

CASE STUDY

When joint ventures go wrong

Ten or even five years ago the arguments for strategic alliances and joint ventures as international market entry strategies for companies from developed countries entering a developing country seemed clear and compelling. They seemed particularly appropriate for China and in some cases appeared the only way. The theory was that the Chinese company provided access to cheap labour, local regulatory knowledge and access



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to what ten years ago appeared to be a relatively small, high-risk domestic market. The foreign partner provided capital knowledge, access to international markets and the promise of jobs in China. The attraction was that the market was promising, although at the same time it was geographically vast with very complex, contradictory and often invisible rules. Many of the largest companies in the world pursued collaborations of this type with what were then local Chinese companies in the belief that the arrangement would reduce risk but still allow high levels of control over the marketing strategy in China.

Danone, a French Food multinational, acquired a 51 per cent stake in the Chinese firm Wahaha Beverage in 1996 and believed they had struck an excellent deal. HSBC acquired a 19.9 per cent stake in Bank of Communications, the smallest of the Chinese national banks and were pleased because this was the only bank by law allowed the possibility of a full takeover.

In practice like many other joint ventures and alliances they have failed to deliver the original promise. The list of joint venture failures involves companies from just about every industry sector, including Peugeot (cars), Remy Martin (spirits), Foster's (beer), media (News Corporation) and many telecoms firms.

Chinese companies originally were keen to receive money, technology and business 'know-how', but they now have

global ambitions of their own and do not want to be constrained by a global multinational partner who may want to curtail these ambitions. The joint venture partners frequently argued about the allocations of profits and decisions on investments.

China itself has also changed: having become a member of the World Trade Organisation it had to agree to be more open legally. As the domestic economy grew more rapidly than anyone expected domestic capital was freely available, with the result that there was little need for money from foreign investors. As the Chinese market became one of the most attractive in the world and sentiment in China became more nationalistic and self-reliant the balance of power shifted between the Chinese and foreign partners, and providing access to China for foreign partners was of much less interest.

Whilst Wahaha originally knew little about business and welcomed a partner, it now is aware of all the attractive possibilities and it objects to the fact that it must clear plans with its foreign majority owner before going ahead, especially as Danone is pursuing alternative strategies in China through its joint ventures with other Chinese companies. Even worse, Danone wants full ownership of the firm. Things came to a head when Danone eventually realised that Wahaha was operating a parallel firm, marketing similar products. The companies are involved in an acrimonious public dispute.

HSBC's problems are the result of success. Bank of Communication's assets have grown so much that it has now been included in the Chinese government's list of powerful

banks that it will not allow to be taken over. HSBC has responded by pursuing local incorporation, something only recently allowed, and made investments in the Bank of Shanghai and Ping An, an insurance firm, but these are far less attractive options.

A smaller number of firms that had a better understanding of the situation were able to legally end their joint ventures without too much pain. Unilever shut down more than a dozen joint ventures and Coca-Cola and Starbucks bought out their Chinese partners.

The moral of this experience confirms conventional wisdom about forming joint ventures – to ensure the joint ventures will be successful the most careful planning should focus on how to end them.

QUESTIONS

- 1 What are the factors that a multinational firm should consider when deciding to use a joint venture as a market entry strategy for a developing country? What are the potential benefits and risks in taking this course of action?
- 2 Develop an outline international marketing strategy for a joint venture between Danone, a French multinational food company, and a food producer from a developing country. Explain which companies would be responsible for providing the leadership and decision-making for the various activities detailed.