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The Aims of Business Management

by Nikolaos Papavassiliou, Cologne *

International joint ventures are progressively growing more important in LDCs. However, their activities frequently lead to conflicts between such countries' overall economic objectives and the aims of business management.

International joint ventures are business groups in which two or more single companies stemming from different countries have joined hands for carrying out business operations. All of them display two fundamental characteristics: One is that foreign investment funds have been channelled into them — establishing a joint partnership; the other is a process of learning about technological, financial, and management know-how. Business thought, at present, is undergoing reorientation which also transforms business practice and leads to recognition of the fact that the interests of business partners have, so far, been better served by cooperation than by competition. This goes to say that, in exploring for the optimal sizes and structures of companies, the purpose of such exploration will be reached, not only by capital concentration but, more than ever, also by inter-company cooperation. Business partnerships will certainly also promote cooperation between the industrialized countries and LDCs. In other words, international joint ventures may very well, through their bringing together foreign and local capital funds for joint operations, not only promote business growth but also deeply influence both the economies of several nations and the world.

International joint ventures may be broken down in groups by their types, by their forms, and their structures. Their types may be classified by the kinds of contributions to the joint ventures of the individual partners: intangibles (services, patent rights, technical instruction, etc.) or material assets, or technological, financial, and/or managerial know-how. The forms assumed by joint ventures are usually distinguished by the kind of capital interest that partners take in them. Of this, there are three basic forms with, of course, countless variations: acquisition of majority interests, equal sharing of the equity, and minority participations. It is often difficult to draw a clear line between the latter and pure portfolio investments, and they raise special problems for the making of business

decisions. Obviously, the kind and type of capital structure also impinges on the question of who exerts what kind of influence on management and on the business "philosophy".

There are also types of international joint ventures among whose shareholders there are not only one or more foreign and/or local equity holders but also the host country's government. In LDCs, above all, state operations are growing in importance, either by making government-owned entities and institutes shareholders or by a more indirect involvement of the public sector. Contributing merely monetary capital or capital goods to a partnership is of little interest to LDCs today unless the foreign partners supply, together with it, the needed knowhow.

There are two kinds of foundation upon which joint ventures may be built: Contributing risk capital or bringing in intangibles, e.g. knowhow, manufacturing licences, or management skills. In the case of Saudi Arabia, there is a lively interest of the host government, for example, in setting up joint industrialization projects together with foreign partners. But Saudi Arabia does not need an additional capital inflow, since the country is rich in dollar capital from its oil revenues, so that its foremost interest is in partners with an effective and efficient technological and commercial knowhow.

In making clear distinctions between types and classes of joint ventures, it will therefore be necessary to state whether a given partner contributes to the partnership by simply vesting his capital in a foreign venture or whether he, over and above this, or even exclusively, supplies other values and services. There is no dearth of joint ventures in which non-capital contributions form the basis of foreign participation, which is then only secured on a contractual foundation. On the other hand, joint ventures in which foreign partners hold part of the equity are usually regulated by local law. It is not easy to state, in the abstract, which of the two types is to be preferred,

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since only the actual situation in a given country permits us to assess the chances for success of the one or the other.

Decision-making and the enforcement of decisions taken in international joint ventures are the business of the partners themselves, who are the policy-makers. But apart from these decision-makers, the two governments (of the host state and of the state from which investments flow) may take a strong influence, both naturally having different objectives in mind. What a business usually aims at is not always coincident between partners as well as between partners and the governments involved. That is why the various conceptions of aims of both partners and governments ought to be analysed in a dispassionate way, so as to bring objectives of joint ventures into a system.

Aims as described by Heinen¹ for all kinds of enterprises usually are also those of joint ventures. But it has to be emphasized that the aim of

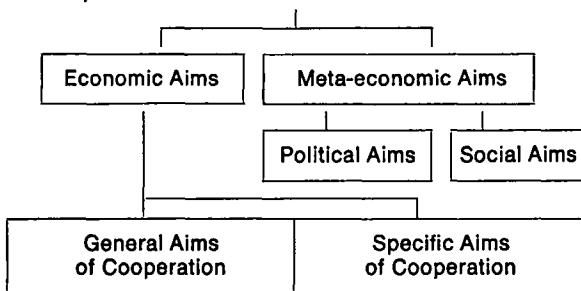
cooperation between partners is of particularly great importance in international joint ventures. The diagram tries to delineate specific aims harboured by international joint ventures.

Major conflicting aims in the case of joint ventures make their appearance usually in the field of how to earn and how to distribute a profit, because partners and governments are very often at loggerheads in this respect. It is highly likely that, regarding the purpose of new investments, tensions may originate from the fact that a given business is striving for high profits while the government involved wants to promote the country's development.

Also, repatriation of high profits runs against the grain of development policies and their objectives. Conflicting aims are also closely dependent on the form of participation applicable to a given company, and on the organization within the company.

DIAGRAM

Specific Aims of International Joint Ventures



(1) Acquisition of patent rights, licences, and other rights of access to individual outlets, methods, and resources. This enables companies to acquire or build up technological knowhow and/or economic knowhow

(2) Improved cost structure and thus: higher competitiveness

(3) Pooling of finances

(4) Structural adaptation to the conditions of the market and of competition

(5) Better chances of subcontracting and supplying semi-finished goods and sub-assemblies

(6) Risk spreading and risk reduction

(1) Marketing aims:
Improved market transparency
Use of local channels of distribution
Adaptation to differentiated consumers' requirements

(2) Production aims:
Capacity growth
Continued use of obsolescent production equipment and knowhow

(3) Financial aims:
Capital accumulation and improving credit-worthiness

Benefiting from tax advantages, elimination of currency fluctuations
Return on investment (ROI)

(4) Security of supplies
(Guaranteed flow of energy and raw material supplies)

(5) Labour policies
(Staff recruitment)

There may be clashes of views within a joint venture, e.g. on the solution of the problem how much of foreign knowhow and of foreign management methods ought to be imported. To attempt an early introduction of the most advanced technological and scientific management methods, without instituting a period of transition, might be disastrous for companies that are still based on inherited traditions. Absorption of modern technological knowhow and management practices can only be promoted by gradual steps and as a result of circumspect thought. There will also be conflicts about participation in profits and tax advantages which are granted only to the foreign partner. In this context, conflicts are not at all rare when, in planning business policy, the local partner may be geared to short and/or medium-term objectives, whilst his foreign counterpart prefers long-term calculations. For the foreign partners, joint ventures usually form part of a comprehensive business strategy, sometimes of a multinational character, whilst the local partner (whose capital basis is also weaker) is hunting for short and/or medium-term profitability.

There are also influences from the outside – e.g. (the government's) economic planning and economic policies, including their favouring or restricting certain economic activities – which may have a heavy impact on the evolving aims of joint ventures.

It is, however, one of the methods for overcoming conflicting aims to negotiate for a compromise between divergent purposes. To work for a suc-

¹ Cf. E. Heinen, *Das Zielsystem der Unternehmung (Enterprises and the System of their Aims)*, Wiesbaden, 1968, p. 59 ff.

successful compromise in this field will only be possible through close cooperation of partners, who are the makers of decisions. Compromises can only be found through partners keeping in mind not only their own, but also their opposite numbers' interests. To search for, and find, a suitable basis for compromise, however, requires certain qualifications of the partners.

Environment is not a constant for international joint ventures — on the contrary, it consists of a multitude of variable factors — and this imposes on compromises about aims, and on business decisions, the need for flexibility. Flexibility, in its turn, means the adaptability of companies to the realities of life.

Determinants of Investment Decisions

All in all, making decisions about investments involves, for any given business, a great variety of problems. Traditional investment theory usually defines the aim of business as the maximization of profits.

The resources of production (capital and capital goods; technological, financial, and managerial knowhow) are channelled from an industrialized country to an LDC if marginal capital yields are higher in the LDC than in the industrialized country.

It may be assumed that investments will continue until the flow of expected profits, suitably discounted, equals marginal capital costs. Applying this formula to international investment activities, the following minimum conditions have to be met to produce the decision in favour of investing abroad:

- international capital movements will not cause large additional costs — meaning: marginal capital costs must largely be equal both in the country from which investment funds flow and in that where they go;
- the expected flow of yields must be foreseeable with approximately the same precision both in the LDC and in the industrialized country;
- investors will have to take as their aim, in both countries, the maximization of profits;
- the rate of interest must be the same both in the industrialized country and the LDC;
- the time lag between investment and the beginning of a yield flow must be the same both in the industrialized country and the LDC;
- the last earning period must coincide (in time) in both countries.

However, profit maximization, in general, is an utopian aim, in our time and age, for companies,

both theoretically and in practice. The determinants for engaging in a joint venture must now be evaluated by analysing all their problems of management, marketing, production, planning, finance, and location, and decisions must then be made about the aims of the partnership, paying heed also to a great number of historical and statutory restrictions. All this means that all the factors contributing to decision-making must be absorbed by the entire company and by its specific business philosophy. Investment criteria must be coterminous with the development possibilities offered by the LDC in question.

In LDCs, there is often a prevailing feeling that development planning should be made subject to overall development priorities, including increasing the local rate of employment, improvement or expansion of resource exploitation, lifting productivity of local branches of industry that are still backward, increasing the local potential for substituting home produce for imports, which the LDC's government plans as part of its industrialization strategy².

Overall Economic Benefits and Company Profitability

Private investments and private joint ventures have a double purpose: that of bringing forth overall economic benefits and earning private profits.

It is, however, much easier than might be thought to make a decision about investments, if the local partner is a company of considerable import in the same field of operations. This means that the prospective partner will be capable of contributing production plants, supply sources and sales outlets to the joint enterprise and thereby of smoothing the path for the first steps.

From the point of view of the multinational enterprises, the advantages of joint ventures become generally conceivable as a result of access to markets, risk spreading, and financial considerations, according to which they may be classified. Their main weakness, on the other hand, is caused by tensions which result from persons of different ethical, cultural, and national backgrounds and traditions being thrown together for the purpose of joint work. This means that the cultural heritage, political traditions, and the (economic) mentality of partners are among the parameters for determining action, which have to be looked into very carefully, apart from quantifying the prospects of a strange market.

² Cf. J. Tinbergen, *Methodik der Entwicklungsplanung (Methods of Development Planning)*, in: H. Besters and E. E. Boesch (eds.), *Entwicklungspolitik*, Stuttgart, Berlin, Mainz, 1966, p. 690 ff.