Managerial Motivations for UK-Czech Joint Ventures*

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The paper examines the motives for the choice of the JV instead of other forms of investment (e.g. greenfield or licensing) in British investment in the Czech Republic. It is noted that despite popular belief, the level of uptake of JVs in the Czech Republic is low in comparison with greenfield investments. The paper identifies organisational motives (resource seeking, synergies, economic and historic), partner related motives and exogenous motives. The role of the partner in the choice of the entry mode is emphasised. Managerial implications: despite theoretical benefits of JVs to investor, these might not be accrued in practice due to the quality of the resource acquired and difficulties in management.

In dieser Arbeit werden die Motive betrachtet, die zu einer bevorzugten Investition britischer Unternehmen in tschechische Joint Ventures im Vergleich zu anderen Investitionsformen führen. Im Artikel werden organisatorische Motive (Ressourcensuche, Synergien, ökonomische und historische Motive), partnerrelevante und exogene Motive identifiziert. Die Rolle des Partners bei der Wahl des Zusammenarbeitsmodus wird hervorgehoben. Organisatorische Relevanz: trotz der theoretischen Vorteile von Joint Ventures können diese in der Praxis oft nicht verwirklicht werden, weil die Qualität der erworbenen Ressource und Schwierigkeiten in der Organisation dagegen wirken.

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* Manuscript received: 7.4.1999, revised: 15.11. 1999, accepted:6.12.1999;

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Introduction

The scope and patterns of foreign direct investment (FDI) in East Central Europe (ECE) post-1989 have attracted the attentions of governments and academics alike. The focus of much of the work has been on market-orientation of FDI and the benefits that FDI can confer on the economies of ECE in relation to the transition to a free-market economy (Collins/Rodrik (1991); Welch (1993); NERA, 1991; Genco et al. 1993; Deloitte Touche, 1992; Wang, 1993; Gatling, 1993; Lyles/Baird, 1994; Rojec/Svetlici 1993; Szanyi, 1994; Arthur Anderson, 1994; Meyer, 1995; Ali & Mirza, 1996; Konings/Janssens, 1996; Pye, 1998). FDI can be distinguished from portfolio investment as it requires that a 'package' of assets such as capital, technology, management skills are invested outside the home country, but inside the investing country (Dunning, 1993).

It is popularly believed that the international joint venture has been in the main form of FDI in ECE. Both pre- and post-1989, the JV has been associated with Western investment in ECE. Before, it was regarded as one of the few mechanisms available to Western firms wishing to access the COMECON markets (Young et al. 1989, Artisien, 1983); whereas after, it has been credited as being a vehicle which can confer benefits on both Eastern and Western parties. Although there are high levels of risk, there are also advantages in forming JVs with Eastern firms. Florescu/Scibor-Rylski (1993) noted that there should be a good match between the needs of the Eastern and Western firms. The West can provide marketing systems, financial management, forecasting, planning, technology, information systems, capital, know-how, human resources and incentives; while the East is able to contribute land, buildings and equipment, distribution networks, skills, low costs, beneficial wage rates, tax relief, political connections and neighbouring markets.

It is perhaps surprising then that JVs *per se* have not attracted more attention from researchers than one might have envisaged. Of late a handful of researchers have investigated JVs in detail; for example (Fahy et al., 1998; Lyles/ Baird, 1994; Cyr, 1997; Lyles/Salk, 1995; Brouthers/Bamossy, 1998).

Rather than attempt to address JVs across the whole region, the present study focuses on a single country market, the Czech Republic. A study extending over more than one country would encompass firms from very different historical, legislative and environmental background. Such heterogeneity would reduce comparability between cases. The specific focus of the research is to explain why managers of British firms chose the JV structure as a vehicle for investment in the Czech Republic, **rather than other forms of investment**. Other methods of investing in the country are greenfield investments, acquisitions, licensing or franchising and many of the benefits of collaboration with a local firm could be achieved through these alternative investment modes. For example, resource-seeking activities could be achieved through acquisition. Access to local market knowledge requirements could be satisfied through market agents. The research question is thus: 'In the specific context of British investment in the Czech Republic in the early years of transition, why was the JV selected rather than other investment modes?' The approach adopted here is to investigate the motives as perceived and understood by the *key managers* (hence managerial motivations).

Theoretical perspectives JVs

The international JV refers to a range of co-operative agreements between two or more firms which operate across a national boundary. It is a type of foreign direct investment There are a number of definitions of JVs, a strict one being the equity JV where two firms combine resources to create a new corporate entity over which both firms exert control.

However, the formation of a 'new' entity is not always necessary for a JV. The business environment emerging Central and Eastern Europe has spawned a new set of relationships between foreign and local firms which have challenged and expanded existing definitions (see Davies et al. 1994; Forescu/Scibor-Rylski, 1993). For example, in CEE the term JV is often used to include partial-acquisitions where the original owners retain a minority share in their business and is renamed the joint venture.

Notwithstanding, it is helpful to put forward some distinguishing features of JVs, these being:

- shared inputs such as capital, technology, know-how and patents
- shared outputs such as profits, losses and R&D results
- sharing of control over decision making
- capacity and ability to participate in governance (though both partners may not actively participate in everyday management)common commercial objective

Theories of JVs

A distinction is in the literature between 'theories' for JVs and 'motives' for JVs. Kogut (1988) maintains that JVs can be explained by three theoretical approaches: transaction costs, strategic positioning/behaviour and organisational learning.

The transaction cost approach attempts to justify the existence of multinational companies in terms of imperfect market conditions. The theory argues that 'firms choose how to transact according to the criterion of minimising the sum of production and transaction costs' (Kogut, 1988). Beamish/Banks (1987) have applied this theory to JVs suggesting the JVs may overcome the transactional problems of opportunism, bounded rationality and small number of market agents. They argue that 'under particular arrangements, the potential threats posed (...) can be reduced to a point where JVs become more efficient means of dealing with environmental uncertainty and maximising the profit potential of the multi-national company's firm specific assets, even in the face of bounded rationality.

An alternative explanation of joint venture formation can be seen in terms of **strategic behaviour** where firms transact by the mode which maximises profits through improving a firm's competitive position vis-à-vis rivals" (Kogut, 1988). Devlin/Bleackly (1988) argue that "strategic alliances" (of which joint ventures are a subset) take place in the context of a company's long term strategic plan to improve or dramatically change a company's competitive position. Hill et al. (1990) suggest that global strategic considerations affect the choice of the structure or the mode of entry. They argue that the firm's choice of entry mode depends on the strategic relationship it envisages between operations in different countries.

The **transfer of knowledge and the learning process** are important motives in joint venture formation. Knowledge transferred can be technology- or, skills-based or acquaintance with local markets or regulations. Various authors have noted however that joint ventures based on accessing the capabilities of partners (whether it be in terms of production techniques or market knowledge) may erode over time once the knowledge desired is acquired. This may account for why joint ventures are dismantled or the JV is acquired by one or other of the original partners. This approach is similar to the ***resource based view of the firm (RBV)*** perspective which suggests that JVs may represent the optimal mode of developing the firm's resource base as it allows firms to gain knowledge without disturbing the balance of social relationships in which knowledge is embedded. Strategies for a firm's use of a JV are (i) to gain critical mass in resources; (ii) to acquire capabilities through learning; (iii) to generate new proprietary capabilities (Badarrocco, 1991).

Motives for JVs

In addition to the theoretical contributions to knowledge outlined above, authors have more generally listed categories of motives and uses for JVs. Typical is Contractor/Lorange's (1988) identification of seven overlapping objectives. These are (i) risk reduction; (ii) economies of scale or rationalisation of production; (iii) technology exchanges; (iv) co-opting or blocking competition; (v) overcoming government-mandated trade or investment barriers; (vi) facilitating initial international expansion of inexperience firms; and (vii) vertical quasi-integration advantages of linking the complementary contributions of the partners in the value chain. Walmsley (1982) suggests that one of the prime advantages of the JV is its clarity of purpose which forces attention on the dominant business purpose. The JV allows parties to clearly state their objectives during the negotiations and the JV can adopt its own style. Unlike a merger or acquisition, there need not be any 'winners' or 'losers'. Where the JV is isolated from existing structures of the participants, both sides are able to measure the activity generated. A further advantage of the JV is its flexibility as the structure can be moulded to suit a variety of needs.

It is argued that simply listing ‘motives’, however relevant these may be to firms, does not provide a satisfactory theoretical base for JVs (Glaister/Buckley, 1996). Such an approach does not address the fundamental question of why JVs are preferred to alternative forms of governance: be it across the market, or through a hierarchy. Table 1 show one interpretation of the way that motives and theory might be mapped (Glaister/Buckley, 1996).

Table 1: Theoretical explanation and strategic motive

Mainstream Economics – Implied motives Risk sharing Product rationalisation and economies of scale Vertical links (Shaping competition)
Transaction cost explanations – Implied motives Risk sharing Transfer of technology / exchange patents Vertical links
Resource dependency - Implied motives Vertical links (Risk sharing)
Organisational learning - Implied motives Transfer of technology / exchange patents Facilitate international expansion
Strategic positioning - Implied motives Shaping competition Facilitate international expansion Consolidate market position

Source: Glaister/Buckley (1996, p308)

Foreign Investment in the Czech Republic

The majority of investment in the countries of ECE has been concentrated in the Czech Republic, Hungary and Poland, having received US$5008m, US$9934 and US$7389 respectively by 1995. By 1998, the Czech Republic had received US$9574.3 million.

Unlike other countries in the region, the centre-right government of Vaclav Klaus did not offer any incentives to foreign investors on ideological grounds. However, after the currency crisis in 1996 and lobbying from agencies promoting FDI, the Czech cabinet introduced, in May 1998, a package of incentives for domestic and foreign investors willing to invest at least USD25 mil. into high-tech production in the Czech Republic. The legislation was amended in December 1998 to allow smaller investments to qualify for the investment incentives. The minimum required investment of US$ 25 million was cut to US$ 10 million. At the same time, the maximum amount of job-creation grants was raised from CZK 80,000 (approx. US$ 2,500) to CZK 100,000 (US$ 3,300) per job created.

Trends in British investment in the Czech Republic are noteworthy. British investment in the country was very slow in the early years of transition, the British contribution not registering separately in the official statistics. British investment accounted for only 1.27% of the total stock of FDI in June 1994, although by June 1995, this had risen to 5.36 and by 1997, 15.1%. However, in Quarter 3 1998, UK investment accounted for 25.8% of investment in the country (CzechInvest, 1998). The reasons for such an increase are not clear. Possible explanations might include (i) the active promotion of FDI in the Czech Republic by the UK Department of Trade and Industry through its "Open for Business Central Europe" programme (ii) the introduction of investment incentives by the Czech government and (iii) the change in perception of risk of this country in the eyes of British managers.

Despite the suggestion that the JV is the most popular forms of FDI in the Czech Republic, there is little evidence to fully support this claim. Of the Top Ten foreign investors, only one matches the definition of an equity JV (two 'parents' create a third entity). The remainder are either greenfield investments or partial acquisitions whereby the foreign investor purchases either a majority or minority stake in a local firm. Additionally, of the 55 'major projects' quoted on the web-site of CzechInvest, 34 firms undertook greenfield investments, 8 firms were engaged in technical co-operation and only 3 investments took the form of a JV.

Methodology

The research was undertaken among British companies which had established a JV with a Czech partner between 1991 and 1995. Hence, these companies can be considered to be early investors in the region. This paper forms part of a wider research project addressed the formation-process involved in the creation of UK-Czech JVs. A multiple case study strategy was adopted as it encourages the use of mixed-methods. Data were collected using semi-structured interviews, a questionnaire and company documentation. The main factors which influenced the choice of the case study strategy were:

- the complex nature of the information required from the companies
- the need for flexibility in allowing respondents to place emphasis on aspects which he/she deemed to be of importance and relevance, and less emphasis on those aspects which held little relevance

Table 2: Companies and industrial sector

Group	Code	Sector
Manufacturing firms	Man1	Automotive Components
	Man2	Automotive Components
	Man3	Castings
	Man4	Quarrying
	Man5	Automotive Components
Services	S1	Financial Services
	S2	Architects
	S3	Insurance
	S4	Consumer Products
Project Specific	P1	Construction
	P2	Construction
Marketing	Mk1	Software
	Mk2	Electronics
	Mk3	Software
	Mk4	Building materials
	Mk5	Building materials

- the population of British firms engaged in JVs, as identified , was sufficiently small to overcome some of the practical disadvantages such as cost of travel and data-overload.
- evidence of growing 'questionnaire fatigue' amongst the Western business community in CEE

An earlier survey in the research project identified the population of UK-Czech JVs (Davies et al. 1994). 19 *bone fide* JVs were identified of which 16 (84%) agreed to participate in the research. It was noted earlier that the British have been reluctant to invest in the Czech Republic in the first half of the decade in comparison with other countries.

The data were collected during the summer of 1995 in the UK and Czech Republic with British managers who were directly involved with the set-up of the JV. The sample covered a number of different industries as shown in Table 2.

The interview data were transcribed verbatim and analysed with the assistance of the NUD.IST software.

Findings

Motives of the choice of the JV factors are separated into organisational, partner related and exogenous factors. Organisational drivers to establishing a JV are those directly associated with the implementation of the investing firm's strategy. Examples are to gain resources not possessed by the firm, reduction of cost or to develop synergies with the partner company. Partner related motives are those which do not eminate directly from the implementation of the firm's strategy, but recognise the role of the JV partner in the choice of structure. Exogenous motives are those factors external to the firm such as political, industrial or social factors in the Czech Republic. Table 3 shows the profile of motives in each case.

Organisational Drivers

Organisational drivers, which refer to motives relating to the implementation of a firm's strategy were divided into five categories: Resource Seeking, Synergies, Economic, Competitive and Historic factors.

Resource / Asset Seeking

The JV is a means of acquiring or gaining access to another firm's resources. The skills and resources that the investing firm may wish to access are: physical assets, staff, knowledge or commercial relationships.

Table 3: Case profile of motives

Code		Industry	Phys Assets	Staff & Skills	Local	Commercial	Synergies	Cost	Risk	Control	Local supplier	Historic	Partner	Motivate staff	Isolate	Indemnities	External
Man 1	R	Auto components	L,P,E	Eng.		✓			<acqui	Thr' mngt		✓	✓		✓		
Man 2	R	Auto components	L,P,E	Eng.		✓				Thr' Mangt			✓		✓		
Man 3	R	Castings	L,P,E	Eng.				<acqu		>arms					✓	✓	
Man 4	R	Quarrying	Quarry			✓		<capital	<acqui	allowed full control							
Man 5	R	Auto components	L,P,E	Eng.													
S1	U	Financial services			✓							✓					✓
S2	U	Architect			✓												
s3	R	Insurance		Specialist	✓		✓										
s4	U	Consumer products			✓												
p1	U	Construction	L		✓		✓		<greenfield			✓					
p2	U	Construction	L	Specialist			✓										
Mktg 1	R	Software		IT skills				No additional costs	✓				✓	✓	✓		
Mktg 2	R	Electronics	Premises	Technical	✓					> arms		✓					
Mktg 3	U	Software		IT skills		✓							✓				
Mktg 4	U	Building materials	Premises		✓	✓				>over tech							
Mktg 5	R	Building materials					✓			> over tech							

L,P,E: Land, plant and equipment; R: JV partner in related in activity; L: Land; U: JV partner in unrelated activity; ✔ :Present as a motive

Physical assets

Physical assets sought by the British firms in the study include land, plant, equipment and premises. The importance of physical assets varied across the four groups of companies. For manufacturing firms the JV was predominantly used as mechanism for gaining access to, or acquiring, land, plant and equipment. It was reported by these companies however that the manufacturing capacity provided by the Czech partner was not 'ideal' for the British companies and required inputs of technology, modernisation and restructuring of premises, workplace and practices. Integral to manufacturing capacity was access to, or acquisition of labour. Unemployment levels in the Czech Republic in the early years of transition were around the 3% mark. A greenfield investment may not have been feasible for the manufacturers since the labour market was rigid and immobile. On the other hand, although the JV speeded entry into the market in the short term, it did not necessarily facilitate activities in the medium term due to the costs (both financial and time) of restructuring.

For the most part, the type of physical resources sought by the Service firms were premises from which to operate. For the two Specific Project firms securing access to land for development constituted the very logic of the JV: without that land, the JV would not exist.

In the case of the Marketing firms, the JV partners did provide premises, but these were less fundamental to the logic of the JV than for the manufacturing JVs. For example, the JV created by Mk2 inherited premises from the Czech parent but these were found to be ill-suited to the activities of the JV and the company subsequently sought a new site.

Staff and skills

Staff and skills were also key resources sought by the British investors. In a number of the Marketing JVs, the Czech partner provided staff with specialised technical know-how or expertise (for example, in areas such as I.T. applications skills). Czech personnel were used to adapt Western technology to local needs, providing solutions for Czech customers. This was also evident in the Service industry: S3 for example was able to provide the JV with staff with experience in the Insurance industry. Additionally, the Manufacturing companies reported that one of the attractions of the Czech Republic was its engineering excellence (although it might be argued that this is a national characteristic, rather than necessarily a characteristic of the partner company).

General knowledge of culture and business environment

Tapping into local market and cultural knowledge was one of the main reasons that the British firms chose the JV particularly as investors perceived high levels of uncertainty about the cultural and political environment in the transition economies. One of the foremost benefits provided by a local partner was the knowledge it could provide about that environment.

Of particular importance to the British firms was the need for assistance in navigation through the maze of bureaucracy. The Czechs are traditionally a highly bureaucratic people and the legacy of communism left a complex set of procedures for operating a business. Obtaining planning permission in Prague for example required some 37 permits and without local assistance, functioning as a business was almost impossible. The British companies reported that local partners needed to both know the system but also be able to operate within that system. This inevitably meant having good 'connections' with officials and bureaucrats.

Need for knowledge of the local bureaucracy was both short and long term in nature. In the short term, relevant knowledge was required for the initial start-up of business activities: registration of the business, renting of premises etc. This was the case with S2 who was offered a contract at short notice and required the assistance of a local to establish an operating firm. In other cases however, the survival of the JV required that regular contact be maintained with local officials. This can be seen in the construction industry where P1, whose JV is with the local City Council, referred to the difficulty of accomplishing anything without the goodwill, active involvement, and blessing of the latter.

An extension of general cultural knowledge is specific knowledge about a particular market. Given the proximity of the State and industry in the communist regime, in the early 1990s commercial relationships were still closely equated with bureaucratic relationships. Knowledge of 'who is who' and 'who knows who' was particularly important. A 'sound' bureaucrat in a Ministry could greatly enhance one's business opportunities.

The need for local knowledge was much stronger in the Services and Marketing groups than was the case for the Manufacturing companies.

Commercial relationships / Market access needs

In some cases, association with a particular Czech company gave the British investors distribution networks or, more often, existing commercial relationships. In the automotive components industry, these existing commercial relationships were key factors in the decision to use a partner.

Three firms used their JV partner to provide access to markets further East in the other CEE countries and Russia, although at times these hopes were dashed: Mf3 for example believed initially that its partner would give it access to the

Russian markets, but this in reality, did not materialise due to the collapse of the Russian defence industry.

Synergies

Another reason that investors chose to work with a partner was to develop synergies between the firms. Synergies occur where the benefits of collaboration outweigh what each partner could achieve individually. An example of such a synergistic effect can be seen in the case of P2. The JV partner owned land and had vital contacts in the local bureaucracy. P2 on the other hand, had development and design expertise. Individually these assets and competencies were of limited value: without planning permission, the value of the land was not high. Through collaboration, synergistic effects can be seen such that the value of the land is higher when the resources are combined rather than when they are not.

In fact, the complementarity of requirements between the Czech and British firms was integral to the logic of a number of the JVs. In general, the British furnished management skills, marketing knowledge and technology, whereas the Czech firm contributed land, labour, local marketing knowledge and management potential

It is a fine line that distinguishes the 'need for resources' categories outlined above and creation of synergies between firms. Creating synergies suggests that the firm could not develop the advantages alone, or at least not without substantial costs. The potential of developing synergies between Czech and British firms is high as, in most cases, each firm is able to make a specific contribution to the JV, whether it be in terms of assets, management skills or market knowledge which the other firm could not provide. Knowledge of a particular economic environment may be of little use on its own, but is invaluable when combined with technological skills.

Economic

The third category in the organisational motives for JVs is 'economic'. The firms approached the costs of doing business differently and each firm had its own cost, risk and control reward model. In all cases, cost was a significant consideration in the JV decision. However, from the sample, it is clear that companies had different perceptions of these issues. Three separate issues are considered: cost, risk and control.

Cost

The 'cost' of the investment was perceived differently by firms. Some firms considered the JV to be an increase in cost from a trading relationship. Mk1 only agreed to increase its participation (from using an agent to becoming a JV) because the increase did not incur additional costs. On the other hand, Mf2 chose not to set up a greenfield operation as it was costlier than a JV and Mf3 selected the JV option, because it was not regarded as expensive at the time.

Risk

The issue of risk is multi-dimensional: the firms' perceptions of the risk of a JV were influenced by the alternatives available. JVs were perceived to be lower risk options compared with the wholly owned subsidiary to some firms. Mf3 rejected the wholly-owned option considering it too big a risk and Mf4 was also unwilling to fully acquire its partner because it was unsure of the political and economic conditions in the Czech Republic. Risk reduction was also a motivation in the services industry: S4 saw the JV as a safe option and considered itself not in the business of risk.

By contrast, firms more accustomed to arm's length relationships perceived the JV as an increase in risk. Mk2 and Mk1 both used a distributor initially in the Czech market because it was low risk and only increased their investments when (amongst other things) they had gained experience in the market.

Control

The third facet of economic motivations was the need to exert control over the investment. The control which the JV afforded was perceived in two ways for those firms which cited it as a motivating factor. Firstly, some firms compared the JV to a franchising and distributorship relationship. In the uncertain environment, the JV was seen to offer a greater level of control, and hence security, than would have been necessary if investing in a more certain environment. Mk4 for example, usually franchised in foreign markets: however, it believed that there was insufficient experience of this mode of operating in CEE. Despite this company's minority share in the JV company, it felt by internalising the JV within the boundaries of the parent company it could exert better control over the business.

From the other perspective it was noted that as the contribution of managerial skills was inherent in the logic of the JVs in order to assist the Czech firms restructure and transforming itself to compete in a free market economy. Whilst a number of authors have noted this, it would appear that this is a particular feature of East/West JVs.

Competitive

The Czech industry structure and the competitive environment also influenced the choice of the JV where the British investors may have preferred total ownership. In some cases, the JV conferred benefits that would have been unavailable through other entry modes. The JV allowed British firms to gain status as "Czech" thus allowing better access to the local market. This was particularly so for the automotive components firms with respect to commercial relationships with VW/Skoda. As part of the much publicised JV between the German car giant VW and the largest Czech car manufacturer Skoda, the German company was required to give commitments to the Czech government to support and develop the local components industry. VW had made assurances to the Government that it would use Czech suppliers. JV status was thus important in allowing two British firms to 'become' Czech so as to develop supplier relationship with VW/Skoda. The JV thus improved their competitive position in a manner that would not have been possible had they operated on a stand-alone basis.

Historic

Investment decisions are not always decided on a case by case basis and certain firms had a policy of operating JVs in foreign markets. Four of the firms reported that they regularly used JVs in foreign markets. This type of motive can be regarded as a "rule of thumb" or heuristic. Others however reported that their Czech JV was a departure from their 'normal' mode of operations given the particular set of environmental circumstances of the Czech Republic.

Partner related factors

Firms do not operate in an environmental vacuum and strategic method has to be mediated by environmental circumstances: the British investors were rarely able to act entirely in their own interests when collaborating with a partner. It may have been anticipated, for historical reasons, that the British investors would be able to exert power over the local firm. This is partially due to the context of rapid privatisation, the collapse of domestic and traditional markets to the East and the need of local firms for technology and capital. However, in a number of respects, the partner exerted a firm influence on the JV choice.

Firstly, in a of number cases involving large well-established Czech firms, the British parent companies were only one among several potential "suitors" of the Czech firm. As part of the privatisation programme, managers and officials from local government and the National Property Funds had to decide which route a company should take to privatisation. In conditions where there was a high level of competition between potential investors, the Czech firms were unwilling to be subsumed (through a full acquisition) or to participate together on a trading basis. They wished to maintain a degree of autonomy whilst still receiving injections of capital and technology. The JV was not so much a matter of choice for the British firm, but perhaps the only feasible option.

In two cases, (Mk1 and Mk3), the ultimate choice of the JV was the result of the Czech partners' desire to strengthen and formalise an existing trading relationship. Whereas the British parent was content with the original distributorship agreement, the Czech partner wanted to increase the collaboration between the firms and so pushed to regularise the relationship into a JV. This type of drive towards the JV has particular significance in the Czech Republic. In both cases, local Czech parent companies, against the background of privatisation, were keen to lay off staff and reduce costs. The JV was a means of detaching a department from the Czech parent and transferring the costs of that department onto the investor.

Another partner-related motive for the choice of the JV was the desire to motivate local staff through local ownership. This was particularly important where the Czech management was providing knowledge-based skills such as applications technology. In cases where the local staff were to manage the day-to-day running of the JV, part-ownership was perceived to be a mechanism for motivating the staff to work in the interests of the JV. In the case of Mk2, the local owners were formerly part of the computer department of an existing firm and between the three of them raised sufficient capital to invest into the JV. This gave the partners a financial interest in making the company work.

A crucial driver influencing the choice of the JV, which is highly relevant in the countries of CEE, was the need to isolate discreet parts of existing firms. Large, highly integrated manufacturing companies, had little chance of survival when faced with open competition as many of their divisions were loss-making. In order to participate with the desired part of the Czech firm, the British investors believed that the JV was the only feasible investment option as a full acquisition would have to encompass the whole of the firm. In these cases, the acquisition was unfeasible both in terms of size of the partner firm, but also the potential for future development. This use of the JV has been referred to as ‘cherry-picking’.

In the case of Mf1, only one division of its Czech partner's firm was profitable and the Czech firm insisted that that the JV be used to subsidise the less profitable parent company. Basically because of the privatisation process, the Czech shareholders recognised that the value lay in the part of the company of interest to the UK parent and for the rest of the company to survive, there needed to be some subsidy from the financial performance from one part into the other.

By forming a JV, the Western firms were able to work with the parts of the local company that had potential without being involved with the larger parent company, thus focusing the investment.

Exogenous factors

The prevailing socio-political climate also shaped the choice of the joint venture. By their nature, such factors are idiosyncratic and are not generalisable across the sample.

External funding. For one of the firms, the choice of the JV was partially influenced by external funding available. The JOPP scheme is an EU (PHARE) funded programme which assists companies wishing to JV to research the feasibility of the scheme. The money is only available if the investing company wishes to form a JV: acquisitions or licensing agreements are not covered. It is interesting to note that only one of the firms in the sample used the JOPP funding.

Protection from future indemnities. In the case of Mf4, the JV was selected to protect the indemnities against past environmental damage. The joint venture deliberately chosen because the investing firm wanted the government to stay in and pick up any past liabilities. The JV provided a vehicle that allowed Mf4 to avoid paying for past environmental damage. Many of the firms in the Czech Republic, as well as in the other countries of Central and Eastern Europe have appalling environmental records as the previous regimes showed scant concern about pollution or the environmental effects of heavy industry. An additional factor was that the JV partner had been closely involved with the Russian defence industry. The firm clearly felt that the infancy of democracy in the Czech Republic and the close presence of Russian troops was a delicate political situation. More generally, one of the risks for Western firms was the prospect of assuming financial responsibility for the clean-up of past environmental damage. Whilst only one firm cited the need to keep the government involved in the investment as the foremost reason for the choice of the JV as a structure, a number of firms saw settlement of the past liabilities as a crucial issue to be resolved during the negotiation phase.

A further socio-political motive for the choice of the JV was the *goodwill* that association with the partner company could convey. Working with a local firm through structures such as the JV could prevent accusations that the British investor was exploiting local assets. Collaboration with the local firm was seen to be expedient in some instances overcoming some of the ill-feeling that may be attached locally to the investment, an example being P1's Technology Park. Collaboration with a local council reinforced the beneficial nature of the project to the local community as a whole, rather than a Western firm buying and exploiting the land.

Managerial implications

The findings of the current paper are based on a relatively small sample size and hence its finding must be treated as exploratory. Nevertheless, the small size is consistent with the findings of other researchers who in the region who have identified only a limited number of JVs (Fahy et al. 1998; Ali/Mirza, 1996).

There are clear reasons why a Western firm might wish to establish a JV with local firms. These have been summarised in the present paper in terms of organisational motives. These include resource seeking activities, synergies, economic factors and historic factors.

Of particular importance to the British managers was the need for the long term co-operation of a local trusted partner was seen especially in terms of plotting a course through the complex and unwieldy Czech bureaucracy. This inevitably required a partner who not only had a good understanding of the structure of the bureaucracy but also connections in it. Such relationships are unlikely to be tapped into in an arm's length relationship.

The is perceived by managers as a mid-point between full acquisition and arm's length-based relationships. Thus for some firms, the JV was used instead of an acquisition in order to minimise the risk of large capital investments. On the other hand, other managers found that in the environment of the Czech Republic, it was prudent to assume more control than usual as the country's patents and proprietary legislation was still untested.

Although there might be theoretical benefits to the investing firm, the experiences of British managers in the present study suggest that such benefits might not be accrued in practice. For example, in many cases the quality of the resources acquired (such as plant and equipment) was sufficiently high to allow the investor to operate effectively. High levels of additional investment, both financial and in time, were required to transform the facilities to allow them operate effectively. This might hinder the potential for the JV to be used a mechanism to allow rapid access into a market.

However, there are also strong external factors which influenced the decision to joint venture. Whilst it may have been anticipated that Western firms would be in a position to exert power over their CEE counterparts, the evidence from this study shows that, in a number of cases, it is the local partner which in reality played a substantial role in the selection of the final entry mode choice. In some cases the choice of the JV was in fact imposed upon a somewhat reluctant British firm. In other cases, the choice of the JV was a carefully negotiated trade-off between the competing desires of the two firms. In a single case, the JV status was selected specifically to protect that firm from future indemnities. The role that the local partner plays in the choice of the JV has been neglected by the mainstream JV literature which has concentrated largely on the benefits accruing to the foreign investor. The qualitative analysis of motives of the JV has illustrated clearly some of the characteristics of the Czech environment in the early days of transition which had a definite impact upon the choice of mode of governance.

It is interesting to speculate whether this is situation where the investors were directly involved and able to exert real influence on shaping the future industrial structure of the country.

Conclusion

The qualitative analysis of the motives for JVs presented in this paper provides an insight into the effect of reform and transition on entry by structuring the motives. It is clear that the choice of the JV is multidimensional, influenced by a wide range of motives. None of these motives alone provides a sufficient explanation for the choice of the JV over and above other investment option. Rather, the choice of the JV is the outcome of 'bundles' of motives: that is, the combination of both organisational, partner related and exogenous motives which provides the logic for the JV.

The paper finds some support for each of the theoretical explanations for JVs outlined. From the economic perspective the JV is the mid-way point between the market (arms lengths agreements) and the hierarchy (full acquisition). It is also used as a means of protecting proprietary knowledge, without the risk involved in a full acquisition.

The JV was perceived as a way of overcoming the firms' lack of knowledge of the local environment in line with the *organisation learning* theoretical perspective. Knowledge deficits were in terms of local culture, contacts in government and bureaucracy and contact with local buyers. Firms perceived that such knowledge could not be acquired externally either due to costs or because of the fact that such knowledge is difficult to codify. Organisational development was not a feasible option due to time constraints. In this manner, the JV confers advantages of cost and speed over other forms of market entry.

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