# International joint ventures in algeria: factors in their success and failure

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Key words:

International joint ventures, success/failure factors, perceptual study, corporate cultures, trust, marketing strategies, multinationals and emerging country firms.

Abstract :

This paper examines the evidence of joint venture activity in Algeria with a particular focus on the identification of the leading factors in the success (failure) of international joint ventures between Algerian companies and their foreign counterparts. This study is based on the formulation of five hypotheses, three of which are related to success and two to failure. Empirical data collected from five case studies and a total of 350 company executives, of which 200 Algerian and 150 foreign, was used to test the validity of each guiding hypothesis. Results show that Algerian and foreign managers have similar perceptions of success as regards: (a) compatibility of corporate cultures, (b) majority ownership in joint venture capital. Their perceptions of the reasons for failure are similar on (i) unequal benefits and costs, (ii) depreciation of local currency, and (iii) absence of mutual trust. This study introduces new data on international joint ventures between emerging country firms and foreign companies. The Algerian experience has clearly shown that, despite pessimistic predictions made by some authors in the literature, joint ventures between emerging country firms and multinational corporations can operate successfully.

Résumé :

Cet article est la synthèse d'une recherche doctorale effectuée à l'Université de Manchester, School of Management, UMIST, entre 1993 et 1995, ayant pour objectif principal l'identification des facteurs clés de succès (d'échec) dans le montage de partenariats internationaux (joint ventures) entre les entreprises Algériennes et des sociétés étrangères. Au total, cinq hypothèses de recherche ont été formulées dont trois de succès et deux d'échec. Les données empiriques émanant de cinq études de cas et une étude perceptuelle avec un échantillon de cadres d'entreprises algériens et étrangers ont servi à tester la validité de chacune des hypothèses retenues. Les résultats obtenus et les recommandations formulées peuvent et doivent servir de base à divers travaux de recherche appliqués, notamment au niveau doctoral, afin d'identifier les facteurs clés de succès pour une meilleure optimisation des outputs résultant du montage de sociétés en joint ventures entre des entreprises algériennes des secteurs publiques et/ou privées d'un coté et les firmes étrangères et/ou multinationales de l'autre.



## Introduction

The increase in recent years of international joint ventures has been considered as one of the most important topics in marketing and international business. For over two decades, joint ventures have become an increasingly utilised foreign market entry mode for international companies and a preferred route for developing countries' partners (Abraham 1990, Hyder and Ghauri 1993). The attraction of international joint ventures lies in the advantages they offer to multinational firms and developing country enterprises alike. To the former, a joint venture may represent a way into closed markets, facilitate the entry of smaller firms into global markets, pre-empt potential competition, and extend the life cycles of a firm's products. To the latter, a joint venture may facilitate the transfer of technology and managerial expertise, provide access to capital markets and generate local export-oriented activities (Harrigan 1984, Young and Hamill et al. 1989).

## Objectives of the study

This study aims to:

1. . Collect data and information on specific joint ventures between Algerian and foreign companies.
2. Evaluate the perceptions of a sample of Algerian and foreign managers with past and present experience of joint ventures in Algeria so as to generate a more detailed understanding of managerial perspectives.
3. Compare between the various perceptions held by Algerian managers and foreign company representatives by analysing the degree of similarity/ divergence in their pattern of responses to a mailed questionnaire.

## Guiding hypotheses

Five hypotheses were formulated which related to an identification of leading factors in the success (failure) of international joint ventures in Algeria. Three of these hypotheses relate to success factors and two to failure factors.

## Success factors

**H1:** Algerian and foreign managers perceive the selection of a suitable partner to be a critical factor in joint venture success.

The literature on the selection of a suitable partner is abundant. Some authors have argued that the success of a joint venture largely depends on (a) the intensity of the partners' needs for each other, particularly during the initial start-up phase and (b) the autonomy of the joint venture vis-a-vis the parent companies. Beamish (1988) and Schaan and Navarre (1988) point to the importance of a balanced contribution by each partner, the need for a clear identification to be made of the resources and know-how to be transferred to the joint venture, and for partner choice to be based on long term financial capabilities sufficient to sustain future growth.

**H2:** Algerian and foreign managers consider autonomous decision-making powers to be crucial to joint venture success.

Some authors have emphasised that totally independent joint ventures are rare because parent companies are generally reluctant to give joint ventures autonomy and freedom to develop as separate entities (Killing 1993, Beamish 1988, Datta 1988). This study shows that Algerian experiences somewhat contradict the arguments developed by Killing (1983) and Schaan (1985), who argue that satisfactory performance is more prevalent in ventures with a dominant parent compared with those where control is equally shared. Rather, the Algerian evidence clearly suggests that successful joint ventures, at least in Algeria, enjoy autonomous decision-making and shared responsibilities, as discussed by Tomlinson (1970) and Beamish (1988).

**H3:** Algerian and foreign managers view the competence of the mixed managerial team to be crucial to joint venture success.

The literature emphasises the synergistic benefits that can accrue if the partners' respective competencies are complementary. In a study of cooperative ventures formed between Swedish and Norwegian companies, Lorange and Roos (1990) identified three essential competencies of the management teams: (i) existence of entrepreneurial competence, (ii) analytical competence, which related to the capability to carry out various business investigations and analyses internally, (iii) political competence, which reflected the importance of the shareholders (private and/or public) in a formation of a joint venture. The Algerian experience shows that joint venture general managers have so far been appointed from local managers due to the local partner's majority equity ownership as required in law and by regulations. A case in point today is the Complementary Finance Law of 2009).

### Failure factors

**H4:** Algerian and foreign managers' perceptions of unequal benefits and costs influence joint venture failure.

More important than the immediate benefits of the joint venture operations are the perceptions of long term returns over the life of the collaborative partnership (Dymzsa 1988, Lynch 1990). The perception by either partner that is not obtaining sufficient benefits from the joint venture in return for its contribution of resources was identified in the study as a contributing factor to joint venture failure. The Algerian experience clearly indicates that the perception of unequal benefits and costs can be avoided by a genuine long term commitment by the foreign companies to their joint ventures in Algeria.

**H5:** Algerian and foreign managers regard a joint venture's unsatisfactory performance to be a precursor of joint venture failure.

Empirical evidence indicates that joint venture performance may be evaluated according to profitability, market share, training of local staff and workforce, and export performance. Although it may not be possible to generalise the findings of this study, it may be postulated that the perceptions of successful performance held by the Algerian partners are principally related to the training of locals, technology transfer and the development of export activities, whereas for foreign firms long term profitability and the share of the Algerian market are the main indicators of success.

### Literature review

The vast and growing literature on joint ventures encompasses several theoretical explanation of this particular form of inter-company cooperation. The diversity of these analyses, identified by Parkhe (1993), includes transaction costs, organisational theory, resource-dependency, game theory, strategic behaviour and networks. Parkhe argues that, although each individual theory may, provide explanation on some aspect of international joint ventures, they tend to remain fragmented in their orientation.

### Internalisation and transaction cost analysis

The core of internalisation theory, which built on Hymer (1976), is that to compete effectively in foreign markets, firms should internalise their activities by setting up wholly-owned subsidiaries, thus retaining complete ownership and control of their foreign ventures. Transaction cost economics has been developed by various authors, such as Williamson (1975), Buckley and Casson (1986), Hennart (1986), Rugman (1985) and Teece (1985).

There have been few attempts to extend transaction costs economics to joint ventures. Exceptions include Stuckey (1981), Hennart (1986), Buckley and Casson (1986) and Beamish and Banks (1987). The crucial issue is for transactions theory to explain what discriminates a joint venture from a contract, and in what transactional situations a joint venture is best-suited. Here, two features are particularly distinctive: on the one hand, joint ownership and control and, on the other, the mutual commitment of resources. The characteristics best-suited to a joint venture are conditions of high uncertainty over the specification and monitoring of performance, and a high degree of asset specificity (Kogut 1988). Uncertainty over a contract, an issue which a joint venture addresses by promising a guarantee of performance and by creating both a superior monitoring mechanism and incentives to reveal information and share technologies.

### Strategic behaviour

An alternative explanation of the use of joint ventures originates from theories on how strategic behaviour influences the competitive positioning of the firm. There are several strategic behaviour motives for joint ventures. Despite some similarities between transaction costs and strategic behaviour theories, there are essential differences in the way they attribute objectives to firms. Transaction costs theorists argue that firms adopt the mode which minimises the sum of production and transaction costs. Strategic behaviour theorists, in contrast, argue that firms transact by the mode which maximises profits through improving a firm's competitive position vis-a-vis rivals (Ordover and Willig 1985, Friedman, Berg and Duncan 1979, Vickers 1985, Vernon 1983, and Kogut 1988).

## Organisational learning

Organisational learning theory views joint ventures as a means by which firms learn (or seek) to retain their capabilities. Firms possess a knowledge base which cannot be easily transferred from them to another organisation. Polanyi (1967), recognising this, argues that joint ventures allow tacit knowledge to be transferred. Organisational theory posits that other forms of transfer, for example, licensing, are ruled out – not because of market failure or high transaction costs as defined by Williamson (1975) – but because the knowledge being transferred is organisationally embedded (Kogut 1988, Nelson and Winter 1982, Kogut 1988, and Harrigan 1984).

## Methodology

This study combines two approaches, namely the case study method and a qualitative evaluation of managerial perceptions. This study is exploratory in the sense that there has been scant research on international joint ventures in Algeria. This study has two research samples. First, five joint ventures were selected to collect case study data. Second, a sample of 350 companies was selected for the evaluation of the perceptions of Algerian and foreign managers with regard to success and failure factors in international joint ventures in Algeria. A response rate of 32% was obtained despite numerous fieldwork and data access constraints. Data analysis of the perceptual questionnaires was carried out using SPSS. Three statistical methods used were: (a) descriptive statistics such as frequencies, means, variances and standard deviations; (b) factor analysis, and (c) hypothesis testing of two independent samples, especially a two-tailed t-test.

## Summary of empirical results

A total of 29 common factors, of which 14 were success factors and 15 were failure factors, formed the basis of the analysis. This study compared the perceptions of Algerian and foreign managers towards success and failure factors of international joint ventures in Algeria. The comparative analysis revealed that among the success factors there were substantial differences in the perceptions of both groups of managers. The success factors on which managerial perceptions diverged greatly were related to (a) the incorporation of licensing and management contracts by the joint venture, (b) an acceptable level of transfer pricing, (c) a competent managerial team, (d) the selection of a suitable partner, (e) the enhancements of exports, and (f) autonomous decision-making powers. Similar perceptions of success were discernable in two factors, namely (i) compatibility of corporate cultures and (ii) majority ownership of the joint venture's capital.

**Table 1:** Comparison of success factors between Algerian and foreign groups of managers.

| Variables | Group 1 (Mean, S.D.) | Group 2 (Mean, S.D.) | T-Value | Significance Level | Decision |
|---|---|---|---|---|---|
| Autonomous decision-making powers | 4.38, 0.87 | 3.31, 1.34 | 4.15 | 0.00* | Reject Ho |
| Competent managerial team | 4.26, 0.99 | 3.06, 1.35 | 4.72 | 0.00* | Reject Ho |
| Selection of a suitable partner | 3.65, 1.00 | 4.46, 0.82 | -4.19 | 0.00* | Reject Ho |
| Compatibility of corporate cultures | 3.04, 1.19 | 2.80, 1.30 | 0.96 | 0.340*** | Accept Ho |
| Majority ownership of JV's capital | 2.23, 1.06 | 2.43, 1.58 | -0.67 | 0.509*** | Accept Ho |

(a) Group 1: Algerian Managers; Group 2: Foreign Managers
(b) * Significant at 99%; ** Significant at 95%; *** Not Significant

The comparison of managerial perceptions of failure indicated that there were notable differences on the following factors: (a) bureaucracy and inflexible regulations, (b) differences in major goals, (c) selection of an unsuitable partner, (d) other partner's insufficient contribution and commitment, (e) conflicts over decision making and management style, (f) unsatisfactory performance, (g) global versus national orientation, (h) unacceptable transfer pricing, and (i) diverging domestic and international marketing policies. Managerial perceptions were similar on: (i) perception of unequal benefits and costs, (ii) depreciation in the local currency, and (iii) absence of mutual trust.

**Table 2:** Comparison of failure factors between Algerian and foreign groups of managers.

| Variables | Group 1 (Mean, S.D.) | Group 2 (Mean, S.D.) | T-Value | Significance Level | Decision |
|---|---|---|---|---|---|
| Diverging domestic and international marketing policies | 3.08, 1.12 | 1.34, 0.68 | 10.07 | 0.00* | Reject Ho |
| Absence of mutual trust | 4.27, 1.01 | 4.45, 0.89 | -0.93 | 0.354*** | Accept Ho |
| Differences in major goals | 4.21, 1.20 | 3.17, 1.34 | 4.09 | 0.00* | Reject Ho |
| Depreciation of local currency | 3.61, 1.08 | 3.83, 0.86 | -1.05 | 0.294*** | Accept Ho |
| Unsatisfactory performance | 3.79, 1.03 | 2.43, 1.29 | 5.99 | 0.00* | Reject Ho |

(a) Group 1: Algerian Managers; Group 2: Foreign Managers
(b) * Significant at 99%; ** Significant at 95%; *** Not Significant

## Validity of guiding hypotheses

**Hypothesis 1:** Algerian and foreign managers perceive the selection of a suitable partner to be a crucial factor in joint venture success.

Empirical results of this study show that Algerian and foreign managers have different perceptions about whether the choice of a suitable partner is important. Results presented in Table 1 show that the null hypothesis is rejected because of a significance level of 99%. Foreign managers have ranked this variable as extremely important whereas their Algerian counterparts have considered it as important. In essence, the Algerian evidence has shown that the most crucial aspects in the partner's selection are: (1) the long term familiarity of the partners with each other and their experience of previous business relationships (for example, import-export activities, technical assistance, build operate transfer BOT contracts), and (2) the backing given to projects by the governments of home and host countries.

**Hypothesis 2:** Algerian and foreign managers consider autonomous decision-making powers to be crucial to joint venture success.

Empirical findings support the view that Algerian and foreign managers have different perceptions of the significance of decision-making autonomy as a crucial success factor. The null hypothesis is rejected due to 99% significance level, as shown in table 1. The Algerian evidence contradicts the arguments developed by Killing (1983) and Schaan (1985), who argued that satisfactory performance is more prevalent in ventures with a dominant parent compared to those where control is equally shared. The Algerian evidence supports the view that autonomous decision-making and shared responsibilities call forth a greater contribution by, and satisfaction of, local partners, as suggested by Tomlinson (1970) and Beamish (1988).

**Hypothesis 3:** Algerian and foreign managers view the competence of the mixed managerial team to be crucial to joint venture success.

Lorange and Roos (1990) identified three elements underlying the competence mix of the management teams as follows: (a) the «entrepreneurial competence» i.e. the internal consensus and commitment from JV managers; (b) the 'analytical competence' i.e. the ability to carry out internal business investigations, and (c) the 'political competence' i.e. the importance of private and/or public shareholders in JV formation.

Case study data indicated that the principal criterion used in the selection of a local manager is more related to the question of sovereignty than to intrinsic managerial competence. Many foreign senior managers interviewed indicated that the appointment of JV general managers was subjective and based mostly on family connections irrespective of managerial skills and competencies. However, it should be noted that the empirical results of the perceptual survey revealed that Algerian managers themselves believed that competence was an important criterion. The null hypothesis that both groups of managers have similar perceptions was rejected (see table 1).

**Hypothesis 4:** Algerian and foreign managers' perceptions of unequal benefits and costs influence joint venture failure.

Perceptions of unequal benefits and costs have been identified as a potential cause of joint venture failure by Algerian management. The perceptions of benefits obtained relative to contributions made may change over time. When one or both partners have perceptions of an unsatisfactory ratio between benefits and costs from a venture, serious conflict can develop, which may lead to the failure of the venture. A perception by the foreign partner that it has not obtained sufficient benefits from its joint venture relative to its contribution of resources has been identified as a contributing factor to JV failure.

Some authors have drawn attention to the importance of the foreign companies' long term commitment to their joint ventures, particularly in developing countries (Killing 1982, Beamish 1988, Datta 1988). The cause of many failed joint ventures has been associated with the foreign company's emphasis on short-term gain rather long-term commitment. The Algerian evidence clearly indicated that perception of unequal benefits and costs can be avoided by a genuine long term commitment by foreign companies to their joint ventures. The evidence suggests that both Algerian and foreign managers have similar views on the contribution of unequal benefits to JV failure. Table 2 shows that the null hypothesis is accepted and that both groups of managers consider this issue as crucial.

**Hypothesis 5:** Algerian and foreign managers regard unsatisfactory performance to be a precursor of joint venture failure.

Results indicated that the fourth most significant difference in the perceptions of both groups of managers relates to performance, the null hypothesis being rejected (see table 2). While Algerian managers viewed unsatisfactory performance as having an important influence on failure, foreign managers considered this factor to be unimportant. Case study evidence indicated that the main criteria used to evaluate JV performance was based on profitability, market share, training of local staff and workforce, and export performance. Although it may not be possible to generalise these findings, it may be postulated that the perceptions of successful performance held by the Algerian partners are principally related to the training of locals, technology transfer and the development of export activities, whereas for foreign companies long term profitability and the share of the Algerian market are the main indicators of success. Consequently, it can be inferred that the failure to meet the Algerian performance criteria would seriously compromise JV operation in Algeria.



## Conclusion

This study, which focused on the identification of key success and failure factors governing international joint ventures in Algeria, had three main objectives. The first objective involved case study analysis of managerial aspects of joint ventures between Algerian and foreign companies. The second objective was concerned with an evaluation of the perceptions of a sample of Algerian and foreign managers of their past and present experience in the field of co-operative agreements. Respondents were invited, as appropriate, to identify success or failure factors associated with joint ventures in Algeria. The aim of this second phase was to provide more detailed information on the attitudes of each group of managers. For each group a comprehensive list of factors was constructed derived from joint venture literature and from interviews with company executives prior to the final design and mailing of questionnaires. The third objective was to draw a comparison between various perceptions held by Algerian managers and foreign company representatives by measuring similarities and divergence in the pattern of responses.

This study introduces new data on international joint ventures between developing country firms and their foreign counterparts. The Algerian experience clearly showed that, despite the pessimistic predictions made by the literature, joint ventures between developing country enterprises and multinational companies can operate successfully. The identification and clarification of success and failure factors should help both Algerian and foreign companies to make joint ventures operations successful in Algeria.

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