

# ***WORKING PAPER***

## **AUSTRIAN PARTNERS IN JOINT VENTURES WITH COMPANIES FROM CMEA COUNTRIES: PROBLEMS TODAY**

*Evka Razvigorova  
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Christian Horak*

April 1990  
WP-90-21

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## FOREWORD

This working paper is one of a series\* produced by the TES-MTC Project discussing the problems of East-West Joint Ventures located in CMEA countries on a country basis.

Compared to the previous papers mentioned below, this differs in scope and objective of the described study. This paper deals with the experience of Austrian companies in partnerships with companies from CMEA countries. It portrays another reflection on the subject and raises more practical questions about the actual process of negotiations, partner selection and appraisal. This working paper presents the results of a study which was undertaken by students from the Vienna University of Economics and Business Administration under the supervision of Professor Rolf Eschenbach and coordinated by the MTC Project. The information was summarized and the conclusions drawn on the basis of interviews with Austrian managers.

F. Schmidt-Bleek  
Leader  
Technology, Economy & Society Program

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\*To date, the following papers have been published:

- Djarova, J. (1988) Joint Ventures: A New Reality of East-West Cooperation (State-of-the-Art), IIASA Working Paper WP-88-54, June.
- Benedek, T. (1988) Some Experiences of Joint Venture Establishment and Operation in Hungary, IIASA Working Paper WP-88-88, September.
- Soloviev, I. (1989) Guidelines of Foreign Partner Selection in the USSR, IIASA Working Paper WP-89-2, January.
- Ranenko, V., and Soloviev, I. (1989) Joint Ventures with Foreign Capital Participation in the Soviet Union: Experiences and Future Outlook, IIASA Working Paper WP-89-3, January.
- Razvigorova, E. (1989) Joint Ventures: A New Practice in Bulgarian Foreign Economic Legislation, IIASA Working Paper WP-89-26, March.
- Maciejko, R. (1989) Joint Ventures in Poland, IIASA Working Paper WP-89-36, May.
- Razvigorova, E., Djarova, J., and Leitner, W. (1989) A New Step Forward for East-West Joint Ventures, IIASA Working Paper WP-89-40, June.
- Bečvát, O. (1989) Quo Vadis East-West Joint Venture? Reflections on Selected Aspects of the Development of East-West Joint Ventures, IIASA Working Paper WP-89-44, June.

## PREFACE

International research institutes involved in comparative global studies are not normally involved in the education of students or their respective studies. However, this study on joint ventures between Austrian enterprises and companies from CMEA countries was undertaken by students of the Vienna University of Economics and Business Administration with the assistance of IIASA scientists. This exceptional example proves that such cooperation can be most successful and mutually beneficial.

Cooperation can be summarized in that IIASA would provide methodological guidance, data, literature and organize a series of lectures on East-West cooperation with special emphasis on joint ventures. These lectures were given by experts from CMEA countries and Austria; each lecture being followed by a discussion not only on joint ventures but also on economic reform in CMEA countries and national business practice. Simultaneously, hypotheses, questionnaires and plans for interviews were developed jointly.

The main objective of the study was to look at the problems that Western partners meet in the process of negotiating and operating joint ventures with Eastern companies. The study consisted of two parts: first, theoretical – elaboration of methodology, basic concepts and hypothesis; and second, empirical – revealing specific problems of joint venture creation and operation from the Austrian partner's viewpoint.

This sample of managers from 20 companies represents half of the Austrian partners involved in joint ventures at the end of 1988. Normally joint ventures begin their activities within one year from the date of registration and stabilize after two to three years. Austria ranked second among the countries establishing joint ventures; ranked by the number of joint ventures created and by the share of joint venture contracts with CMEA\* among all contracts of industrial cooperation of the country – (33.3%).

The findings in this Working Paper do not always meet the assumptions; but this is a sign that joint ventures have used opportunities in some areas and found ways to overcome difficulties. Other important and promising issues which resulted from the study are:

- Recognition and mutual understanding of two different systems and business environments was observed and considered vital by both East and West;
- Willingness to cooperate and achieve synergy effects by Austrian partners and their readiness to share their experience and enter into another joint venture;
- The lack of some goods and raw materials in CMEA countries combined with longer delivery times and the monopolistic position of suppliers on the domestic market, etc., turned out to be the main problems.
- It can be generally stated that joint ventures are a good means of managerial know-how transfer. However, difficulties in managing East-West joint ventures can be found in two main areas: new methods and techniques (EDP and telecommunication) and in the functional area of personnel management. Although the management of joint venturers is not a particular problem.

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\* Source: Trade R538, 22 September 1988, ECE Committee on the Development.

- The importance of a new type of "cooperation" management emerged from the study.

It can be stated that based on the subjective views of the businessmen interviewed, the results are not far removed from other national research studies. Obviously the specific features of the countries play an important role but do not drastically change the shape of the problems.

Criticism of the study can also be made. Some of the hypothesis and elaborated assumptions are not based on real data and facts from CMEA countries. The short period of study did not permit an extensive research of literature on and from CMEA countries. In addition, the number of managers who did not answer some questions was high thereby offering different subjective interpretations. However, the approach and the structure of this research could, in the future, serve as a constantly repeating check-up on East-Austrian economic ventures and their development.

This study was the first of its kind carried out at IIASA and in the field. Even considering that only 20 out of 40 companies were studied, the results can be regarded as a barometer of Austrian partnership in ventures with CMEA countries.

Professor Evka Razvigorova  
MTC Project Leader

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# AUSTRIAN PARTNERS IN JOINT VENTURES WITH COMPANIES FROM CMEA COUNTRIES: PROBLEMS TODAY

*Evka Razvigorova, Gerhard Plasonig and Christian Horak*

## 1. Introduction

Austrian companies are playing a leadership role in introducing joint ventures with CMEA-countries as a business alternative.

The reasons for this are:

- the special geographic position of Austria between East and West
- Austria's neutrality since 1955
- traditional trade relationships between Austria and the countries of the former Austro-Hungarian monarchy.

Austria's share of new East-West joint ventures is currently about 10 % and steadily growing. Compared to Austria's position in world trade, this is a relatively large figure.

The results of this Workingpaper are based on an empirical study carried out by students of the Vienna University of Economics and Business Administration in 1988. During this study students at the Department of Business Policy together with researchers of the International Institute of Applied System Analysis (IIASA) prepared a framework for interviewing all existing Austrian joint ventures with CMEA-countries. 50 % of the companies agreed and gave data to the students. The results including the theoretical framework were published in German in Vienna under the title: "Ost-West Joint Ventures auf dem Prüfstand" in 1989 (Manz Publishing).

## 2. Empirical study

### 2.0 Methods and methodologies

#### 2.00 Study objective

The objective of the empirical study is to present, describe and analyze the specific problems of Joint Ventures in operation by means of interviews with Austrian Joint Venture partners. The aim is not to carry out a superficial study merely glossing the surfaces, but to point out relevant divisions (procurement, production, etc.) in these special business organizations which are of

crucial importance to Joint Venture managers who - in comparison with Western conditions - are faced with a situation characterized by strongly restricted freedom of both action and decision. These commercial restrictions present us with a "problem" faced by the respective managements.

## 2.01 Process of the study

By studying standard management literature a first attempt was made to identify possible problems of Joint Ventures in operation. After a detailed group discussion these assumptions were transformed into hypotheses which in turn were used to formulate questions. The next step was to put together a list which was to be used as a guide for the oral interviews. Parallel to this, sample firms were contacted (Austrian Joint Venture partners in CMEA countries) and invited to participate in our study. By October 1988 we found 37 Joint Ventures which had been set up about one year ago - we did not want to present typical problems involved in the setting up of JVs. 20 companies responded affirmatively. A list prepared by IIASA and the Austrian trade register served as sources for the sample. The investigations lasted 60 minutes on average and were mainly carried out in the form of open interviews. This implies that no fixed answers formulated in advance were put forward to the interviewees. They were allowed to respond freely and without influence. We chose this mainly for three reasons:

- To find out the subjective assessment of the problems from the point of view of the Joint Venture partners.
- We wanted to enable the interviewees - within the framework of our checklist - to influence and to guide the interview; this was in order firstly for us to gain deeper insight into problems we were already aware of, and secondly to obtain access to new problem areas.
- We considered our preliminary knowledge to be insufficiently sophisticated to present long pre-formulated questions to the interviewees.

All interviews were recorded in writing. The completion of this part was followed by an evaluation using both qualitative and quantitative criteria. The quantitative analysis was mainly used to evaluate the relative importance of different fields of problems. The qualitative analysis attempted to connect several isolated results to establish a clear system of relations and also to find reasons for and causes of the identified problems. The empirical work was completed in the drawing up of this final report.

## 2.02 The Sample

Altogether twenty interviews were carried out over four weeks. 12 of these were in production JVs, 8 were service JVs. The persons interviewed were either Austrian managers of the JVs or those responsible for the JV in the Austrian company.

Sixteen, or 80%, of the JVs are in Hungary, 8 of them are service JVs (100% of all service JVs), and 8 production JVs (67% of all JVs operating in the field of production). The remaining 4 production JVs are located in other CMEA countries.

Looking at the length of time the JVs investigated have been in operation (here the year in which the company was incorporated was used), it can be seen that 14, or 70% of the companies have existed for less than two to three years. Only one of the JVs was formed more than ten years ago (four firms declined to answer this question).

In view of the Austrian partner's capital share, it can be established that minority holdings were significantly dominant.

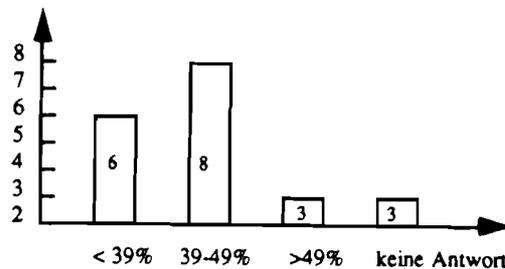


Fig. 1: Austrian partner's capital share

The number of employees averages about 33. In most cases none or only one of these employees is Austrian (see Chapter 2.6 Personnel)

## 2.03 Informative value of the results

Relating the number of sample JVs to the total sum of JVs - ie. to all existing Austrian JVs in CMEA countries that have been operating for more than one year - we have the following set up (as of October 1988):

JV	A*	B	C	D	T
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Total sum of JVs	16	16	4	1	37
Sample	8	8	4	0	20
In percentage	50	50	100	0	54.1

Table 1: JVs covered in the survey

- \* A stands for JVs operating in the field of services located in Hungary.
- B stands for JVs operating in the field of production located in Hungary.
- C stands for JVs operating in the field of production located in other CMEA countries.
- D stands for JVs operating in the field of production located in other CMEA countries.
- T stands for the total.

As far as the informative value of the results are concerned and in view of the relatively small total sum of JVs, it should be stressed that:

- Firms which are either not operating at all or take only the form of informal cooperations are included in the total sum of JVs. These organizations were not included in our study. A large majority of the remaining JVs have been taken into account.
- Each problem mentioned by an interviewee should always be considered against the background of the specific situation in which the appropriate company exists. On the basis of several possible answers, we attempted to uncover and to describe typical problem areas arising in JVs. Special care was taken neither to generalize on the basis of the descriptions given by individual interviewees nor to draw general conclusions for all other JVs.
- The small number of interviews carried out, as a result of the small number of existing JVs, often did not allow for a differentiated analysis of the results with regard to the various sectors of this topic. This applies in particular to the special treatment of the distinction between service and production JVs. An attempt to make a differentiated analysis in spite of the small amount of data would lead to a generalization of individual statements.

- Analyzing the results from a regional point of view, it becomes obvious that the majority of JVs are situated in Hungary. The main reason for this can be found in Hungary's openness towards the West.

In spite of all these restrictions, we believe that we have achieved the aim of our study: ie. by means of interviews to uncover, describe and analyze those problem areas which Austrian businesses can expect when wanting to set up a JV in a CMEA country.

Each of the following chapters is structured in a systematic way in accordance with the theoretical part:

- partners' motives
- procurement
- production
- sales
- finance
- personnel
- organization
- management

The presentation of the preliminary hypotheses will be followed by a comparison of the results of the survey and notes and comments.

## 2.1 Joint venture partners' motives

### \* Assumptions

- Profit maximization is the most important objective of the JV partners
- Security of market share is merely a secondary objective
- The Eastern partner expects to earn foreign exchange and to acquire Western know-how.

### \* Results

QUESTION: Can you tell us your most important objectives at the beginning of the JV negotiations? Was profit maximization of predominant importance?

Evaluation:

A            B            C            T

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- Market penetration and security	6	6	4	14
- Profit maximization	3	5	1	9
- Lower wage costs	0	3	1	4
- Closer proximity to customers	0	2	1	3
- Eastern partner's desire to have the western in his country	0	1	1	2
- Barrier against competition	1	0	0	1
- Consolidation of relations with already established Eastern partner	1	0	0	1
- Establishing of secure relations with supplier	0	1	0	1
- No answer	0	0	1	1

Table 2: Austrian partner's motives

The main reason for the Austrian partners to establish a JV is clearly market development and penetration. Profit expectation is also an important motive, but was not however given as often as the former. All other motives are of secondary importance.

QUESTION: What were, in your opinion, the motives of the Eastern partner?

EVALUATION:

	A	B	C	T
- Foreign exchange earnings	4	3	2	9
- Acquisition of know-how	3	3	1	7
- Increase in quality and range of products	2	3	1	6

- Receipt of capital goods	1	3	1	5
- Access to new export markets	3	2	0	5
- Due to wishes of public authorities	1	1	0	2
- Profit	0	0	1	1
- Closer cooperation with Western supplier	0	0	1	1
- Trips to the West	0	0	1	1

Table 3: Eastern partner's motives

The two most important motives for the Eastern partner are the transfer of know-how and convertible currency earnings, although these are not nearly as predominant as the two most important motives of the Austrian partner. The improvement of product range and quality and access to Western markets should also be pointed out here. Profit expectation and other motives are less important.

QUESTION:

How would you judge the achievement of objectives at present? (Mutual or individual objectives, partner's objectives)

EVALUATION:

	A	B	C	T
- Partially achieved	2	3	2	7
- Totally achieved	4	2	0	6
- Achieved and surpassed	1	1	0	2
- Hardly achieved	0	1	0	1
- No objective achieved	0	0	0	0
- No answer	2	1	3	6

Table 4: Achievement of objectives

The analysis shows that 70% of companies interviewed had either partially or fully achieved or even surpassed their objectives. No JV failed to achieve at least some of its aims. Moreover, this question was not answered by 30% of the interviewees.

\* Comments

The major objective - market development and penetration - points out the fact that Austrian investors are more interested in long-term involvement in the CMEA than in short-term profit maximization. The analysis of the motives for the establishment of a JV shows that partner motives vary greatly. Thus the most important motives of the Austrian partner - namely market development and penetration - only play a subordinate role for the Eastern partner. The most important roles for each partner do are in fact in conflict as the Western partners are not particularly interested in exporting to other countries outside the CMEA.

The contrast in motives could well be one of the reasons why negotiations concerning the setting up of a JV are long and often last for a number of years.

The statements about the degree of achievement of objectives can be evaluated similarly to those about the fixing of targets. There is a higher degree of achievement and there are even JVs which surpassed their objectives - but the fact that 30% did not answer this question could be an indication of the failure to achieve objectives. It must however be noted that only those JVs which were in fact in operation were taken into consideration. JVs which were set up but did not begin to operate or failed for various reasons were not included in this study.

## 2.2 Procurement

\* Assumptions

- The JV must make use of set CMEA state-controlled procurement channels.
- Procurement from the West is hampered by bureaucratic obstacles (eg. imports require official approval, import only via state foreign trade organizations, import quotas)
- Procurement on the CMEA market causes problems due to inferior quality and quantities not corresponding with those ordered. In addition there are considerable delays in delivery.

\* Results

### Procurement channels

QUESTION: Do you have to use set procurement channels or markets in the procurement of your inputs? (Raw materials, capital goods)

#### EVALUATION:

Set channels of procurement	A	B	C	T
No	2	6	3	11
Yes	0	2	0	2
No answer	6	0	1	7

Table 5: Channels of procurement

Most of the JVs are not bound to any channels of procurement. It must however be pointed out that 75% of the JV companies operating in the service sector in Hungary could not or would not give an answer.

### Selection of suppliers

QUESTION: Are you able to choose between several suppliers for the procurement of your production inputs? If yes, where are these suppliers located?

#### EVALUATION:

Free choice of suppliers	A	B	C	T
Yes	2	7	4	13
Suppliers from the CMEA market	0	2	0	2
Western suppliers	0	3	1	4
Suppliers from both markets	2	2	2	6
No	0	0	0	0



Delivery date  
(degree of satisfaction)

High	1	1	0	2
Average	0	0	1	1
Low	1	3	2	6
No answer	6	2	1	9

-----  
Table 7: Performance of CMEA suppliers

Only two of the interviewed companies with CMEA suppliers said that they were very satisfied with the quality of the materials supplied. It is striking that nine of the interviewed partners gave no answer. Keeping to delivery dates was seen as a major problem by nearly all interviewees.

\* Comments

Procurement has proved to be a major problem for JVs. Basically, as far as procurement channels are concerned, JVs are not limited in their choice. The JVs we interviewed preferred foreign trade organizations as these are at the same time customers of the JV and are much more familiar with the procurement market.

JVs buy the required materials primarily in the host country or on the CMEA market. Where JVs are supplied from the CMEA countries, there are usually problems of quality and of differing amounts supplied to those ordered. In addition delivery dates are often considerably exceeded and order times are particularly long. This situation is complicated further by the fact that the JV is dependent upon one single supplier with a "quasi-monopolistic position" within the CMEA market. The JVs affected by these problems try to solve them, or at least start to solve them, by taking the following measures:

- Procurement of large stocks of goods wherever possible
- Repeated complaints which in the long term do lead to greater reliability and better quality
- Procurement of required materials from the West.

Experience shows that the few suppliers who reliably deliver goods which meet the quality requirements are extremely overburdened. The result being longer than average waiting lists for orders.

Where it is either impossible or inadvisable to procure the required materials on the CMEA market, then they have to be imported from the West. In this case the Eastern partner must firstly be convinced of the necessity of this measure (which usually does not pose any problems for the Austrian manager/director). The JV, however, is in need of convertible currency which it can only acquire through goods produced for export or by means of taking out a loan. There is also the opportunity for production JVs to "sell" their own semi-finished and finished products to the Austrian partner for convertible currency.

2.3 PRODUCTION

2.31 Production process

\* Assumptions

Compared with Austria, there are more frequent stoppages in the production process in CMEA countries due to improper maintenance, the use of outdated machinery or lack of motivation amongst employees.

\* Results

QUESTION: Do you experience an above average frequency of production stoppages in your Joint Venture?

EVALUATION:

Production stoppages

	A	B	C	T
No	2	5	4	11
Yes	0	2	0	2
No answer	6	1	0	7

Table 8: Production stoppages

In nine out of the twelve production JVs asked, the number of production stoppages was not considerably higher than in similar Austrian companies (here, service JVs are included).

\* Comments

Contrary to our assumption, production does not represent any major problems for the JVs as the partner's problem awareness in this aspect is relatively high right from the start. However, if there are stoppages in production, according to our interviewees' answers this can be due to

two reasons:

- Problems in organizational process, e.g. lack of coordination in production processes - which are also experienced in the Western firms
- Problems caused delays in delivery or deliveries of quantities not described in contractual duties. An attempt to avoid this is larger inventories.

Furthermore it has been discovered that lack of motivation, insufficient care at work or improper maintenance of production machinery are not reasons for production stoppages. If one machine breaks down, first JV staff themselves will try to repair it. If this is not possible, within a short amount of time specialists and also spare parts from the Austrian partners are called in.

## 2.32 INNOVATION

### \* Assumptions

- Eastern know-how is only limited and what is available is under strict control
- In using Western know-how, problems can arise with Western public authorities (prohibition of transfer of certain technology).
- The JV above all involves production of specific goods in order to fulfil a specific goal
- The JV is not intended to be developed further
- New ideas are only seldom realized in the JV

### \* Results

QUESTION: What problems arose in using

- Know-how from CMEA countries
- Know-how from Western countries?

EVALUATION:

Answers	A	B	C	T
None	3	5	2	10
With Western know-how	1	1	0	2
No answer	4	2	2	8

Table 9: Problems with know-how

Basically, it seems there are no problems involved in using know-how. There is a considerably high number of interviewees who did not answer this question.

QUESTION: What measures are taken in your JV to promote innovation?

EVALUATION:

Answers	A	B	C	T
No measures	6	4	1	11
Measures taken	1	2	2	5

Table 10: Promotion of innovation

QUESTION: Is it easier to carry out innovation in the JV or in the Austrian partner firm?

A large number could not answer this question, since the JV has only existed for a short time.

EVALUATION

Answers	A	B	C	T
No difference	2	1	1	4

Easier in the West	2	1	1	4
No answer	4	6	2	12

Table 11: Accomplishment of innovations

\* Comments

There are basically no problems involved in using know-how (excluding the COCOM list). In the area of "connections know-how" (eg. contact with public authorities), Austrian partners still have a lot to catch up on. The promotion of innovation in the JVs seems to be underdeveloped as yet. This is particularly true of service JVs but also partly lies in the fact that the conception of innovation is too narrow - innovations not being considered as a means of matching product and market.

Some production JVs would be glad to see more innovative thinking. Some have already taken measures to institutionalize the innovative process. However, none have been able to manage without importing innovation. New ideas are mainly adopted from the Western partner.

While 50% of the firms who answered this question think that it is not more difficult to accomplish innovations in the CMEA countries, the other half believe that it is a little easier in the West.

## 2.4 SALES

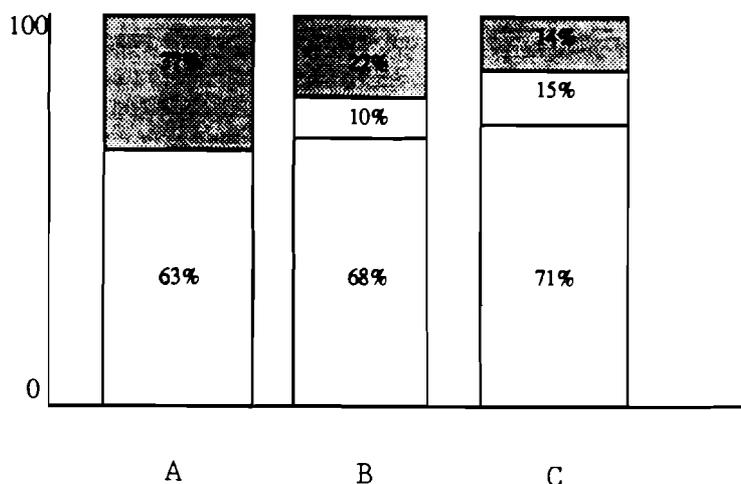
### 2.40 Distribution of JV Sales

\* Assumptions

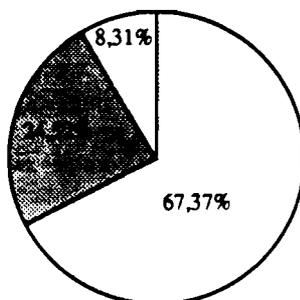
- There is little demand for products from CMEA countries in the world market
- There is a large demand in the host country and CMEA countries in general for goods produced by JVs

\* Results

QUESTION: Could you please give us the distribution of your sales on the 3 following markets: host country, other CMEA countries and the West?



Total sales:



West   
other CMEA countries   
Host country 

Fig 2: Sales distribution

These figures show representative levels. More than two thirds of products/services of the JVs interviewed are sold on the host country's market. Three out of the eight service sector JVs in Hungary did not answer this question. All Hungarian production JVs answered this question. Out of the four remaining JVs from other CMEA countries, only one interviewee did not answer.

\* Comments

The fact that two thirds of all JVs interviewed sell their products on the host country's market can be attributed to the following reasons:

- The quality of goods produced and services offered by JVs is below Western standard - this leads to a smaller demand on the world market
- The above-averagely high demand for "Western" products in the host country is covered by the goods produced/services offered by the JV. This corresponds with the Austrian partner's aim to gain a foothold in the CMEA market.
- As most of the JVs interviewed are "young" JVs, these had not yet had enough time to bring their products onto the world market.
- The Austrian partner tends to keep the JV apart from his original markets

## 2.41 Product policy

### \* Assumptions

- The JV produces and sells goods/services which are developed and produced by the Austrian partner. These are not adapted to the CMEA market.

### \* Results

QUESTION: Have your JV products been newly developed specifically for the CMEA market, only adjusted or not adapted at all?

### EVALUATION:

Products for markets

	A	B	C	T
-----				
Newly developed	3	2	0	5
Adapted	1	4	1	6
Unchanged	2	1	2	5
No answer	2	1	1	4

Table 12: Product adjustment

The evaluation shows that approximately one third of the JVs studied developed their offered products/services specifically for the CMEA market. One third of the interviewees said that goods produced in the Austrian firm were not adapted for the CMEA market.

### \* Comments

Where adjustments to the CMEA market were carried out these were usually in connection with the following secondary product characteristics:

- packaging
- design
- standards.

Most of the new developments are in the field of services. The following reasons explain this:

- Services have to be more strictly adapted to the legal, national and social conditions than products.
- The service sector is less important than in the West due to the lower standard of living. Therefore the qualitatively sophisticated services have to be adapted to the more simple needs of the CMEA market.
- Product brand names often have a much higher degree of product awareness in CMEA markets than those of services. High quality, reliability etc. are associated with these products. There is therefore no need for adaptation or new developments.

#### 2.42 Distribution policy

##### \* Assumptions

- There is no freedom of choice concerning channels of distribution in CMEA markets and to the West.
- In the sale of products through state trading channels problems (eg. delays in delivery) can arise.

##### \* Results

QUESTION: Which channels of distribution do you use to distribute your products? What problems arise here?

EVALUATION:

Channel of distribution	A	B	C	T
direct selling	5	5	1	11
state-run organizations	1	0	1	2
both	0	2	1	3
no answer	2	1	1	4

Table 13: Channels of distribution

A clear tendency towards direct distribution can be seen. Only two of the interviewed firms said that they used state-run organizations to distribute their products. Three JVs use both forms to distribute their products/services.

Comments

Distribution represents one of the least problematic areas according to the interviewees. Distribution is effected according to free market principles as there are no state regulations in this field. However, the interviewees did hint that good contacts with the public authorities facilitated access to Eastern customers.

In view of the channels used, no general statements can be made (it depends on the activities of the JV). The Soviet Union is an exception to this rule. Here JVs have to make use of state-run channels. It was not stated whether this led to problems.

Where JV products/services are exported to the West, usually the Austrian partner's channel of distribution is used. JVs which are not allowed to export to those markets which are supplied by the Austrian firm are an exception.

## 2.43 Price policy

### \* Assumptions

- Free price setting for JV products/services is limited considerably by law or government requirements.
- Internal agreement on prices is complicated by differing objectives of the partner firms. The Austrian partner considers the JV a means of market entry and therefore is more in favor of lower prices. The Eastern partner sees in the JV an opportunity to quickly earn amounts which can be achieved through high prices where demand greatly exceeds supply.

### \* Results

QUESTION: Who prices your products?

EVALUATION:

Price setting by

	A	B	C	T
JV	4	7	3	14
State	1	0	0	1
Western partner	0	0	0	0
Eastern partner	0	0	0	0
No answer	3	1	1	5

Table 14: Price setting

A majority of the interviewees (approx. 93%) stated that the prices for their products/services are set by the JV itself.

### \* Comments

The JV is not bound to any state requirements in setting its prices. There are some exceptions in the service sector where state guidelines must be followed. But even here these are by no means characteristic of a planned economy. The guidelines are much more similar to those for firms operating in similar branches in Western countries. It was not possible to determine price regulating measures.

Pricing is generally carried out by the responsible manager(s). This can lead to conflicts due to the differing objectives of the partner companies. The Eastern partner's lack of experience and know-how in price calculation usually allows the Austrian manager to carry his ideas through.

In comparison with the Austrian firm, the JV has a greater range in which to fix its prices. This can be attributed to the high level of demand, the low level of supply and the low level of competition on the CMEA market. Costs of material correspond to the Western average. Savings are made in labor costs. The lower costs in total and the reasons mentioned above lead to exceptionally high profit margins.

2.44 Information policy

\* Assumptions

- Secondary analyses for the CMEA market are difficult to carry out since state information either does not exist or is neither representative nor complete.
- Feasibility studies are difficult due to the JV's and the Austrian partner's lack of know-how and the lack of transparency in the CMEA market.

\* Results

QUESTION: Where do you get your information about the market from?

EVALUATION:

	A	B	C	T
Secondary sources	4	0	0	4
Feasibility study by CMEA partner	1	0	1	2
Austrian partner	0	0	0	0
JV	3	2	2	7
No market research	2	5	1	8
No answer	1	1	1	3

Table 15: Market research

\* Comments

Since there are large differences in the behavior of the Austrian firm/JVs, we should distinguish between service and production JVs.

As can be seen from the results, production JVs/Austrian producers do not carry out any secondary market research. They either carry out a study of the market on their own or do not consider this necessary. The latter is based on the fact that the Austrian firms and the CMEA countries have long trade relations and therefore a large amount of experience. Market research is then unnecessary according to the interviewees. Where production firms/production JVs do carry out market research, this is usually irregular and unsystematic.

Service JVs examine the local markets much more intensively. This has two reasons: On the one hand, as the importance of the tertiary sector was not as great before (due to the lower standard of living) business relations with the CMEA market are quite young. On the other hand, services have to be adapted to customer needs much more. Here the interviewees relied on secondary data as well as on the results of their own studies. Secondary data were provided either by trade delegates or by state organizations in the CMEA countries. As expected, problems involving current relevance, completeness and meaningfulness of the available information arose. Great importance is therefore attached to informal contacts and the relevant "insider" information about potential customers.

## 2.5 Financing

### SUB-SECTION: ACCOUNTING

#### \* Assumptions

- As JVs do not operate in a free market but in a planned economy, accounting is not in accordance with Western standards; simple receipts/expense reports are enough to record the course of business.

#### \* Results

QUESTION: How are your accounting methods structured both legally and internally and what differences are there between these and those used in Austria?

A statistical evaluation does not seem appropriate here. In Hungary, as in the West, a balance sheet and a profit and loss account are drawn up in the appropriate currency at the end of each financial year according to legal requirements. To facilitate understanding, these are also set out in Schillings, US-dollars or DMarks for the Austrian partner. For internal purposes, Western accounting methods (cost accounting) are used.

\* Comments

The interviewees unanimously established that problems in accounting only arise in the calculation of current and fixed assets. This can be attributed to the lack of experience in CMEA countries and their deficient legislative procedures. The JV partners therefore have plenty of scope in this field. Agreements in this respect are written down in the JV contract.

Since internal accounting mainly follows Western patterns and is carried out by the Austrian manager, information acquired is suitable for management use.

2.50 Capital requirements

\* Assumptions

- The JV raises its capital requirements on the institutional Western/Eastern capital markets.
- If the JV incurs losses or if it has financial difficulties, the Eastern or the Austrian partner is under obligation to make additional capital contributions.

\* Results

QUESTION: How does the JV raise its capital requirements?

EVALUATION:

Capital raised from

	A	B	C	T
Institutional capital market	3	3	1	7
JV earnings	3	3	1	7
Additional contribution obligations of both partners	1	0	0	0
No obligations	2	3	2	7
No answer	1	2	2	5

Table 16: Raising of capital

The large total sums result from the possibility to give more than one answer. The JVs show no particular tendency towards one particular source of capital.

\* Comments

From the interviewees' answers it can be seen that capital requirements are primarily raised from own reserves and only secondarily through the institutional capital market. This is attributed to the fact that credit facilities can lead to problems in the JV which are better avoided. It is surprising to note that a large majority of the interviewees stated that both partners are under no obligation to make additional capital contributions. This shows clearly that the JV is seen by both partner firms as a separate economic entity which has to solve its financial problems independently. A further reason for the lack of willingness amongst the partners to make contractual agreements concerning the obligation to make additional capital contributions lies in the uncertainty of the Austrian partner about the future development of the JV. Underlying this fact is the Austrian partner's desire to build up options for the future without great risks.

2.51 Allocation of profits

\* Assumptions

- Besides the return on investment, the Austrian partner company considers the JV as an opportunity to enter the CMEA market. On the basis of this long-term consideration, it is also interested in reinvesting either all or part of the profit in order to guarantee and develop the basis already created.

\* Results

QUESTION: Are there discrepancies between the partners in deciding on how the anticipated/actual profit will be used?

EVALUATION:

Allocation of profits

	A	B	C	T
- no problems	0	2	0	2
- due to contractual regulations	4	1	0	5
- coordinated decision	2	3	3	8
- problems	1	0	0	1



EVALUATION:

	A	B	C	T
No loans	3	2	1	6
Loans:				
- no problems	2	3	0	5
- problems	1	1	1	3
No answer	2	2	2	6

Table 18: Credit facilities

No general trend can be seen from these statistics.

\* Comments

The relatively high number of those JVs which have not yet taken out a loan can be attributed to the fact that these companies have not yet existed for very long. Since the JVs have enough capital from the partner companies at the start, in the first few years there is only seldom the necessity to take out credit facilities.

Those JVs which stated having had difficulties when taking out a loan gave a lack of guarantee facilities and high interest rates on the CMEA markets as reasons for this.

Since Western banks view JVs with CMEA countries sceptically due to insecure future prospects, the requirements for the authorization of loans are high. This is reflected in higher rates of interest and the high security requirements.

2.53 Investments

\* Assumptions

- The JV is bound to the rules of the partner company or the host country when making decisions concerning investments.

- The realization of investments is greatly hindered by the host country's bureaucracy. (eg time-consuming authorization proceedings)

\* Results

QUESTION: Do specific problems arise in investment decisions?

EVALUATION:

Answers

	A	B	C	T
no	7	4	3	14
yes	0	2	0	2
no answer	1	2	1	4

Table 19: Problems in investment decisions

The results clearly show that there are hardly any problems involved in making decisions on investment. This is particularly evident in Hungarian services.

\* Comments

Considering the results above, we must bear in mind the fact that more than two thirds of the JVs interviewed have only been operating for a short period. Therefore there have not yet been important decisions concerning reinvestment or further investment.

The clear result for Hungarian service JVs should not be exaggerated since the tertiary sector - in comparison with the secondary sector - is generally characterized by a much lower capital intensity.

However, there were also JVs which mentioned problems in connection with investment decisions. One problem area concerns the time-consuming authorization processes in state organizations which are necessary in some investment decisions. Furthermore there can be conflicts over responsibilities among administrative bodies. In this case, Eastern partner's contacts with the public authorities and other institutions are of great importance.

In JVs there can also be long decision phases due to the unwillingness of Eastern management to come to a decision. In such situations mutual trust can help to convince the Eastern management more quickly of the necessity for investment. Where the Austrian partner does however have a larger interest in the JV, the above mentioned problem does not arise since the Austrian manager de facto may decide on investment alone.

## 2.54 Risk protection

### \* Assumptions

- The company risks for a JV in the CMEA are unproportionally greater than those of a comparable Austrian company.
- Targeted risk management is non-existent or only exists in the initial stages. The Austrian partner considers its capital contribution as "Venture Capital".

### \* Results

QUESTION: Do you take certain methods to insure your JV against specific risks which result from the new business environment?

#### EVALUATION:

#### Answers

	A	B	C	T
No	6	6	3	15
Yes				
Contract	1	1	0	2
Hungarian National Bank	1	1	0	2
No answer	0	0	1	1

Table 20: Risk protection

It is clear from this table that a large number of the JVs interviewed do not have any kind of risk protection.

### \* Comments

Capital contribution is considered by the Austrian partner as "Venture Capital" - as expected. The interviewees stated that the higher risk is more than compensated by the profits earned in the host country.

In many of the JV contracts there are clauses which guarantee the repatriation of capital in the case of a change in the political system or liquidation of the JV. The interviewees agreed that such clauses could hardly be enforced in an emergency.

In Hungary there is the possibility of a guarantee of capital repatriation by the Hungarian National Bank in the case of liquidation. There is however no experience as to how reliable these guarantees can be regarded.

## 2.6 Personnel

### 2.60 Personnel selection and payment

#### \* Assumptions

- JV management is not independent in recruitment and dismissal of employees. The state influences this area.
- There are differences in pay for Eastern and Austrian employees.
- Eastern employees are dissatisfied because of the discrepancies in pay.

#### \* Results

QUESTION: Who is responsible for the recruitment and dismissal of your employees?

#### EVALUATION:

#### Answers

	A	B	C	T
Suggestion of state organizations	0	0	0	0
Eastern partner	1	1	1	3
Western partner	0	0	0	0
JV management	5	4	1	10
No answer	2	3	2	7

Table 21: Decision on recruitment/dismissal

Most of the interviewees stated that the decision on recruitment and dismissal of employees is a task of the JV management. No JV recruits personnel following the suggestion of state organizations. However, the high number of interviewees who did not answer should not be overlooked here.

QUESTION: Are there considerable differences in pay for similar jobs between Eastern and Austrian personnel? If so, do problems arise from this?

Answers	A	B	C	T
No	0	1	0	1
Yes	6	5	3	14
No answer	2	2	1	5

Table 22: Differences in pay between Austrian and Eastern personnel

Answers	A	B	C	T
No	3	2	1	6
Yes	0	0	0	0
No answer	5	6	3	14

Table 23: Problems due to differences in pay

Fourteen of the interviewed firms stated considerable differences in pay between Eastern and Austrian personnel but none of these could cite problems resulting from this fact. Only one production JV pays its Eastern employees the same as Austrian personnel.

Furthermore it should be mentioned that out of the five JVs which gave no answer most of these are JVs which have no permanent Austrian employees and for whom, therefore, the question is not applicable.

Comments

The decision-making process of the JV management in choosing its personnel is by no means restricted by state organizations. The Austrian partner also does not influence management in the question of personnel. An exception to this rule are of course the Austrian employees in the JV who are sent over by the Austrian partner. However, the JVs are not completely free from exertion of influence in personnel decisions since some (three of those interviewed) take on their employees according to suggestions made by the Eastern partner. Nevertheless, there were no problems connected with this process.

As expected, the assumption that there are large differences in pay between Austrian and Eastern employees in the JV was confirmed. The only case known to us where there are no differences in pay loses its importance when looked at in more detail. The interviewee stated that Eastern and Austrian employees do in fact receive the same level of pay, but that the Austrian has the opportunity to receive his pay in hard currency.

The almost expected dissatisfaction concerning differences in pay on the part of Eastern employees could not however be detected. None of the interviewees had any knowledge of such problems. Why this is the case - according to our interview partners - can be explained by the following:

- The level of pay in the JV is considerably higher than the general level in the Eastern host country since JVs are not bound to tariff regulations.

- Eastern employees can only be paid in view of the political situation, eg. a JV manager is not allowed to earn more than a government minister. The employees are aware of these conditions.

### 2.61 Austrian employees in the JV

#### \* Assumptions

- Only when certain incentives are offered do Austrian employees declare themselves willing to work in a JV in a CMEA country.

#### \* Results

QUESTION: Do you need certain incentives in order to find Austrians who are willing to work in a JV in a CMEA country?

EVALUATION:

Answers

	A	B	C	T
No	0	2	0	2
Yes	5	4	3	12
No Austrians in JV	2	2	1	5
No answer	1	0	0	1

Table 24: Necessity for incentives for Austrian JV employees

Answers

	A	B	C	T
financial incentives	4	3	1	8
career	2	1	1	4
benefits for family	1	0	0	1

(several answers possible)

Table 25: Incentives for Austrians in JVs

It can clearly be seen that without specific incentives it is very difficult to find Austrians who would like to work in a JV in a CMEA country. Only two of the firms interviewed had no difficulties in this area.

#### Comments

As we supposed, it is hard for JVs (and for the Austrian partner) to find Austrian employees who are prepared to work in a JV in a CMEA country. The living conditions in Eastern bloc countries do not fulfil the criteria which generally lead people to leave their home for professional reasons. Thus the companies are forced to attract employees by using special incentives. Such as:

- financial incentives
- representation of the stay abroad as a "springboard" for one's career in the Western company.

The greatest problem is caused by the employee's family. For this reason agreements are often made between the employee and the JV or the Austrian partner firm which take into account family affairs, eg. one of these firms pays for the Austrian employee to go home regularly. The two interviewees who gave a negative answer to this question should also be examined in more detail. One of the interviewees said that this was a specific JV problem since a stay abroad is always connected with some kind of special incentives. The other interviewee stated the great advantage of Hungary's geographical proximity. In both cases both Austrians working in the JV were born in Hungary. Therefore these two statements lose some of their validity.

It is worth noting that it is too expensive for three of the JVs to employ an Austrian (or an additional Austrian).

#### 2.62 Host country employees in the JV

##### 2.620 Qualification

#### Assumptions

- The qualifications of the employees from the host country are worse than in Austria.
- The qualifications of Austrian employees do not correspond with the expectations of the JVs - ie. the employees have to be additionally trained.

Results

QUESTION:

How would you assess the qualification of the employees in your JV compared with those employed in your Austrian firm?

EVALUATION:

Answers	A	B	C	T
-----				
Very good	3	1	2	6
Sufficient	1	4	2	7
Bad	4	1	0	5
No answer	4	1	0	5

Table 26: Qualification of the Eastern employees

From these results it can be seen that there is no clear-cut trend. It is noticeable that the service companies assess their employees in very different ways.

\* Comments

When the interviews are analyzed more closely, interesting facts come to the fore. In order to show these, we will treat the three groups separately.

Service JVs in Hungary

Here there are three positive opinions compared with four extremely negative opinions. It would not be possible to detect a definite trend. It is however interesting that all the interviewees who assessed their employees as very well qualified added the following remark:

In CMEA countries, a job in a JV is extremely attractive - the best people can be selected. Employees are partly taken straight from university and from vocational colleges and trained in the Western firm. Most problems arise in using Western know-how and in EDP.

One reason for the very different statements in the service sector could be that the individual firms come from such differing lines. We cannot go into the different lines here so as to preserve the anonymity of the interviewed companies.

Hungarian production JVs

Here too there is no clear trend, there are however no major difficulties since five of the interviewees described their employees as sufficiently qualified, whereas only one is very dissatisfied with the level of qualification. Some of the interviewees said that the management and higher qualified employees fulfilled the requirements more than the production workers.

Production JVs in other CMEA countries:

The picture here is similar to that in Hungarian production JVs. Here too there do not seem to be any considerable problem areas.

2.621 Motivation

Assumptions

- In CMEA countries there is a low level of staff morale due to reasons determined by the political system.
- Host country employees are difficult to motivate.

Results

QUESTION: How would you assess the level of staff morale in your JV?

EVALUATION:

Answers

-----

Good

In need of  
improvement

Bad

No answer

Table 27: Staff morale of Eastern employees

Sixteen of the interviewees are not satisfied with their employee's morale and are of the opinion that changes are necessary in this area.

QUESTION: How do you motivate your employees?

The most frequently mentioned answers were as follows:

- Trips abroad (11 answers)
- Money bonus (7 answers)
- Gifts (4 answers)
- Trainee programs (4 answers)

Comments

One very large problem area of JVs is staff morale and staff motivation. Generally it can be said that host country employees are basically not motivated. Staff morale leaves alot to be desired. In order to stress this fact, let us quote the following:

- "Eastern-bloc apathy is prevalent amongst the staff"
- "Performance-oriented work is something completely foreign to the employees"
- "The staff are not used to working properly"
- "The employee's mentality is very difficult"
- "The ideology spoils staff morale"

Staff motivation is considered to be the most important factor for the success of a JV. Nevertheless in contrast to our assumption, the employees are easily and effectively motivated. Staff morale is also considerably improved through motivation. This can be seen most clearly in the increase in productivity. Some interviewees stated that the production of goods in the CMEA country takes some two to three times as long as in Austria. Through motivation and performance-oriented rewards this time could be shortened considerably. Two interviewees even reported that they had almost reached Austrian standards.

The most important means of motivation seem to be trips abroad. In some cases employees can work in the Western firm for some time. Bonuses in the form of a share in the turnover, tips and other similar forms come second, followed by gifts and training programs. Further measures concerning motivation were:

- Increased wages and salaries
- Social benefits
- Team rewards
- Performance-related pay

SUBSECTION: Settlement of conflicts

The following trends were derived from qualitative analyses: There is an attempt to avoid conflicts right from the start. The Austrian partners consider this possible by building up mutual trust and personal relationships and through constant exchange of experiences. If conflicts still cannot be avoided, both partners try to contribute to the settlement of these conflicts by organising group meetings and discussions. Direct pressure is only used in exceptional cases.

2.7 Organization

2.70 Organizational structure

\* Assumptions

- Organizations in the East, also in JVs, are built up on functional-hierarchical principles
- Project management is not used as an instrument of business administration in a JV
- The Austrian partner is limited in implementing his wishes and objectives.

\* Results

QUESTION: Could you give a brief description of your internal organizational structure?

Answer

	A	B	C	T
Eastern management	0	3	1	4
Austrian management	0	0	0	0
Austrian and Eastern management	4	3	2	9
No answer	4	2	1	7

Table 28: Management

At the moment purely Austrian management is not yet possible in CMEA countries. Therefore the Austrian partners prefer mixed management. It is noticeable that in service companies there are always mixed management teams, whereas half of the production firms have exclusively Eastern managers.

QUESTION: Do you make use of project management in specific projects?

Answers

	A	B	C	T
Yes	5	3	3	11

No	2	3	1	6
No answer	1	2	0	3

Table 29: Project management

A surprisingly large number of JVs stated they use project management - this concept being freely interpreted.

QUESTION: What kind of organizational improvements would you like to see in your JV?

EVALUATION:

Answers	A	B	C	T
-----				
none	2	2	1	5
EDP equipment	2	0	1	3
better training	2	1	0	3
economic thinking	1	1	0	2
better control of staff	1	0	0	1
better telecommunications	1	1	0	2
less bureaucracy	1	2	0	3
no answer	0	3	2	5

Table 30: Desired organisational improvements

As we expected, most problems in the JVs arise due to factors inherent in the Eastern political system itself. The use of Western EDP equipment is often not possible due to political reasons (eg COCOM list)

\* Comments

Organizational structure is mainly laid down by the partners in the JV contract. It is stated only in a few cases that the structures have developed slowly. JVs have simple organizational structures (functional line-staff organizational structure). Where an Austrian manager is employed in a JV in a CMEA country, he is usually only

there for a limited period of time.

The improvement wishes were not surprising in face of system-inherent factors such as the use of EDP, better training, better telecommunications and information facilities and the desire for less bureaucracy.

These points cannot be influenced by Austrian partners - here it is up to state organizations to act. In problems such as personnel management and economic thinking, a well thought-out corporate culture which is adjusted to the specific requirements of the country could be a possible solution.

### 2.71 Division of responsibilities

#### \* Assumptions

- The JV contract does not clearly indicate division of competence which leads to problems later on.

#### \* Results

QUESTION: Is there a division of areas of responsibility between the partners in your JV?

#### EVALUATION:

#### Answers

	A	B	C	T
Yes	5	4	1	10
No division	2	3	1	6
No answer	1	1	2	4

Table 31: Division of responsibilities in JV

A relatively high number of firms do not have a clear system of division of responsibilities with this being especially true of the field of production.

#### Comments

It is noticeable that to a great extent there is no fixed division of responsibilities. The reason for this is that Austrian partners do not send their own employees to the host country. Another aspect could be more flexibility and an increase in responsibility for employees.

In those firms with fixed arrangements, the Eastern partner in most cases represents the company in external matters while the Austrian partner organizes internal matters. The desired import of know-how (as well as management and technical knowledge) in the host country and better partner contacts in the appropriate country play a considerable role in these factors.

Eastern as well as Austrian partners want the JV to function as smoothly and as independently as possible. In most cases the JV itself is responsible for its planning and control.

Various statements by the interviewees also show that the Eastern partners have no particular interest in influencing internal matters. They are glad if this task is carried out by the Austrian partner or the JV itself. Although the Austrian partner normally only has a minority share in the company, in practice it has a greater influence on the JV.

## 2.72 Conflicts about responsibilities

### \* Assumptions

On the basis of differing levels of know-how, the Western partner tries to assume responsibility.

### \* Results

QUESTION: Are there problems with responsibility in spite of having a given organizational structure?

EVALUATION:

Answers:

	A	B	C	T
No	5	7	3	15
Yes	3	1	1	5

Table 32: Conflicts in responsibility

In most cases there are no problems concerning responsibility. It is however worth noting that it is in the service companies where conflicts do arise.

### \* Comments

A surprising and important result can be seen here. It is particularly in the services companies - where responsibilities are fixed - that difficulties arise. Three companies in the service sector who acknowledged having problems concerning responsibility have precisely laid down their task areas. In order to make this more clear, we would like to describe some concrete examples:

- In one case there is a strict division of responsibility among the management (one Austrian and one Hungarian manager), but both of them are authorized representatives in external matters.

- Further one Austrian manager was employed alongside a Hungarian manager who had been working alone for some time. It is no wonder that this Hungarian manager feels his work is not up to standard.

- There were also problems due to varying salaries (especially amongst management).

## 2.8 Management

### 2.80 Corporate identity

#### \* Assumptions

Establishing a corporate philosophy is difficult if not impossible in the JV environment.

#### \* Results

QUESTION: Have you made a conscious attempt to establish a corporate philosophy for your JV?

#### EVALUATION:

Answers	A	B	C	T
Yes	7	5	2	14
No	1	1	1	3
No answer	0	2	1	3

Table 33: Establishment of corporate philosophy

A surprisingly large proportion of the interviewees said that there had been efforts made to create a JV corporate philosophy.

\* Comments

A corporate philosophy is an attempt to convey new values to the employees, such as quality, customer proximity, self-responsibility and team spirit.

In large international corporations there is a tendency for this to be adopted unchanged by the JV. Some companies consciously do not create corporate identity since from this new situation a kind of "project spirit" is established. For Eastern employees it is an "honour" to work in this type of business.

2.81 Planning

\* Assumptions

- There is no long-term planning
- The planning process is not practiced by the JV itself.
- The JV is influenced by the Eastern economic system in its planning.

\* Results

- QUESTION: In your JV, is there any
- long-term planning (up to ten years)
  - medium-term planning (up to five years)
  - short-term planning (up to one year)?

Answers

	A	B	C	T
Yes	4	2	3	9
No	2	5	1	8
No answer	2	1	0	3

Table 34: Use of long-term planning

Answers

	A	B	C	T
--	---	---	---	---

Yes	5	7	4	16
No	1	0	0	1
No answer	2	1	0	3

Table 35: Use of medium-term planning

Answers	A	B	C	T
Yes	6	7	4	17
No	0	0	0	0
No answer	2	1	0	3

Table 36: Use of short-term planning

Short and medium-term planning exist in nearly all cases. Half of those companies interviewed additionally use long-term planning.

QUESTION: Who is responsible for planning?

Answers	A	B	C	T
Austrian partner	1	1	0	2
JV	6	7	4	17
No planning	0	0	1	1
No answer	1	0	1	2

Table 37: Responsibility for planning

Planning is almost exclusively carried out by the JV.

QUESTION: Are you bound to official regulations in your planning?

EVALUATION:

Answers	A	B	C	T
No	7	6	2	15
Yes	0	1	0	1
Bound to 5-year plan	1	1	2	4

Table 38: Planning influenced by official regulations

75% of companies can plan freely - ie without state intervention. This is a smaller proportion than expected, however, it is still in contrast with statements made by Eastern government offices that no influence is exerted on JVs.

\* Comments

It can be said that all of the businesses have a planning system. Primarily, planning is made on a short-term or medium-term basis. Long-term planning is not used to the same extent. The reason for the minor importance of planning in the JVs interviewed can be traced back to the rapid developments in CMEA countries in recent years (especially Hungary).

In the operative planning sector, JVs are relatively independent whereas strategic planning is influenced by the partners. To a large extent JVs can act freely - without intervention or influence by state authorities. In certain companies, however, there are limitations caused by quotas arising from the planned economic system in the area of procurement. We can therefore speak more of influence exerted on the JV rather than of integration into the planned economy. However, statements made by public offices that JVs can operate completely independently should be questioned and should be interpreted only in the sense of legal "permission".

2.82 Controlling

\* Assumptions

- Reporting is made more difficult by problems concerning currency and language.
- The data cannot be compared with Western values and thus problems in establishing standards arise.

- There are long delays in preparing reports.

\* Results

QUESTION: Is the achievement of planned aims reviewed and what happens if there are discrepancies between actual and planned results?

Answers	A	B	C	T
At regular (short) intervals	3	1	0	4
At medium-term intervals	1	2	2	5
No answer	4	5	2	11

Table 39. Reviewl of achievement of plans

Only few of the JVs regularly control the achievement of plans. Since the other companies either only make reviews few and far apart or did not give an answer, it seems that there is room for improvement in this area.

QUESTION

What problems arise in reporting?

EVALUATION:

Answers	A	B	C	T
Delayed arrival of data	3	0	0	3
EDP problems	2	0	0	2
Data unfit for use	1	1	1	3
Language problems	4	3	0	7
Telecommunications problems	0	1	0	1
No problems	4	6	3	13

Table 40: Reporting problems

Primarily, problems arise in the service sector. We can trace this back to the need for fast communication systems in this sector. It seems that the present infrastructure does not meet these requirements.

\* Comments

We can see that large international groups do not have problems in preparing reports, whereas this seems to be a considerable problem for small companies. Some companies solve this problem by employing the services of Hungarian business consultants in this matter. It seems to be a good idea to draft the reports in both languages.

2.83 Management

\* Assumptions

- The management style of the Austrian staff is different to that of the Hungarians.
- The different system of values influences people and their behavior in the company.
- CMEA members do not like to take as many decisions and are less aware of responsibility.

\* Results

QUESTION: Could you note any differences between the Austrian and Eastern managers of the JV?

Answers

	A	B	C	T
More time needed to make decisions	1	2	0	3
Authoritarian management style	2	0	0	2
No sense of responsibility	2	1	0	3
Difficult to be motivated	2	2	0	0
Sluggishness	1	1	1	3
No differences	1	3	3	7

o answer 1 1 0 2

Table 41: Differences between management styles

It should be emphasized that out of the four companies which are not in Hungary, there were only differences in one of them, whereas in Hungary there were more widespread problems.

\* Comments

In some cases it was mentioned that the Eastern manager did in fact assign tasks to the employees, but then was no longer concerned with their realization and no longer supported his employees in their efforts. The "Hungarian mentality" was mentioned in particular ("everyone wants to be a manager"). It is therefore difficult to manage the employees and they want to carry out their assignments independently.

Our interview partners said that the problems arising could be solved through patience and sympathy.

2.84 Synergies

\* Assumptions

- Cooperation between Eastern and Austrian partners leads to synergy and its ensuing effects.

\* Results

QUESTION: Which specific positive effects arise from the special situation created by cooperation between partners from CMEA countries and Austrian partners?

EVALUATION:

Answers

	A	B	C	T
Division of tasks among partners	1	1	0	2
Productivity gains	1	0	1	2
Access to markets	1	1	1	3

Contacts	2	1	1	4
Cost reduction	0	2	0	2
Distribution partner	0	1	0	1
No effects	3	1	0	4
No answer	0	1	1	2

Table 42: Synergy effects

\* Comments

The positive effects arising from cooperation are above all established through the novel situation. The Austrian partner wanting to break into the CMEA market alone would not be in a position to carry out its objectives. It has to rely on the Eastern partner's contacts and knowledge of the country. The Eastern partner has access to technology and know-how through the JV which would otherwise be unavailable.

The JV is above all an interesting alternative to the trade relations already in existence. It makes it possible to accomplish tasks in a more flexible and faster way on the spot. The Western partner can exert more influence on the events in the host country and furthermore the relations between both partners are secured and consolidated.

## 2.9 Conclusions

All interviewees stated unanimously that they consider the CMEA countries to be an important future market for their products or services. The Eastern partner's readiness to cooperate is described without exception as good and free from problems. All interviewees would enter into a JV again.

It should be emphasized that these positive remarks are limited by the fact that only those JVs were taken into account here which had worked successfully since coming into operation. The fact that numerous JVs which were not included in this empirical study did in fact fail must not be disregarded.

To sum up it can be said that the procurement side of the JV is clearly depicted by the interviewees as the area in which the most - and the most complex - difficulties are to be expected.

At this point it should be stressed once more that the above accounts are based on the subjective experiences of the interviewed JV managers. Thus discrepancies in the theoretical and empirical accounts and also seemingly incomplete explanations in the empirical section can be explained.

Carl H. Hahan, Chairman of the Board at Volkswagen AG, expressed the following at the ISC Management Symposium of 1989 in St Gallen:

"East-West Joint Ventures - yes. But they are no panacea since the Eastern economies have to be considered as a whole, and here they still have a long way to go in the process of modernization not only politically and socially but also in their economic performance."