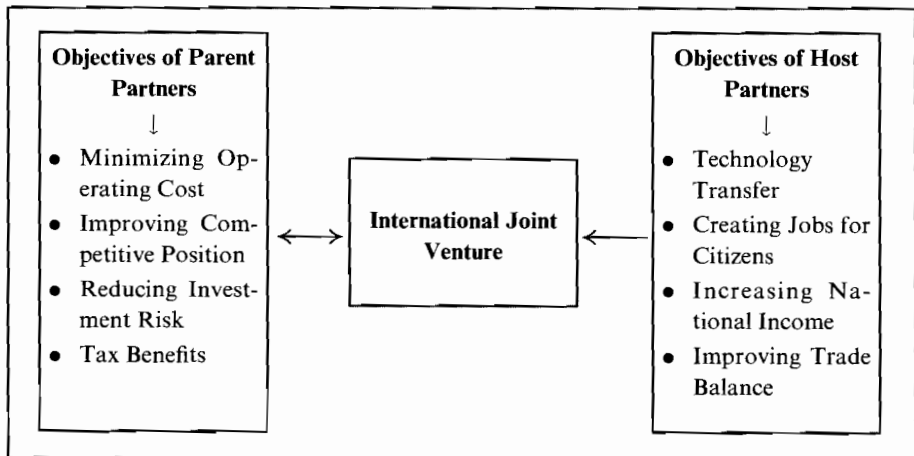
a tax break to foreign investors for a period of five years, and as much as ten years in certain cases.

2. The Host Partners' Objectives of IJVs:

Host partners in general and Arab partners in particular, have several objectives for involving in IJVs. The most common objectives in this matter would be transferring technologies and skills from developed countries to developing countries to enhance their economic development. Arab countries, nowadays, have high interest in having the foreign counterparts transfer their management technology and effective training system as well (Afifi, 1989; Lawrence 1997).

Figure (2) summarizes IJVs' objectives of both parent and host part-

Figure 2
Objectives of IJVs from the perspectives of Both Parent and Local Partners



ners and indicates that both parent and host partners have a variety of objectives. However, as mentioned before Arab countries' objectives of IJVs are centered around the transfer of technology. For example, Egypt and the Fiat Motor Corporation collaborated in the establishment of the Nasser Automotive Corporation to produce Fiat cars to be sold in Egypt. In addition, IJVs between the Gulf countries and major oil and petrochemical corporations aim to transfer technology to these countries.

Most of problems related to the determination of IJVs objectives might due to many causes. As discussed below:

- i) Overemphasis on economic and technological factors by foreign partners. This might lead to undermining some other important political and social interests of host countries. With regard to Arab based IJVs, the political and social interests are crucial. The issues of national sovereignty and social welfare are the most important factors in determining the success of IJVs in Arab countries (Atiyyah, 1993).
- ii) Focusing on IJVs as an isolated option and ignoring other investment alternatives. This is a common problem in Arab countries where the Foreign Direct Invest-

ment (FDI) option might be considered against the national sovereignty of some Arab countries (Atiyyah, 1993).

- iii) Focusing solely on the financial implications of IJVs. However, Arab countries regard the social implications of IJVs before its financial implications. This might explain why many Arab countries are offering many incentives to foreign investors such as tax breaks, cheap land and reduced or free custom duties in order to achieve other national interests (El-Erian and Tareq, 1993b; Moane, 1993).
- iv) Conflict among objectives might occurs between foreign partners and local partner Specially when each party focuses only on his own interests and does not recognize other partner's interests.

In order to deal with the above problems, the following suggestions should be considered by an IJV's senior executives: i) determine the contribution of IJV to the company's overall objectives; ii) consider the IJV's effect on risk, resource pooling, skill transfer, and overcoming trade barriers; and iii) recognize and fit the interests and objectives of the host country as well as parent company (Zahra and Elhagrasy, 1994).

Second Stage : Selecting the Proper Partners

One of the major factors behind the high rate of failure of IJVs in general is the failure to select the proper partners (Barrett 1991; Micinski 1992). This problem is even more important in the case of the Arab countries, particularly the Gulf countries.

Arab managers value long-term relationships and are affected by kinship and family relationships. Expatriate managers must have a strong and powerful local sponsor, partner or representative to speed up the IJVs procedures (Knee, 1998; Lawrence 1997).

There are several possible explanations for this point of view. Corporations might rely on the reputation and public image of their potential partners (Feulner 1992). The cultural differences between the Arab societies and other societies in different parts of the world, as well as the differences in business practices make the issue of selecting the host partner one of the most difficult tasks when starting IJVs in Arab countries.

The literature suggests some guidelines which may be of help when selecting a suitable partner. First, try to fit the IJVs into both partners current and future business philosophy and culture? Second, compare between expected partner's proposal

and other partners' proposal who might be available (Lawrence, 1997). Finally, managers should go beyond the economic concerns associated with an IJV and probe its administrative challenges, and the differences in current expectations and future commitments of the IJVs potential participants. (Zahra & Elhagrasy, 1994).

Third Stage: Effective Negotiation of IJV's Proposals

Negotiation of an IJV proposal in Arab Countries is expected to be very complicated because of different social, political, and legal systems. Arab managers have a peculiar style of negotiation. They do not like to deal with negotiation issues one at a time, but to tackle them all at the same time. Negotiation tends to be a social occasion where greeting and socialization are respected. In conflict resolution, emotions and feelings might be more important than money. Moreover, Arab negotiators are concession seekers (Ali, 1993).

Any attempt to frame the negotiations should focus on several important issues, each of which requires several decisions by the parties involved. An effective negotiation should address the following issues (Killing, 1982) : (i) The scope of the venture. (ii) The legal issues of the

venture. Will it be equity or non-equity based and how participants share the venture profits? (iii) Who controls the venture's management process. (iv) The relationship between the local venture and its parent companies. (v) The expected life span of the venture, the conditions under which the venture will be dissolved, and the procedure to be followed in dissolving the venture.

Obviously, the negotiations will lead the partners to agree on the above six vital issues: the scope, legal form, management type, partner-venture relationship, duration, and procedures for the venture dissolution.

Fourth Stage: Effective Handling of IJV Problems

Some of the common problems related to the management and administration process of IJVs in Arab countries might include: poor rapport among partners; major cultural differences and conflicts; and poor human resource management.

Foreign partners who wish to successfully manage IJVs in Arab countries should give more attention for the following aspects regarding the management process of IJVs:

- i) Arab qualified workers and managers might be available, especially in labor-intensive countries such as Egypt, Lebanon, Syria,

Jordan and Sudan. These workers and managers are well educated, well trained, and able to communicate in English language (Atiyyah, 1993).

- ii) Arab worker have a tendency to resent orders and close supervision specially when it is exercised by an expatriate manager who may symbolize a threat to national sovereignty (Ali, 1993).
- iii) Arab workers prefer consultative style of decision making which consumes time and delays change. Expatriate managers may get frustrated by this style of management (Ali, 1993).
- iv) Arab workers and managers have high needs for socialization and they like to extend their social rituals in life to work settings. It is suggested that expatriate management should be benevolent (Ali, 1993; Atiyyah, 1993).
- v) Some Arab countries require to employ their citizens, especially in some management positions (Ali, 1993).
- vi) Arab entrepreneurs tend to be conservative, favoring small-scale business, including single product and single-market operation (Atiyyah, 1993).

The above suggestions offer ways of improving the performance of IJVs

in Arab countries as well as in other developing countries.

Conclusion

IJVs in Arab countries are subject to more challenges as compared to those in other parts of the world. Thus, this paper has attempted to clarify the concept of IJVs and discuss the major motives for establishing them and discuss the major challenges associated with such ventures. Then, a conceptual framework for effectively manage IJVs in Arab countries was developed. Finally, major issues associated with the process of establishing and managing IJVs in Arab countries have been presented, and some strategic options and solutions to deal with these issues have been developed.

Effective management of IJVs in Arab countries is possible if the foreign partners recognized the interests and needs of Arab countries forming IJVs and send more qualified man-

agers to IJVs in these countries. Those managers should be familiar with the similarities and differences among Arab people and others. They also should recognize that personal relationships, honor, honesty, respect and sensitivity to Arab culture can facilitate the process of IJV management. Better understanding of economic, social, political and legal systems in Arab countries are key issues in establishing successful working business relationships (Xefos, 1995).

Some suggested areas for future research would include the study of IJVs on a regional or country basis in order to offer more specific conclusions about effective management of IJVs in different regions and countries of the world as well as Arab countries. Moreover, studying other forms international investment strategy in Arab countries may help in improving the management process of these international business strategies in Arab countries.

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الملخص

إدارة مشروعات الاستثمار الدولي المشارك في الدول العربية

جلال الدين الهجرسي
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جامعة الكويت

رغم أن مشروعات الاستثمار الدولي المشترك (IJVs) من أكثر استراتيجيات الاستثمار الدولي انتشاراً، إلا أنها تواجه بالكثير من العقبات التي تحد من كفاءتها وترفع معدلات الفشل فيها. لذلك تدعو الحاجة إلى البحث عن أساليب فعالة لإدارة هذه المشروعات. وتهدف هذه الدراسة إلى التعرف على طبيعة وظروف مشروعات الاستثمار الدولي المشترك في الدول العربية ومدى إمكان أدائها بكفاءة بما يحقق الأهداف المنشودة لكل من المستثمر الأجنبي والمستثمر العربي.

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