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The Role of Entrepreneurial Cooperation

by Christian Uhlig, Bochum*

Entrepreneurial cooperation between industrial and developing countries has gained in significance during the past decade, both in practice and in academic discussion. To what factors can this trend be attributed? What forms of cooperation are available? Where do the opportunities and risks lie?

Interest in the opportunities for international entrepreneurial cooperation between industrial and developing countries, and the forms it can take, has increased substantially in recent years. There are a variety of reasons for this.

□ One factor is that producers in industrial countries have been finding it more difficult to open up and maintain export markets due to growing international competition. As a result, it appears essential to have a direct productive presence on the spot – whether via a licensing arrangement or under one's own auspices – and to develop maintenance and servicing capacity.

□ Another is that developing countries' efforts to build up an industrial base of their own and encourage the transfer of capital and technology – frequently combined with customs restrictions, the imposition of certain conditions when new businesses are established, yet also with attractive investment incentives – lead traditional exporters to begin considering relocating some of their operations and finding suitable forms of cooperation.

□ Thirdly, in certain respects favourable productive conditions in many overseas countries provide manufacturers in the industrial nations with the incentive to improve the pricing of their products or range of goods by importing components or complete units, thereby improving their competitiveness in the market. In this regard, a major reason for the increasing importance of international cooperation is that the growing interdependence of markets in the world economy in the wake of rapidly developing communications and transport technology raises factor mobility so that individual competitive positions are subject to rapid change.¹

□ Finally, a transformation is evident in the Third World's climate vis-à-vis investment from industrial countries and closer entrepreneurial cooperation. The pragmatic view is taken today that many of the ambitious goals set in the spheres of industrialisation and employment cannot be attained without private-sector international cooperation.

An essential aspect of the discussion on international private-sector cooperation is the forms in which this is possible and in which it is actually realized. The forms of cooperation carried out in practice reach far beyond the statistical quantity described as "private-sector direct investment", which only accounts for the capital flows involved. The forms of cooperation – which may or may not be associated with a transfer of capital and are distinguished accordingly as "equity joint ventures" or "contractual joint ventures"² – are many and varied. The individual instruments involved have long been familiar in practice. It is only recently, however, that a systematic approach has been taken to the internal connections between them, including the relevance of such links to developing a set of tools for encouraging development. This work was influenced considerably by investigations made and experience gained in the sphere of East-West cooperation. Part of the reason was that work within that sphere had given rise to the question of what possibilities existed for cooperation between enterprises operating in different economic systems.³

Although such an approach can partly also be applied to cooperation with many Third World countries, it does

¹ Cf. H. Baur: Internationale Marketing-Kooperation, Düsseldorf 1975, p. 10 f.

² W. G. Friedmann: The Contractual Joint Venture, in: Columbia Journal of World Business, Vol. VII (1972), p. 57 f.

³ N. Leise: Die industrielle Ost-West Kooperation, Stuttgart/New York 1977.

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not get to the core of the problem. The questions which are first and foremost relate to the following: how young economies can autonomously industrialise by purposefully taking up outside know-how and capital whilst maintaining their right to a say in an economic sense; the ability to pay back borrowed funds in the light of high international indebtedness; the developing countries' interest in being helped to gain access to the industrial countries' home markets.

Both in business practice and in academic literature, entrepreneurial cooperation has been paid substantial attention for some time now. Nevertheless, cooperation was initially discussed in a largely national context.⁴ It was not until the last decade that the application of an international perspective became more marked. There was an obvious connection between this and the need to diversify both marketing and procurement worldwide, and hence to tackle the varying access and supply conditions on the international markets.⁵

International entrepreneurial cooperation can be understood to mean voluntary, medium or long-term, contractually agreed collaboration between enterprises in different countries which maintain their mutual independence, with the aim of fulfilling tasks in specific operational areas either in coordination or in common. The crucial aim of such cooperation is to solve certain tasks, set by the parties together, with the aid of the level of knowledge and experience and/or of the capital available to them both. The remaining operational functions of the enterprises concerned continue to be conducted independently.⁶ An essential point is that the cooperation involved amounts to a "collaboration for more than a very transitory period".⁷

The general reason for entering into such cooperation is the realisation that, by acting in concert, both goals that the individual parties have set for themselves and possibly other goals they may jointly establish appear to be more readily achievable. If, however, the cooperation is to function properly over the longer term, both parties

must be able to draw measurable advantages from it. That is to say, as Strebel correctly emphasizes, that it is indispensable when cooperation agreements are negotiated and put into operation that an eye be kept firmly on the distribution of advantages and burdens falling to the parties involved.⁸

Forms of International Entrepreneurial Cooperation

International entrepreneurial cooperation is usually looked at from the point of view of the different operational aspects involved, examples being procurement, marketing, research and development, finance, or production.

Different types of cooperation arise in line with the above:

- ☐ procurement cooperation, e.g. in the sphere of raw material supplies, frequently in combination with jointly operated production plant;
- ☐ sales cooperation to improve the marketing of products and services, one form of which is to mix the ranges of goods offered by each of the contracting parties;
- ☐ research and development cooperation, in the shape of jointly operated research centres;
- ☐ financial cooperation in the shape of long-term portfolio investment, pure financial participation or, as an alternative, agreements involving compensation trading deals;
- ☐ production cooperation involving the erection of new plant or the use of existing facilities.

In all the various forms it can take, production cooperation is particularly important for the developing countries, encouraging as it does the establishment and expansion of industrial capacity necessary for the economy as a whole, as well as the transfer of technology and management or other specialist know-how to the developing countries. However, this form of cooperation is also particularly significant for producers in industrial countries, because it either allows their own final assembly processes to operate more cheaply using components supplied from the developing country, or, instead, allows them to produce on-the-spot in their former export markets or in those which were

⁴ Cf. E. Gerth: *Zwischenbetriebliche Kooperation*, Stuttgart 1971, p. 10; cf. also K. Knetting: *Der Entscheidungsrahmen einer unternehmerischen Zusammenarbeit*, in: K. Knetting, K. J. Zink (eds.): *Unternehmerische Zusammenarbeit. Beiträge zu Grundsatzfragen bei Kooperation und Zusammenschluß*, Berlin 1983, p. 16 ff.

⁵ On this point, cf. H. Baur, op. cit.; E. Kulhavy: *Internationales Marketing*, Linz 1981; K. Seibert: *Joint Ventures als strategisches Instrument im internationalen Marketing*, Berlin 1981; H. Meffert, J. Althaus: *Internationales Marketing*, Stuttgart etc. 1982.

⁶ Cf. Chr. Uhlig: *Kooperation als Instrument zur Integration der Entwicklungsländer in die Weltwirtschaft*, in: K. Ringer, E.-A. von Renesse, Chr. Uhlig (eds.): *Perspektiven der Entwicklungspolitik*, Tübingen/Basel 1981, p. 396 ff.; see also on this H. Baur, op. cit., p. 9; K. Frerichs et al.: *Analyse der internationalen industriellen Zusammenarbeit. Unternehmenskooperation zwischen Industrie- und Entwicklungsländern*, Opladen 1973, p. 10.

⁷ W. G. Friedmann, G. Kalmanoff (eds.): *Joint International Business Ventures*, New York 1981, p. 6; also J. W. L. Thomlinson: *The Joint Venture Process in International Business: India and Pakistan*, Cambridge, Mass. 1970, p. 8.

⁸ On this, cf. H. Strebel: *Unternehmenskooperation bei Innovationen*, in: *Wirtschaftsstudium*, 1983, p. 59.

previously inaccessible to their exports. With this in mind, we may single out the various sub-forms of production cooperation:

- ☐ licensing arrangements, including franchising and leasing, which are frequently also carried out in the shape of technology agreements – there is an evident close link here with R & D cooperation;
- ☐ sub-contracting, or job-processing, involving the production or processing of input supplies;
- ☐ advisory cooperation in the areas of management, training or technical advice, based on appropriate management or technical assistance contracts;
- ☐ co-production, comprising reciprocal supply of components or total specialisation and supply based on uniform production specifications;
- ☐ project cooperation, where tasks falling due for a limited period of time are carried out, such as the erection of production plant, infrastructure projects or repair contracts (shipbuilding, railway improvements, etc.);
- ☐ joint ventures on either a bilateral or multilateral basis, with various participation ratios.

One special form of international enterprise cooperation involves compensation deals. Goods or services supplied are not then necessarily rewarded by monetary flows, but by the compensatory provision of other goods or services.⁹ This form of cooperation, which naturally comes closest to straightforward international trading, is attaining increasing significance in relations to developing countries in a number of variants, e.g. in the form of pure barter deals (crude oil in return for machinery etc.) or of "buy-back" arrangements, also known as "production sharing". In the latter case plant supplied or financial investment (credit) can be paid for in terms of production from the new facilities. In this way, this is an area which can be grouped under financial cooperation.

It is obviously quite possible, and indeed usual, to find all sorts of overlaps between the different forms of cooperation. Joint ventures, for example, inevitably involve financial cooperation alongside other technical and marketing arrangements. The link between R & D activities and licensing cooperation – frequently also combined with a joint venture – has already been mentioned. Subcontracting is often associated with the establishment of a joint venture, as also are co-

production or project cooperation. Production sharing or buy-back elements, too, are often linked to other forms of cooperation.

An enquiry into the significance of the different forms of cooperation in practice demonstrates the breadth of demand and the possibilities existing. A portfolio of 100 industrial projects promoted by UNIDO, for example, shows cooperation being sought in the following areas (as a percentage of all projects, with double-counting possible):¹⁰

– Marketing	63 %
– Sales and transfer of technology	61 %
– Medium and long-term credit	44 %
– Supply of plant and equipment	43 %
– Equity participation	35 %
– Management advice	30 %
– Training aid	28 %
– Technical advice	28 %

Taking the case of India, 79 % of officially approved instances of German-Indian cooperation still current in 1980 involved technical cooperation in the form of technical assistance agreements, licensing agreements etc. Many of the joint ventures (which make up the remaining 21 %) also incorporated arrangements for technical assistance in addition to the financial arrangements.¹¹ These percentages provide evidence of the significance of cooperation not tied to capital transactions (the "contractual joint ventures").

Experience in the Third World

There is evidently an increasing readiness on the part of German companies to get involved in Third World countries via cooperation arrangements. A representative company survey conducted by the Federal Foreign Trade Information Office (BfAI) on foreign marketing matters showed that 85 % of German exporting companies with over 500 employees have a direct involvement abroad – whether sales branches, production facilities, cooperation arrangements or participating interests – in order to consolidate their international competitive position. Among the medium-sized companies, 56 % are directly represented abroad, and even for the small companies (with less than 100 employees), the figure is still 31 %.¹² Further responses

⁹ On the various forms occurring, cf. among others C. Pollak: *Neue Formen internationaler Unternehmenszusammenarbeit ohne Kapitalbeteiligung*, Munich 1982, p. 18 ff.; also F. Schuster: *Gegen- und Kompensationsgeschäfte als Marketing-Instrumente im Investitionsgüterbereich*, Berlin 1979.

¹⁰ Cf. E. Becker-Boost: *The Promotion and Financing of Industrial Investment Projects in East Asian Countries*, in: H. Lauer (ed.): *Wachstumsmarkt Südostasien. Chancen und Risiken unternehmerischer Kooperation*, Munich etc. 1984, p. 685 ff.

¹¹ Cf. German-Indian Chamber of Commerce: *Deutsch-Indische Gemeinschaftsunternehmen*, Bombay 1971.

¹² Cf. "Auslandsmarketing und Informationsbedarf. Ergebnisse einer Unternehmensbefragung", in: *Nachrichten für den Außenhandel (NfA)* of 10. 4. 1985.

to the survey make it clear that special significance is attached to cooperation arrangements with foreign partners: 33 % of all companies responding (60 % in the large-company group, 35 % in the medium and 23 % in the small group) had already concluded cooperation agreements, 16 % (48 %/15 %/4 %) had equity participation in ventures abroad, and 14 % (48 %/12 %/5 %) had their own production facilities. Although it is not possible to sub-divide these results by geographical region, an enquiry into the information sought on foreign markets showed the Near and Middle East to be prominently represented. Of all the companies covered by the enquiry, 22 % (15 % of large companies, 23 % in the medium group, 25 % of small companies) required information on Saudi Arabia, 18 % (13 %/22 %/18 %) on Iran, 16 % (12 %/17 %/17 %) on Egypt and 15 % (13 %/16 %/15 %) on Iraq. In the Asian region, the prime candidate for information is the People's Republic of China.¹³

The growing number of cooperation offers received by the German Industrial and Trade Association's cooperation exchange and of cooperation contracts between small to medium-sized companies and partners in developing countries arranged by the German Association for Technical Cooperation (GTZ) also show a trend towards greater willingness to enter into cooperation projects.¹⁴ Further pointers in this direction are provided by the results of the efforts of the German Company for Economic Cooperation (DEG) to arrange joint ventures in the Third World.¹⁵

A uniform assessment of entrepreneurs' experiences with the various forms of cooperation in Third World countries is difficult to obtain. Both positive and negative findings arise. D.-S. Ahn, for example, found from a sample survey of views on joint ventures in ASEAN countries that 74 % of responding foreign investors there took a positive, or indeed very positive, view of joint

ventures as an instrument. Although 81 % of the investors surveyed were satisfied with their local partner, the number satisfied with the investment policy of the host country involved was only 6 %.¹⁶ F. Becker and K. Thiel, in an evaluation of experience with German-Indian joint ventures, found that 80 % of the enterprises surveyed would enter into such an involvement again. However, there was a proviso (in 1979) that Indian investment conditions would have to be substantially improved.¹⁷ Most statements attributed satisfaction with the local partner to themselves having "made a good choice".

Choosing the right partner is indeed one of the most important ingredients for success in entrepreneurial cooperation. This was also stressed unanimously by participants at a South-East Asia conference on entrepreneurial cooperation. An interesting point here is that those considered particularly suitable for long-term cooperation were partners with a business and industrial orientation and of an appropriate size. A sceptical view was taken, on the other hand, of partners chosen because of their political position. Involvement with partners who had a purely trading interest, such as sales agents, representatives or consultants, also tended to be approached guardedly.¹⁸ To summarise, three factors are regarded as essential if cooperation, especially if it is a joint venture, is to be successful: making the right choice of partner, a product capable of reaching a world market over the long term, and appropriate management. It is very important to obtain comprehensive information and advice from people who are familiar with both the branch of industry involved and the local conditions.

The problems and risks involved in cooperation should not be underestimated. Some of these are indicated below:¹⁹

- ☐ making a realistic assessment of market potential,
- ☐ the available infrastructure,
- ☐ maintaining a constant supply of raw materials,
- ☐ assuring the quality of the goods and services being offered,

¹³ Cf. "Informationswünsche der Außenwirtschaft", in: NfA of 11. 4. 1985.

¹⁴ Cf. "GTZ vermittelt 42 neue Kooperationen mit Entwicklungsländern", in: NfA of 19. 4. 1982; "GTZ: Betriebliche Kooperationsmöglichkeiten mit Entwicklungsländern", in: NfA of 15. 4. 1985.

¹⁵ On this, cf. "Deutsche Mittelständler gehen in Entwicklungsländer", Handelsblatt-Series 85, particularly the piece by Horst Schröder; see also the DEG's annual reports.

¹⁶ Cf. D.-S. Ahn: Gemeinschaftsunternehmen in Entwicklungsländern. Joint Ventures als Entwicklungsinstrument in den ASEAN-Staaten, Tübingen 1981, p. 178 ff.

¹⁷ Cf. F. Becker, K. Thiel: Strukturen und Bewertungen deutsch-indischer Joint Ventures in Indien, in: K. Hottes, Chr. Uhlig (eds.): Joint Ventures in Asien. Eine Form internationaler Produktionskooperation, Stuttgart 1983, p. 135 ff.

¹⁸ Cf. statements by South-East Asian experts at the Ifo Institute's South-East Asia conference, in: H. Laumer, op. cit., p. 627 ff.; also D.-S. Ahn, op. cit., p. 208; R. Jungnickel et al.: Investitionsbedingungen in der ASEAN-Region, Hamburg 1986.

¹⁹ Cf. F. Becker, K. Thiel, op. cit., p. 95 ff.; Chr. Uhlig, M. Lange: Internationale Produktionskooperation im Vorderen Orient. Joint Ventures und andere Formen der unternehmerischen Zusammenarbeit, Stuttgart 1983, p. 127 ff.; H. Laumer, op. cit., p. 627 ff.

²⁰ On this, cf. from a German point of view P. Geisler et al.: Der Beitrag privater deutscher Direktinvestitionen zur Ausbildung von Fach- und Führungskräften in Entwicklungsländern (research report of the Federal Ministry for Economic Cooperation, Vol. 19), Munich etc. 1981; H. Herrmann, R. Zedler: Berufliche Bildung für die Dritte Welt. Leistungen der deutschen Industrie, Cologne 1984.

- ☐ the level of qualification of workforce and management,²⁰
- ☐ competitive conditions, especially lack of protection from import competition during the start-up period,
- ☐ questions of how profits are apportioned internally,²¹
- ☐ external transfer of revenues,
- ☐ tax legislation,
- ☐ social relations with workforce and trade unions,
- ☐ governmental requirements on wage and social policies,
- ☐ "local content" requirements and the state of input-supplying industry,²²
- ☐ the drawing up and implementation of contracts,
- ☐ bureaucracy ("red tape") and corruption,
- ☐ internal social relations of the partners ("nepotism"),
- ☐ forms of mutual exchange of information, decision-taking, and the results achieved,
- ☐ lack of continuity in economic policy.

It is interesting to note that a study by the Ifo Institute looking into the main inhibiting factors working against foreign investment by German companies reveals that almost 30% of the companies involved believe their difficulties in developing an involvement abroad lie at their own end. Particularly the small to medium-sized companies see large problems, for example, in connection with transfers of capital and the redeployment of trained personnel. These factors prove to be the downfall of many projects. As far as difficulties in the developing countries themselves are concerned, the frequently unstable overall social, political and economic conditions were named. Other factors which came to the fore were the difficulty in dealing with the authorities ("red tape"), and how to treat questions of equity participation, transfer and funding conditions.²³

With regard to experience gained with cooperation not tied to capital movements, C. Pollak's study shows that, in the event of them being faced with requirements

for such cooperation by Third World authorities or enterprises, 45% of companies do not see their investment planning as being unduly impaired, 37% believe it is to a limited extent, and 18% to a great extent. Problems arose in some cases when it came to drawing up the cooperation agreements or arranging the transfer of remuneration, when particular expectations were voiced by the partners, or when it came to choosing the right partner for cooperation.²⁴

Concluding Remarks

The difference between cooperation and pure trade dealings lies in the fact that the parties involved do not simply enter into a move-by-move relationship which is basically short-term in its orientation, but allow a long-term attachment to come into being. A characteristic feature of cooperation is that it incorporates partnership decisions which in principle give the parties equal rights, and an equal part in the planning and responsibility involved, that goals are set which are acceptable to both parties, and that the arrangements are secured by way of long-term contractual agreements. The fact that overall economic and social needs play an especially important part in developing countries, always needs to be kept in mind also from the entrepreneurial point of view, i.e. the contribution to the host country's development process has to be taken into consideration.

Subsidies granted by public authorities, such as the German Federal Government's support programme for corporate involvement in developing countries as well as any financial support or tax concessions provided by the host country, are intended to go some way towards counterbalancing the risks involved. As a general principle, however, entrepreneurial cooperation can only ever come to fruition if both sides are in a position to see adequate advantages for themselves. It is important to bear in mind here that there is substantial uncertainty involved in assessing individual factors, all the more so as there are many qualitative aspects – the synergy effects cooperation can be expected to generate, the degree of activity of the partners, government behaviour, the judgement of market potential and level of qualification of the workforce – which all need to be brought into consideration.

The majority judgement made of cooperation arrangements, especially joint ventures, by investors from industrial countries is, in spite of the obvious risks, a positive one. The problems nevertheless occurring have been indicated here. Attention needs to be paid to making a realistic assessment of the market conditions to be expected, to ensuring that quality standards of production are adequate, to the amount of time which

²¹ Cf. also for a generally applicable view H.-G. Meißner: Zielkonflikte in internationalen Joint Ventures, in: E. Pausenberger (ed.): Internationales Management, Stuttgart 1981, p. 129 ff.

²² Cf. for a generally applicable view B. Günter: Local Content – eine Herausforderung für das internationale Marketing, in: Marketing ZFP, No. 4, Nov. 1985, p. 263 ff.

²³ Cf. A. J. Halbach, R. Osterkamp, J. Riedel: Die Investitionspolitik der Entwicklungsländer und deren Auswirkung auf das Investitionsverhalten deutscher Unternehmen, Munich/London 1982, p. 172 ff., 184 ff.

²⁴ Cf. C. Pollak, op. cit., p. 119 ff., 133 ff.

will be required for mutual information and coordination, and, last but not least, to the trustworthiness of one's local partner. In consequence, the "transaction costs" incurred can be substantially higher than they would be for pure export deals or for an involvement via a fully dependent subsidiary. Against this must be weighed the expected benefits from the arrangement. To an increasing extent, the motivation for seeking entrepreneurial cooperation is no longer simply the pressure exerted by domestic legislation in the developing country to set up production facilities there with locally based equity participation. Instead, a part is also played by expectations that cooperation will provide access to local know-how and capital, to be better able to integrate the company into its foreign environment and to obtain support on the part of the host country's government – via the receipt of public contracts, for example.²⁵

²⁵ Cf. D.-S. Ahn: Indigenisierungstendenzen und Joint-Venture-Praxis in ASEAN-Ländern, in: K. Hottes, Chr. Uhlig, op. cit., p. 291 ff.; C. Pollak, op. cit., p. 132 ff.

Before companies from industrial countries deepen their involvement, however, they not only need to be familiar with entrepreneurial cooperation as a tool in itself, but also with the conditions which need to be fulfilled if its application is to be a success. The important point is, by carrying out systematic market research, to gain a realistic grasp of national conditions and structures, to gather well-founded knowledge of the host country and the customs which apply there, to make a careful choice of partner, and finally to ensure that agreements are contractually bound in unequivocal legal terms. It is also of prime importance to see that the staff who will be sent to the country concerned are well prepared in that they too have learned about the cultural background and have some knowledge of the local language. That is to say that not only economic, legal and political matters require attention, but also the cultural and social conditions in the partner country if the cooperation is to be a success. In broadening the information base all of this requires, great help can be provided by the results of development research.

SOCIAL POLICY

The "Machine Contribution" in the European Scene

by Jan Peeters, Antwerp*

The long-term financing of social security faces considerable problems which give rise to the question whether wages can and should continue to serve as the only assessment basis for social security contributions. The calculation of, at least, the employers' contributions on a broader value added based foundation seems to offer a plausible alternative: human labour is being replaced more and more by technology: its value added could be used for financing social security. What would be the economic effects of such a "machine contribution" on employment, competitiveness and growth?

In only a minor group of EC countries is the financing of social security based mainly on tax revenue, namely in Denmark, Ireland and, to a lesser extent, the UK. In the other countries social security financing relies mainly on employers' and employees' payroll contributions. These contributions are not always calculated on the basis of total gross wages: upper earnings ceilings exist in the Netherlands, Greece, the Federal Republic of Germany, France and Luxembourg. There is, however, a tendency to eliminate these

ceilings, e.g. in Belgium (1982) and in the UK (1985). In some countries (the Federal Republic of Germany, France and Italy) more than 40 % of total social security revenue comes from employers' contributions (see Table 1).

These social security financing structures have implications for the structure of labour costs in the different countries (see Table 2). In some countries social security contributions constitute a very substantial cost factor with, moreover, some very specific characteristics: these costs are fixed in a non-

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