

# **“A Different Start Up: The Chinese Joint Venture”**

**The Twelve, (shi'er), Pillars of Joint Venture Success**

**By David W. Franklin**

Across the US, business development managers are feeling a bit of euphoria over the trade and partnership opportunities with the People's Republic of China. Since the WTO is helping China take a great leap forward into a market-style economy, US businessmen are anxious to join in what may be a lucrative chance to go global. Once China implements its WTO complex commitments; there will be many changes in various regulations across the board, including foreign joint ventures to operate more freely.

Before considering any global venture, one must conduct a thorough business development feasibility study in order to determine if going global with that particular country is a good idea. Knowing the answers to many basic and unique cultural awareness questions can make or break the success of a joint venture.

Those who have determined that a joint venture is the best strategy for achieving business objectives in China will benefit from the experience of companies and individuals that has preceded them. Having spent six years as general manager of a 50-50% American–Chinese Co-Operating Joint Venture, I offer the following guidelines in hope that my experience provides business development managers food for thought.

## ***1. Chose the Right Partner...***

I can not stress the importance of “knowing your partner” and choosing him carefully. Your partner will be the most critical element to the success of the JV. The real success factor of a Joint Venture is not location, location, location, but.... due diligence, due diligence, due diligence on your partner. The first step is to determine what kind of venture best fits your goals. The partner you choose will reflect the type of venture. Your partner can be an investor in equity as in an EJV (Equity Joint Venture) with limited participation in the day to day activities or your partner can be an investor in a CJV (Co-Operating Joint Venture), with shared responsibility in the operational success.

## ***2. Establish common objectives...***

Whichever type of venture, EJV or a CJV, each partner must clearly identify their objectives. Ideally both parties have the same objectives, i.e. make profit for the joint venture. When in reality the same objective is to make money for each parent company. Be cautious that the win-win attitude felt at the signing of the JV agreement, may seem “out of balance” after the JV is up and operational. There may be an agreement on common goals and objectives, but be aware of a possible hidden agenda. You may be working on a two-year plan, when your Chinese partner is actually working on a five-year plan. You need to know your partner’s perception of success. Don’t confuse perception with deception.

## ***3. Define investment components and safeguards....***

Be aware of time binding agreements. Your entry strategy should include an exit strategy, especially if goals have not been met. It is very important to clearly define individual specialization’s to be invested, such as equal or agreed cash vested, understanding the other’s skills, requirements and expectations. Will your partner provide a facility and what will be the ratio in manpower between expatriate and locals? Your Chinese partner is looking to gain from a JV both technology and management skills. If you are investing Intellectual Property, it is extremely important to understand the concept and proprietary technology transfer regulations. A technology transfer agreement can be a very important aspect of building long term trust with your partner. However be cautious, the early joint venture days of Beijing Jeep are still “hiding in the background”.

## ***4. Pick your team of negotiators carefully...***

Don’t include your top-level decision-makers in the preliminary meetings in the chance you may cost the company considerable leverage during the actual negotiations. Once you are ready to start negotiations, It’s advisable to have someone knowledgeable from the major areas of agreement objectives, such as engineering, manufacturing and finance. Review the overall strategy each negotiator will play on your team. Remember attitude and strategy goes hand and hand. I have been part of an embarrassing negotiating session when a fellow team member stepped outside of his role. The expressing of his strong personal upset feelings toward unresolved issues, lead to leaving a dark cloud to hang over the remaining two days of negotiations. Our senior negotiator made a private sideline apology to the Chinese senior negotiator that helped build and reassure the most important aspect of negotiations..... RESPECT.

### ***5. Establish a negotiating style...***

Your team will need to establish a structured yet flexible style of negotiating. Don't be persuaded to loosen up your hard western business practices or methodology that may burn you in the long run. It may feel like negotiating is a game of which parent company can get the most for contributing the least. While it is important to be respectful on another's culture, one can not abandon solid business principles in deference to proposed cultural differences. Approach the negotiations with the same standards you would anywhere else in the world

### ***6. Exercise patience....***

You must learn to exercise patience. The Chinese have great respect for patience. Patience can prove to be valuable when resolving an important issue. Wait to see in what direction your Chinese negotiator wants to proceed before committing to what you may see as the only way out. Through out the negotiations, revisit the initial reasons or objectives for seeking a joint venture arrangement. Retain your willingness to walk out, however convey you do have that option.

### ***7. Give ample time to talk....***

Negotiations can last for days. You may be thinking on an hour by hour work schedule, when your partner is thinking on a day by day work schedule. Be prepared to take several breaks and attend the all-important Chinese banquet. Be careful of your interpretation of "small talk" around the dinner table. I recall while a VP was attending an annual JV board meeting, he made some overly optimistic expectations for the success of the JV. He let slip that new hardware and software was bringing massive sales to our parent company. Next day the board meeting opened with the Chinese wanting to negotiate for the new hardware and software that was actually not available outside the US. To our senior board member's surprise, we carefully sidestepped their request. Our visiting VP learned a valuable lesson on "loose talk" (bragging) at an "all-ears" Chinese banquet.

### ***8. Save and give Face....***

Never deliver your Chinese partner an ultimatum to make a decision. Always leave a "Face Saving" way out. You are doomed for failure if you do not give sufficient attention to the need to preserve face. Face situations can appear as 1.) soft as not understanding a simple business proposition, or as 2.) hard as an insulting comment to cultural values. Personal

relationships are very important for conducting business in China. It is not possible to develop them without a reasonable understanding of, and sensitivity to, how to avoid causing your partner to lose face and how to give them face (help them look good).

### ***9. Negotiations are never ending...***

Realize that negotiations do not end with a signed JV agreement. When holding an annual board meeting, Chinese will not hesitate to raise issues already agreed to in the contract. Be careful that board meetings do not turn into operational meetings. There will be times when your Chinese partner will re-open parts of the contract to re-negotiate a better deal before moving further with the venture. If there has been any major mistakes (unresolved issues) made during the writing of the agreement, your Chinese partner will most likely take the opportunity to raise these issues to better his position. If you are not willing to take a firm position on an issue, you may find yourself starting to renegotiate the entire contract.

### ***10. Decision making process.....***

It is obviously important to understand Chinese business and negotiating styles, however don't expect to completely understand the reasons behind each decision. Don't over analyze your partners reactions or decisions. It may be years or you may never know the real reason behind your partner's decisions. Be aware of the need of the negotiators on the other side who have to defend their position. Who is really making the decisions? The decision making process may go beyond your partner. They may very well have someone to answer to once the agreement is signed

### ***11. Laws and regulations...***

China's legal and tax systems pose challenges and concerns that each parent company should be aware of. Carefully review the present joint venture laws with your partner. Don't expect that he is fully aware of all regulations. He may not understand the "abstract concept of law". Have no uncertainties left to reappear about after the JV has been established and the charter agreement has been written. You should consider the help of an international public accounting firm in China to provide valuable assistance in understanding details of legal, financial, and tax laws.

### ***12. Managing the JV-Operational guidelines....***

The process of the JV should be constantly monitored and discussed between top management and local management. Local weekly and

monthly summary reports should be submitted to each parent company. Responsive communication will help keep each parent company in focus of the terms of the your contractual relationship that meet long-term business objectives. At the end of an annual board meeting, be sure each board member signs off the minutes. These minutes will play a valuable part in setting future operational objectives. As an additional monitoring process, it is highly recommend to state in the initial JV agreement a clause that requires third party audit practice services. It never hurts to keep a watchful eye on your investment.

***Summary....***

A JV is usually a long-term project demanding strong commitments from both parties. If one chooses to go global, the JV is an ideal form of business that provides a strong and lasting presence. An international investor has a lot of advantage if the JV is successful. However, there are risks and your due diligence should tell you, many JV's in China have fallen into failure. Not only a loss of money, but also confidential "know-how" may be lost in a failed JV. Whether it is a US start up company or an international JV, risk will always be a factor. Let's all hope WTO agreements help reduce the risk, and as a result, attract young and established American companies with the true entrepreneurial spirit.

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