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A Case Study of Cooperative Activities within International Joint Ventures

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I Introduction

This study is an analysis of the cooperative activities within International Joint Venture Companies. It is made clear according to the results of game theory that regarding the methods of cooperation between any two independent parties there are the motivational approach and the institutional approach. In this research, through the case study of 2 Japanese joint venture companies that have advanced into Europe, we will investigate the dynamics of the motivational approach and the institutional approach.

The case study is based on interviews conducted with Japanese people in the position of President, or some other official position within the joint ventures. Where there was insufficient data, this has been supplemented from other sources. However, in order to prevent the leaking of sensitive data, some restrictions were imposed in relation to the purposes of the research. In accordance with this, the actual company names are all protected. Further, in order to remove undue complications from the analysis, the study was restricted to joint ventures created by the investment of 2 companies.

The subjects of the companies thus researched are Company H, a maker of artificial sweeteners with a foothold in the Netherlands, and Company S, a car electronics company operating in France.

In Company H, cooperation has been established with a motivational approach, and the company enjoys a stable relationship between its partners, and a high level of success. Company S, on the other hand, has established an institutional approach to cooperation, and a relationship between partners is unstable.

II H Company

1 Circumstances Surrounding Establishment

Company H is a joint venture formed by a 50% investment of Company T (Japanese side), who operate in Maastricht, Netherlands, and 50% from Company D (Dutch side). It was established in 1985, with the purpose of the development and sale of aspartame, a high grade artificial sweetener.

Company T are a comprehensive chemical maker, dealing with chemicals, cement, orefine, polymers, organic products, chemical measurement, functional

Table 1 H Company Operating Information

Founded	1985
Location	Maastricht, Netherlands
Capital	310 million Gilder
Parent Companies	T Company (Japan) D Company (Netherlands)
Investment Proportions	Japan Side 50% Netherlands Side 50%
Officers	Japan Side — 6 people (4 full time, 2 part time) Netherlands side — 7 people (all full time)
Employees	186 people
Business	Production and Sale of High Grade Artificial Sweetener Aspartame

materials, optical media, and quartz processing. On the other hand, Company D are a middle-scale fine chemical maker operating out of Amsterdam, Netherlands.

In the beginning of the 1980s, Company T predicted the future growth potential of aspartame, and made plans to increase its business in aspartame to Europe and America. Its main intention strategically was to establish a base in Europe where it could produce aspartame on a test basis with low business risk. They had selected the Netherlands as a preferable market with centrality within Europe, and with a favorable tax system. In the Netherlands, T Company had established a wholly owned subsidiary, TE Company, in 1976, whose major business was the sale of polymers and instruments for chemical measurement, but it didn't have the know-how for the distribution of aspartame. Further, from the point of view of circulation costs, it was necessary to obtain a local supply of raw materials for aspartame, and to secure suppliers. For these reasons, it was decided to form a joint venture company with D Company, which had planned to develop aspartame in a local company with a circulation network base. The information that D Company were looking to produce aspartame had been obtained through information exchanges with trading companies and researchers.

D Company was also intending to pursue the future business prospects of aspartame. However, its real strategic intention was to obtain the advanced quality control technology possessed by T Company through the production of aspartame.

The Joint Venture was to see T Company manufacture, D Company to obtain raw materials and to take care of sales through its distribution networks, and thus was meritorious for both companies equally.

2 Following Establishment

Business results at the time of foundation were by no means high. The high grade artificial sweetener aspartame is a promising amino acid based sweetener which overcomes the faults of cyclamate (Sodium cyclohexylsulfamate) and saccharine, and can thus be used in not only sweets and candy, but also in health foods. However, in Europe in the 1980s, there was very little information about the promise and benefits of aspartame, and it was not in high demand. As such, the Joint Venture fell short of its own expectations, and this severe situation continued for several years.

Even through this time of difficulty, a comparatively good cooperative relationship between the partners could be seen. The good relationship of trust came from the inside. "Many Japanese partners to Joint Ventures who venture into Europe find the opportunistic methods of the European companies confrontational and worrying. For any Japanese company, their sense of reliability towards the European company, at the time of establishment, is generally low. We were the same. But our partner, D Company, was friendly beyond our expectations. There was no suspicion or fear" (from T Company).

One reason why the relationship of trust was so strong between the companies could be due to the high esteem in which each held the other company. D Company was recognized as a high grade chemical maker. T Company was also known, through TE Company, prior to the establishment of the Joint Venture, and it also had a good reputation. Both companies were families businesses who took a lot of pride in their business. They both recognized that taking advantage of their partners with opportunistic activities was evaluated poorly by the market. One of the Japanese partners noted the following:

> "We went into the Joint Venture with the feeling that we weren't merely representatives of 'T Company', but representatives of Japan. If we took any action to deceive or damage our partner, this would become widely known across the market. Such a tendency, when looked at from a long term perspective is hardly desirable".

As can be seen in this comment, looking at the relationship from a long term point of view was an important factor in raising the level of trust. The partners had predicted that the market would grow greatly in the future, and they recognized that by continuing to work together for this goal, with a long term perspective, was in the best interests of both parties. The view to the future, and future desires were very high.

Of course, the relationship wasn't always open and cooperative. At times there were dangerous undercurrents. However, communication on an informal level was able to alleviate these problems. Also, the fact that both parties had officers that took part in the administration of the company was a major factor to build trust. Amongst international Joint Ventures, it is not uncommon for one of the partners to provide the administration, and another party to provide the lower level workers. Where officers are not drawn from both companies, communication with the other party tends to become more difficult, and often deteriorates to the level of conversations with officers dispatched from the parent company about once a year. When this occurs, communication is only conducted formally, and there are no opportunities for communication on an informal level.

In H Company, where officers resided permanently at the company, communication on an informal level was possible, and this led to rich relationships and a trusting relationship which also led to great business results. The Japanese partner had the following to say:

> "Trust is of vital importance in a Joint Venture. We try to get to know each other as well as possible. Sometimes we need to use body language too. We need to have an open relationship, because if the partners are not able to be open there is no chance of the Joint Venture being successful. We placed a great deal of importance on the Japanese way of business, in other words, placing great importance on informal human relationships. Open and friendly methods are really important."

Over many years, the partners have come to develop efficient and common business methods. The partners worked together in a constructive way, always willing to listen to other proposals. They attempted to convince each other through discussion. This can also been seen in the following comment:

> "We experienced several ups and downs. However, after a number of years, we came to form personal relationships through private meetings. These informal meetings were a platform for us to learn how best to proceed with certain issues. When the communication is only about how to increase profit or how to solve a particular problem, or when it is only carried out twice a year at formal meetings, it is a totally different thing. Our good relationship can be seen in our less formal contracts. If we understand each other well, it is not necessary to conclude detailed contracts on every matter, or to continuously update them".

Cooperative relationships can never be built on threats. According to the Joint Venture contract at the time of establishment, by 2000 it was decided that 1) neither company would establish its own independent production plant, and 2) the distribution channels of D Company would be utilized for procurement of materials and for sales, etc. Therefore, it was not possible to take any action such as developing an independent plant, or entering into a cooperative relationship with another company that would negatively affect the relationship of the Joint Venture, or which would reduce its importance to both parties. Also, even if the contract were broken, since the companies had their eye on the aspartame market from the time of establishment of the Joint Venture, and since there were no other leading companies that could cover the supply, production and sales of the product, it was impossible to take any negative action in any case.

Business results for the Joint Venture increased greatly from the 1990s. Once the validity of aspartame for health foods was confirmed, the market grew strongly. Although there were new entrants into the market, the capacity for profits increased to a high level due to the expansion of the market. As a result, the 50 million Gilder of capital at the foundation in 1987 has been increased by about 6 times to 310 million Gilder as of 2000.

At present, the aspartame market is experiencing fierce competition, and the market is nearing saturation. For the partners, the importance of the Joint Venture has also decreased. For T Company, they have been able to accomplish their strategic desire to establish a production base in Europe. At the same time, D Company have been able to satisfy their strategic aim of obtaining high quality control technical skills. The Joint Venture is no longer positioned in terms of a management strategy, but as a profit center, and is becoming increasingly independent from the parent companies.

III S Company

1 Circumstances Surrounding Establishment

S Company is a Joint Venture based in Paris, France, formed with the investment of 49% from J Company (of Japan), and 51% from F Company (of France). It was established in 1990 for the production and sale of car audio and car communication devices.

J Company is a company specializing in the production of car electronics, and produces and sells care audio and car communication devices, and other care related electronics parts. At the same time, F Company is a car electronics maker based in France.

J Company began exporting car audio products to the European market from the latter half of the 1970s. JE Company was established in 1986 to handle the sales of this business. In the latter half of the 1980s, it became necessary to also have a production facility to service the total European market. However, due to the heavy costs and time required to set up an independent production facility, it was desirable to form a Joint Venture with F Company, who operated in the same industry.

At the same time, F Company was lagging behind in the sudden progress into the digital car electronics during the 1980s, and they were in need of digital technology. A Joint Venture with J Company, a world leader in digital technology was seen as indispensable to catching up with this technology.

S Company was to jointly develop and produce products based on J Company's products, which were localized to the specific local market. The products were to be sold under the F Company brand name in France, and under each individual brand name in the other markets. Sales were to be carried out by means of J Company and F Company's proprietary distribution networks. In the case of France these routes were different, however in the case of the other European markets they were the same. As one of the reasons for the sale exclusively under the F Company brand in France, the Japanese side noted the "strength of the French identity".

2 Following Establishment

Results at the time of Establishment went according to plan. Losses were incurred for the first two years after establishment, but from the third year it was

Table 2 S Company Operating Information

Founded	1990
Location	Paris, France
Capital	8.6 million Francs
Parent Companies	J Company (Japan) F Company (France)
Investment Proportions	Japan Side 49% France Side 51%
Officers	Japan Side — 5 people (2 full time, 3 part time) France side — 5 people (4 full time, 1 part time)
Employees	145 people
Business	Car Media, Car Electronics Production and Sales

able to turn a profit, along with the great growth in the market. This was favorable for J Company. The European market was especially favorable towards the digital original sound reproduction technologies and high precision car navigation systems which were also held in high regard in the Japanese market.

The partners enjoyed good relationships at the time of establishment. The level of their trust can be seen from the following comment:

> "We began with a contract based on a 49% investment from the Japanese side, and a 51% investment from the French side. From the Japanese side, we wanted to take as much of the initiative as possible, and since we wanted to hurry into the European market we gave the French side the majority. However, since the balance of officers was basically even, and the level of investment was almost the same, there was no attempt to decide things on the basis who had invested the most. Rather, many things were decided through the management ability of our partner, which was necessary for us. Also, our partner found the high quality technical skills which we offered highly desirable. We were able, in the early days, to take a lot of initiative in terms of management. We felt that it was important to not control the other partner by means of the investment percentages, but that it was important to have other strengths" (comment from the Japanese side).

At the time of establishment, both partners showed a high commitment, paid losses equally, and held many discussions in order to cooperate most fully. Normally, losses are paid according to the respective capital investments. However, since the distribution costs were paid by the French side, they ended up paying more than their fair share of the burdens. It can be seen in this way that there was a very high relationship of trust between the two parties at the time of establishment.

However, the mutually satisfactory relationship began to change with F Company's building of a plant at Lyon. F Company was desirous to produce its own products there. However, because they were unable to develop their own products, they had had no choice other than to form the Joint Venture relationship with J Company. F Company then, after obtaining the high grade production technologies in a short time, purchased important patents from other related companies and began the development of their own products, and established a factory for this purpose.

With the establishment of the new factory, the relevance of S Company to F Company was quickly lost. For this reason, F Company began, over time, to stop being so cooperative with the Joint Venture company. They began to show less interest in the internal management and administrative strategies. In fact, they began to take on the role of simply a shareholder, and began to shift their attention more to the profits that the Joint Venture was making. The Japan side had the following to say about their partner, several years after establishment:

> "F Company didn't consult us in any way regarding the establishment of their new factory. This is a breach of trust, and as such has brought a great deal of bad faith to the relationship. Also, since F Company has had their own production unit in Lyon, they have had a lot more interest in this than in the Joint Venture. Now, our company is seen as nothing other than a profit center for them. Our know-how is being used to run the new plant. To them, the Joint Venture no longer has any meaning at all".

The products which F Company produced at their new plant began to compete in the European market with J Company's product. Although the sales company JE, was seeing increased sales, the rate of return began to fall. J Company brought these effects to the attention of F Company, and sought a re-alignment of sales territory through meetings with F Company, but F Company argued that "That was J Company's problem, and not F Company's problem. In fact, the Joint Venture Company's profits are contributed to by our sales", and the problems were not resolved.

J Company is satisfied with the business results of the Joint Venture, and, including the problems with the sale of Joint Venture products through the Japanese side's sales company JE, they have taken the stance that there needs to be a re-think regarding the management of the Joint Venture. Regarding this point, F Company considers that the problems are an individual problem, and not related to the French side of the Joint Venture, or their own sales network. With regard to the Japanese side's comment that "we should have made a detailed contract with regard to sales territory and the exchange of technical skills", we can see that prior negotiations and a detailed contract should have been concluded.

"The expectations of both companies were different from the beginning. For us, we wanted nothing more than to be able to enter the European market quickly. Because we had no way of knowing how the market was going to change with the unification of the European Union. Looking back, it seems as though F Company were more interested in obtaining our technical expertise than in making the Joint Venture a success. However, we didn't recognize this at the time. Since F Company were willing to take on the extra costs, we had peace of mind regarding the deal" (Comment from Japanese side). As we can see from this kind of comment, both companies were not dedicated in making the Joint Venture a success. The Japanese side was simply looking for a quick foot into the European market. To at least some degree, they had not really thought in detail about the management of the Joint Venture itself. At the same time, the France side can also be seen to have taken advantage of the opportunity. At the very least, the Japan side feels unable to trust their French counterparts.

At present, from comments like: "most of our meetings focus on F Company's new factory, and the interests of the Japan side, and there is very little time for discussion about future plans" (Comment from the Japanese side), we can see that opportunities for the two parties to show a high degree of interest in the future of the company have all but disappeared.

For J Company, making the Joint Venture a wholly owned subsidiary would be the best way to reduce current troubles, but they are currently unable to secure the necessary capital for a complete buyout. Thus there is no option other than to continue the Joint Venture as is, and to continue to listen to the requirements of F Company.

IV Conclusions

In this research we have investigated the dynamics between the motivational and institutional approaches, through the case study of 2 Japanese International Joint Venture Companies (H Company and S Company). Accordingly, the following conclusions can be drawn from this case study.

Both of the case studies presented began from motivational approaches. After that, H Company was able to take this motivation to a high level, whereas S Company's motivation became very low. As a result, H Company was able to achieve good business results and a strong trusting relationship between the partners. On the other hand, S Company's Japanese side began to feel uneasy about their relationship, and to seek a dissolution of the relationship altogether.

In the case of H Company, communication on an informal level was carried out from the time of establishment, and is still continuing today. In the case of S Company, communication has continued since the time of establishment, but only in formal ways.

For H Company, informal communication has brought about a more open flow of information, and there was a low chance for the partners to take advantage of each other opportunistically. However, in S Company, from the time of establishment F Company's opportunism was evident. The Japanese side had a constant feeling that they were being taken advantage of.

As a result of the informal communicative activities of H Company, the two parties were able to get to know each other well, and to see a deep relationship into the future. For S Company, however, due to the establishment of F Company's new factory, it is difficult to see a future working together as partners because of the divisions that have been found.

H Company was formed by two partners who were family business who enjoyed a great deal of attention in their markets, and thus were a well-related partnership from the beginning. Also, due to their informal communication from the time of establishment onward, their relationships of trust have only been strengthened further. At S Company there was a relative level of trust at the establishment of the venture. But following F Company's establishment of a factory without consultation with their Japanese counterpart, trust has been broken, and the Japanese side at least finds themselves unable to totally trust their partner.

In spite of the fact that both of them were working with their partners for the first time, H Company were able to maintain a relationship of trust with their partner, whereas S Company have a low level of trust in their partner.

As a reason for the differing cooperative relationships between the two companies, we can suggest factors such as the partners being distinguished family enterprises, and having high recognition in the market. For companies with a high recognition, opportunistic tendencies would be well known. Since opportunism is an impolite action, it results in a lower trust among partners, and a bad reputation. Therefore, it is less likely that large companies will take such opportunistic actions. For example, in the North American Joint Venture between GM and Toyota, NUMMI, one of the reasons for their good cooperative relationship from the outset can be seen as because of the fact that both companies are world class companies.

In these two cases, both companies had a very high awareness of the other. For this reason, forces that held them together were strong, and there was a general recognition that betraying their partner would have severe consequences on their own benefits. In the case of H Company, before the relationship began 1) neither company had independent production facilities, and 2) the partners had agreed before hand to utilize D Company's sales network. For this reason, both partners were able to recognize the significance of the other party, and both recognized that without their partner the venture would not be able to be a success. In the case of S Company, they had not concluded any such agreements, as in the case of H Company. Therefore, for F Company, who already had a factory with similar functionality, the Joint Venture relationship was not considered as vital. J Company's influence over F Company thus became nonexistent. F Company held the power, and at present the cooperative relationship between the parties is becoming more and more institutional in nature. J Company's dissatisfaction with F Company has become very high.

The above results show that in order for a stable international Joint Venture to be successful, the institutional approach to cooperation is not the most important factor.

The major commonality between H Company and S Company was the fact that motivational cooperation, and not institutional cooperation played a greater role in the security of the relationships with their partners. H Company has developed a trusting relationship with their partner from the establishment of the Joint Venture, until the present day. Reasons for this success can be seen in their active communication, high level of trust, and high interest in a mutual future, as well as the continued reliance on motivational cooperation. Within S Company we are not able to see a secure partner relationship. The reason for this can be said to be the opportunistic activities of F Company, which was contrary to the motive-based cooperation. Further, through the establishment of their new factory, J Company were exploited by F Company, and placed in a position where they have no choice but to listen to their demands.

From the above results, if we were to decide on the prefer ability of the motive and institutional approaches, we would have to say that motivational cooperation is more valid. This corresponds with the related empirical research conducted by Ushimaru (2004). Moreover, the results of this case study show that in order to be successful in motivational cooperation, relationships of trust built upon active communication cannot be discounted, again supported by much research that tells of the importance of relationships of trust.

In the future, through many more case studies, it will be important to further analyze the factors which promote motivational cooperation.

〈References〉

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