

Joint Venturing in China

By Paul Beamish, Director, Asian Management Institute, Ivey School of Business

Equity joint ventures (JVs) are the mode of choice for about a third of all foreign investments around the world. Nowhere have they been used more frequently in recent years than in China. Over the past 30 years, China's attitude toward JVs as a form of investment has evolved. Originally, not only were joint ventures the only form of foreign investment allowed, but those JVs which were signed had to contain a sunset clause whereby full ownership would ultimately revert to the Chinese partner. This latter clause was eventually dropped, and later, the requirement that investments had to be jointly owned. In 2009, in most sectors, investors in China are free to use joint ventures or wholly owned subsidiaries, whichever they prefer.

Joint ventures can be an effective mode of investments, when established with a sound strategic logic, after careful consideration of partnership and fit, when utilizing appropriate shape and design, and with the proper attitude toward day-to-day operations.*

Yet as with any investment, foreign or otherwise, managerial challenges exist. MBA programs everywhere explore how to overcome such problems by considering in part, case studies.

The accompanying four comprehensive case studies examine the realities of setting up and operating joint ventures in China. The cases were intentionally selected to represent investors to China from different parts of the world (Canada, the US, Finland and India) as well as to focus on different issues.

Sun Life Financial is a large Canadian insurance conglomerate. The vice-president for China must formulate an approach for his company's entrance into China. Sun Life has achieved two important milestones: the right to apply for a licence and the signing of a Memorandum of Understanding for Joint Venture with China Everbright, a local securities company. The vice-president must consider strategic options for entry and choose a city in which to focus his efforts in getting a licence. In doing so, he needs to consider Sun Life's overall priorities, strategic direction and how he will sell the concept to senior management in Canada. The case requires an assessment of internal capabilities against an environmental scan, formulating strategy and making operational decisions relating to city selection. It also introduces the idea of joint venture management and government relations.

Farm Equipment Services (FES), the tractor manufacturing division of Mahindra & Mahindra Ltd. (M&M), is considering entering the Chinese tractor industry through a joint venture with Jiangling Tractor Company (JTC), a state-owned automotive enterprise. M&M had seeded the Chinese tractor market with exports and had concluded that the most efficient and prudent way to serve the Chinese tractor market was through a joint venture with a local partner. JTC had good brand recognition and a strong position in the small tractor market. However, due to the lack of interest from the parent company, Jiangling Motor Company Group, JTC was facing severe operational challenges: it was over staffed, had high overhead, owed significant amounts to suppliers, and dealers were fleeing the company. M&M saw an opportunity

to work with a management team it was comfortable with and to leverage JTC's potential to grow in China and to export tractors as well as components. The challenge was to determine how management should proceed to restructure and integrate the joint ventures' assets.

Resina is a global manufacturer of resins and surfacing solutions headquartered in Helsinki, Finland, and has three production facilities and 12 sales offices in China. The head of Asia Pacific for Resina needs to decide what should be done about its Beijing and Guangdong operations. Should Beijing remain in operation, be shut down, or moved to another area where demand for liquid bulk resins is stronger. Similar options face the Guangdong plant. In aiming towards profitable operations, he needs to consider the buoyancy of local demand, Resina's partner in Beijing, local and foreign competitors and appropriate managers in each operation.

U.S.-based Cummins, a global leader in diesel and allied technology, has had investment activities in China for over 15 years. While the macro level indicators seem to suggest the possibility to soon hit US\$1 billion in revenues in China, there were several pressing problems that put into question Cummins' ability to realize this target.

Readers are presented with four specific situations and must develop an appropriate action plan. They are related to the respective streamlining and consolidation of several existing joint ventures, distribution and service, and staffing.

* For more detail, see Beamish, P.W., 2008, *Joint Venturing*, Charlotte, NC: Information Age Publishing, Inc.