JAPANESE JOINT VENTURES IN BRITISH COLUMBIA

by

JEAN-MARC DUVAL

B.A.A., Ecole des Hautes Etudes Commerciales,

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PREFACE

Joint ventures as a form of overseas direct investment are more and more a current topic of discussion. Arguments for and against this form of investment vary from one extreme to the other: some people think that multinational corporations should not operate in foreign countries without local participation, while others state that these companies should be free to conduct their operations as necessary.

Even though I favor one position, this research did not analyse Japanese joint ventures in British Columbia from such points of view. An account of the study and the format of the study appears in Chapter 1. The method used to carry out this research was to examine data collected in interviews with executives of twenty one joint ventures in British Columbia.

None of the work would have been possible without the cooperation of these executives who gave of their time and who were ready to disclose confidential information, in return for which, the anonymity of their firms was guaranteed.

Thanks are due to Virginia and Ronald Monk, my editors, who spent many hours improving my English.

I am particularly indebted to Dr. J.W.C. Tomlinson, who read and criticized the first draft of this dissertation. Without his

encouragements and criticisms, this study would have been more difficult and certainly less complete.

Vancouver
August, 1974.

Jean-Marc D.

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CHAPTER 1

BACKGROUND OF THE STUDY

Relationships between Canada and Japan are an increasingly important topic of discussion in Canada, since Japan became the second largest trading partner of Canada in 1973, and as Japanese investments in Canada rose to over $300,000,000 in 1973.

Unfortunately, even though many people are aware of the commercial relationships between the two countries, few are conscious of the impact of Japanese investments in Canada. One of the reasons could be that Canadians who are concerned over foreign investments in their country are mainly preoccupied by American investments, which are larger than those from any other country. Nevertheless, Japanese investments in Canada present two interesting features: they are mainly in the form of joint ventures, and are chiefly concentrated in British Columbia (two-thirds of the total value. Therefore, Japanese joint ventures in British Columbia provide a good representative sample of Japanese investments in Canada.

The main objective of this study was to clarify the relationship between the two countries with respect to Japanese joint ventures in B.C. and Japanese investments in Canada. The research was worthwhile since even for an organization like the "Canada-Japan Trade Council", this issue is one of the haziest areas of Japanese-Canadian relationship.

A second objective was to study the influence of some variables on the selection of associates by Japanese companies; how for example, the reasons for going into a joint venture, the nature of business of Japanese parents, prior knowledge of associates, and the size of Japanese companies was likely to affect the selection of Canadian partners. It could be very important for Canadian businessmen wishing to enter into joint ventures with Japanese enterprises to be aware of the influence of these factors.

A definition

A joint venture is defined, in the present study, as: "The commitment, for more than a very short duration, of funds, facilities, and services by two or more legally separate interests, to an enterprise for their mutual benefit".[1]

Joint ventures in this study were classified into the following four categories: 1. National Joint Ventures, between interests from the same country. Two joint ventures in this study were in this group.

2. Foreign International Joint Ventures, between interests of different nationalities, excluding the host country. None

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1. Friedmann, W.G., and Kalmanoff, G.: Joint International Business Ventures, New York, Columbia University Press, 1961, p.6.

of the Japanese joint ventures in B.C. belong to this group.

3. International Joint Ventures, when at least one partner is from the host country but is not the host government. The bulk of Japanese joint ventures in B.C., eighteen, were classified as such.

4. Mixed International Joint Ventures, in which at least one partner is the host government. One Japanese company went into a joint venture with a crown corporation.

It must be underlined that while there were no "foreign international joint ventures", all partners from Canada were considered as Canadians, even though some companies were subsidiaries of foreign firms; the legal definition prevailed. If these subsidiaries had been considered as "foreign" then, five joint ventures in the sample would have been classified as "Foreign International Joint Ventures".

Generating a sample

There was no exhaustive list of Japanese joint ventures in Canada when this study was undertaken. The Department of Industry, Trade and Commerce in Ottawa, the Department of Industrial Development, Trade and Commerce in Victoria, the Japanese Embassy, the "Canada-Japan Trade Council", and the "Consulate General of Japan" in Vancouver, were contacted but, unfortunately, none of these offices was able to provide a complete series of names. Nevertheless, some provided partial information which was rounded out into a sample list from details published in articles in different newspapers. [2]

From that point, all companies were contacted and were asked if they were involved in other joint ventures. It was finally established that twenty seven Japanese enterprises entered into joint ventures in British Columbia. However, only twenty one completed the questionnaire used to carry out this study.

All firms agreeing to disclose information concerning their operations in British Columbia were interviewed. This method of collecting data was preferred to the method of mailing questionnaires because executives are usually willing to talk about their businesses, but dislike filling out questionnaires (none of the three questionnaires mailed was in fact returned). [3]

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2. The Province, "B.C. companies linked to Japan", "B.C. hits No. 1 with Japanese investors", March 20, 1974, p. 21 and 28.
The Globe and Mail, "Japanese penetration greatest in B.C. pulp mills", "Loans favored over equities in mining", "Industrial investments varied", February 14, 1974, p. B9.
The Globe and Mail, "Japanese prefer joint ventures in B.C.", February 15, 1974, p. B4.

3. The three other joint ventures, from which it has been impossible to obtain information, had a trading company as Japanese parent. This company has an office in Vancouver, but the general manager refused to receive the author.

Interviews took place with Japanese executives in Vancouver rather than in Japan, mainly because of time and financial limitations. As some local executives could have been less informed about the operations of their companies in British Columbia, the data should possibly be considered with some reservations. However, only once was it clear that an executive in Vancouver was in this situation. His answers were, nevertheless, compiled because his company was a partner of a joint venture in the "mining group" which included close to 50% of Japanese joint ventures in B.C..

Interviews were carried out over a four week period, from mid-May to mid-June, 1974. The information concerned six joint ventures in the "pulp and lumber" industry, nine in mining activities and six in different sectors: restaurant, finance, steel, marketing agencies.

Japanese investments in the world

"Just as the outflow of capital from the countries of Europe and America has been expanding, direct overseas investments by Japan also has been rising rapidly at a rate exceeding the growth rate of Japan's exports and GNP. During the period between 1960 and 1965, it increased at an annual rate of 27.1 per cent, surpassing the corresponding export growth rate of 16.2 per cent and GNP growth rate of 15 per cent. Between 1965 and 1971, it rose at an annual rate of 29.3

per cent, exceeding the corresponding export and GNP growth rates of 19.3 per cent and 16.4 per cent, respectively." [4]

As may beeseen from Table 1.1, the rate of increase in Japanese foreign investments was 30.4% between 1966 and 1971: it was higher than for other countries. However, in scale, the value of Japanese foreign investments was only $4,481,000,000 in 1971. "This represented only 60.7 per cent of the total overseas investment made by West Germany that year, 20.5 per cent of that of Britain, and 5.2 per cent of that of the U.S.." "Also, the ratio of the balance(of Japanese overseas direct investments)to exports and to the GNP that year was lower than the other countries at 18.6 and 2 per cent respectively." [5]

The breakdown according to region is presented in Table 1.2. Investments in advanced countries rose from 32.2 per cent of the total Japanese overseas investment to 53.8 per cent, from 1960 to 1973. It was interesting to note the increasing share of Western Europe: 1.2 per cent in 1960 compared to 24.5 per cent in 1973: it was the area where Japanese investments were the highest. Also interesting to note, the decreasing importance of Latin America for Japanese investors.

Table 1.3 presents the breakdown according to region and

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4. The Canadian Embassy, Japanese Investment Abroad, Tokyo, September, 1973, p. 3.
5. Ibid.

TABLE 1.1

THE AMOUNT OF DIRECT FOREIGN INVESTMENTS BY MAJOR COUNTRIES

	1966				
	Amount of foreign investments (unit: $1,000,000)	Percentage against the total amount of foreign investments made by DAC nations	Percentage against GNP	Percentage against the total amount of exports	Per capita average
Japan	1,000	1.1	1.2	12.1	12
the United States	54,562	60.9	7.3	185.8	277
Great Britain	16,002	17.9	15.2	108.8	292
France	4,000	4.5	3.9	36.4	81
West Germany	2,500	2.8	2.0	12.4	42
Canada	3,238	3.6	6.1	32.4	161
Total of DAC nations	89,583	100.0	6.3	66.5	148

continued ...

TABLE 1.1 (cont.)

1971

	Amount of foreign investments (unit: $1,000,000)	Percentage against the total amount of foreign investments made by DAC nations	Percentage against GNP	Percentage against the total amount of exports	Per capita average	The rate of increase in foreign investments
Japan	4,481	3.1	2.0	18.6	43	30.4
the United States	80,001	60.2	8.2	197.5	415	9.5
Great Britain	21,822	15.3	16.0	97.7	392	6.4
France	5,540	3.9	3.4	26.7	108	6.7
West Germany	7,380	5.2	3.1	17.5	120	24.2
Canada	4,436	3.1	5.2	24.2	205	6.5
Total of DAC nations	142,867	100.0	6.5	59.8	226	9.8

Source: Ministry of International Trade, Overseas Business Activities of Japanese Enterprises, MITI Information Office, Tokyo, October 1973, p. 15.

TABLE 1.2

BREAKDOWN OF JAPANESE INVESTMENTS IN THE WORLD ACCORDING TO REGION

1960		1973	
Developing Nations Destined	Advanced Nations Destined	Developing Nations Destined	Advanced Nations Destined
Middle East 19.4%	North America 30.3%	Middle East 8.9%	North America 22.9%
Latin America 29.3%	Western Europe 1.2%	Latin America 14.6%	Western Europe 24.5%
Southeast Asia 18.9%	Oceania 0.7%	Southeast Asia 20.5%	Oceania 6.4%
Africa 0.2%		Africa 2.2%	
Total 67.8%	Total 32.2%	Total 46.2%	Total 53.8%

Sources: The Canadian Embassy, <u>Japanese Investment Abroad</u>, Tokyo, September 1973 (for 1960).
Consulate General of Japan, Vancouver (for 1973) (Bank of Japan).

TABLE 1.3

BREAKDOWN OF JAPANESE INVESTMENTS IN THE WORLD ACCORDING TO REGION AND SECTOR, AS OF END OF 1971*

Sector / Region	Manufacturing	Development Undertaking	Commerce	Others
North America	23.5	17.4	48.6	10.5
Western Europe	8.0	1.0	15.5	75.6
Oceania	25.8	66.7	6.9	1.5
Southeast Asia	44.5	37.2	9.8	8.4
Latin America	47.1	24.5	14.4	13.8
Middle East	1.5	98.0	0.5	0.0
Africa	22.9	69.9	0.9	6.4

* Figures represent percentage of the total.

Source: The Canadian Embassy, "*Japanese Investment Abroad*," September 1973.

industrial sector as of the end of 1971. In North America, the major part of Japanese investments went into "commerce": 48.6 per cent of total Japanese investments. In Western Europe, 75.6 per cent of Japanese investments were in the "other" category, "including the hotel business".[6] "With regard to direct Japanese investment in Oceania, 65.7 per cent, or roughly two-thirds, was made in "development undertaking", involving for the most part exploitation of iron ore, coking coal and nickel ore. A fairly large proportion, 25.8 per cent, of investments in Oceania was in the manufacturing sector."[7]

"Manufacturing" was the industrial sector in which Japanese investments were the most important, in Southeast Asia and Latin America: 44.5 per cent and 47.1 per cent, respectively. "Development undertaking" was also an important sector of investments in both areas. This sector was the most important one for Japanese investors in the Middle East and Africa.

Table 1.4 shows the distribution of Japanese investments by region for the manufacturing industrial sector. "Seventy seven point three per cent of Japanese investment in North America in the manufacturing sector was made in the woodpulp industry, in the form of invest-

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6. Ibid. p. 4.
7. Ibid.

TABLE 1.4

BREAKDOWN OF JAPANESE INVESTMENTS IN THE WORLD ACCORDING TO REGION AND MANUFACTURING INDUSTRY AS OF END OF 1971*

Manufacturing / Region	Food	Textiles	Wood-Pulp	Chemicals	Iron and Non-Ferrous Metals	General Machinery	Electric Machinery	Transport Equipment	Others
North America	3.2	2.6	77.3	4.3	0.4	3.9	1.2	5.6	1.6
Western Europe	11.2	2.2	-	31.5	15.7	24.9	2.4	7.3	4.8
Oceania	4.4	0.8	36.4	1.0	37.0	0.5	2.5	6.8	0.6
Southeast Asia	7.9	34.9	3.7	7.8	8.8	4.3	14.0	3.0	15.6
Latin America	3.2	20.2	-	2.5	29.4	13.5	7.1	22.4	1.8
Middle East	-	-	-	-	-	17.4	31.6	18.1	32.9
Africa	13.5	66.0	-	5.4	9.8	-	3.3	-	2.1
Total	6.4	20.3	20.9	6.1	15.6	7.3	7.8	9.2	7.0

* Figures represent percentage of the total.

Source: The Canadian Embassy, Japanese Investment Abroad, September 1973.

ment for "develop-and-import" purposes."[8] It was really higher than the "all areas" average of 20.9 per cent.

The bulk of investments in manufacturing in Western Europe was in "chemicals": 31.5 per cent; "general machinery", 24.9%; and "iron and non-ferrous metals", 15.7%. "Woodpulp" and "iron and non-ferrous metals" were equally important in Oceania. Southeast Asia and Africa were regions where most of Japanese investments in the manufacturing sector were made in "textiles": 34.9 per cent and 66.0 per cent, respectively. "Iron and non-ferrous metals" was the most important sector in Latin America while "transport equipment", "electric machinery" and "others" were the choice in the Middle East.

The breakdown according to industrial category, as of the end of March 1973, is presented in Table 1.5. Unfortunately, it has been impossible to obtain the breakdown according to region and industrial sector.

When talking about Japanese investments, a distinction should be made concerning the form of investments. Table 1.6 shows that 52.7% of Japanese investments were in the form of "purchase of securities": the largest group. "Branch office operation" was the least important one, representing only 4.3% of Japanese investments. "Purchase of

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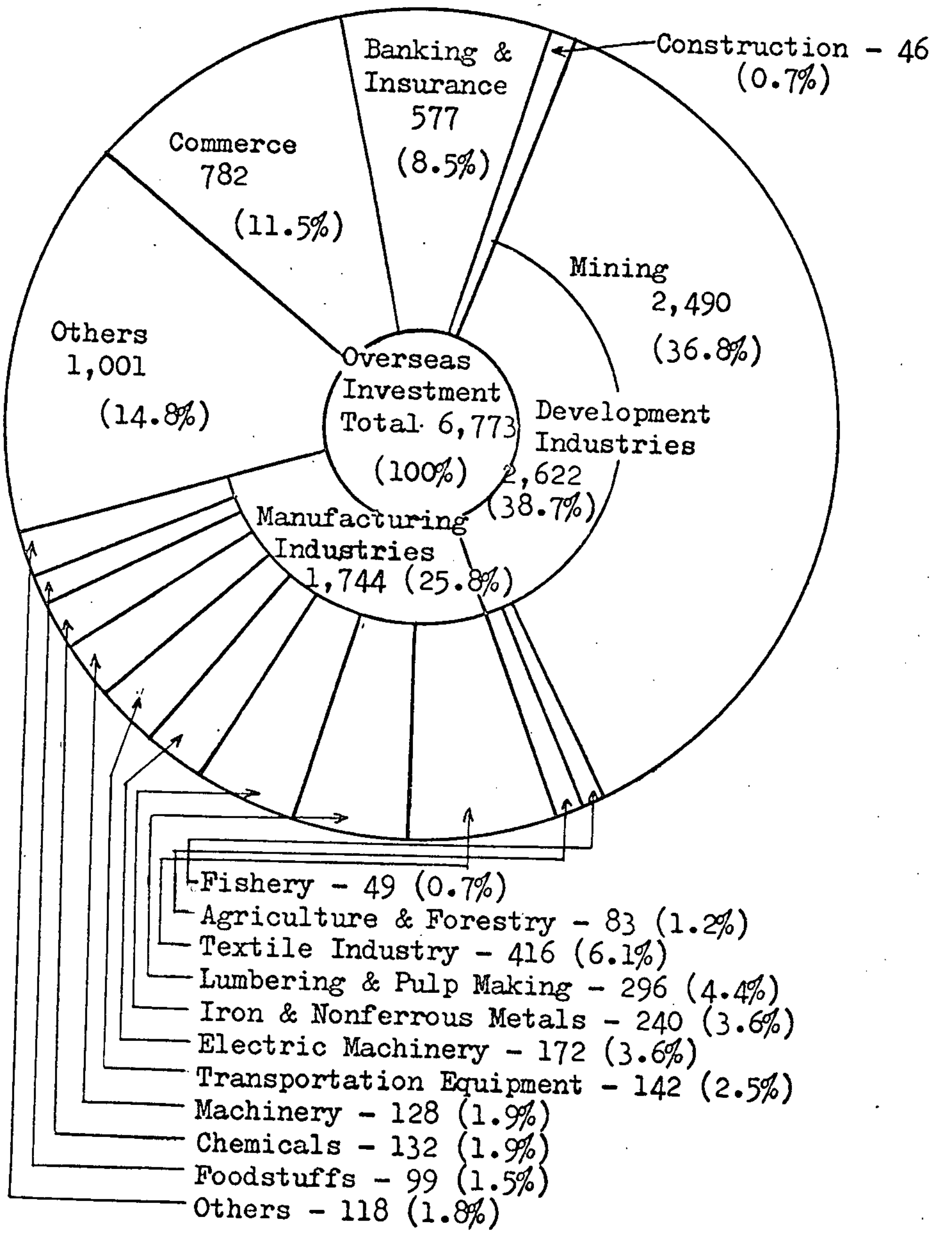
8. Ibid.

TABLE 1.5

BREAKDOWN OF JAPANESE INVESTMENTS IN THE WORLD ACCORDING TO INDUSTRIAL CATEGORY AS OF END OF MARCH 1973

(Unit: $ million)



Source: Consulate General of Japan, Vancouver (Bank of Japan)

TABLE 1.6

BREAKDOWN OF JAPANESE INVESTMENTS IN THE WORLD

ACCORDING TO FORM - AS OF END OF MARCH 1973

Form	Value of Investment ($ million)	
Purchase of Securities	3,571	(52.7%)
Acquisition of Credits	2,441	(36.1%)
Direct Overseas Business Operations	470	(6.9%)
Branch Office Operation	290	(4.3%)
Total	6,772	(100%)

Source: Consulate General of Japan, Vancouver (Bank of Tokyo).

securities" included direct investments in minority operations.

Japanese investments in Canada

Canada was not the country where Japanese invested the most. In fact, it come after the United States, Brazil, Indonesia and Australia. Figures presented in Table 1.7 indicate that Canada was one of the four countries where "credit investments" were higher than "security investments";[9] Australia, Philippines and Indonesia were the other countries where such a situation existed. It has been impossible to obtain the breakdown of Japanese investments according to industry for these countries; however, it seemed that where Japanese invested to secure their supply of raw materials, they preferred the "credit" form of investment to the "security" form of investment. It seemed to be a reasonable policy, as the size of investment in "development undertakings" was quite large, averaging 3,207,800 dollars per project;[10] it was 4,510,800 dollars per project in woodpulp, and 1,637,600 dollars per project in iron and non-ferrous metals.[11] When

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9. The former ratio will be used in future chapters.
10. This is the average for Japan's investment on a world-wide basis. The Canadian Embassy, Japanese Investment Abroad, Tokyo, September, 1973, p. 5.
11. Ibid.

TABLE 1.7

JAPANESE OVERSEAS INVESTMENTS FOR MAJOR NATIONS

AS OF END OF MARCH 1973*

Country	Security	Credit	Direct Business Operation	Branch Office	Total
U.S.	877,486	289,561	80,964	25,284	1,273,295
Canada	108,021	166,489	289	293	275,092
Australia	99,066	207,354	262	63	306,746
Brazil	425,810	139,720	2,820	363	568,712
Thailand	85,700	40,228	664	2,548	129,140
Indonesia	120,770	350,820	673	511	472,774
Philippine	28,582	58,444		936	87,962
Malaysia	49,907	23,651	897	1,048	75,504
Singapore	67,438	16,394	2,915	3,181	89,928
Hong Kong	71,860	24,148	60	3,491	99,557
Taiwan	89,173	15,795		2,810	107,778
S. Korea	194,669	4,792	518	6,720	206,699
Total (Including other countries)	3,571,480	2,441,129	469,836	290,400	6,772,845

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* Aggregate

Unit: $thousand

<u>Source</u>: Consulate General of Japan, Vancouver (Bank of Japan).

investing large amounts of money, Japanese made loans instead of buying shares: this was probably in order to secure an investment more safely.

In 1971, the total value of Japanese investment in Canada was $210,612,000. It rose to $275,092,000 in 1972 and to $310,000,000 in 1973.[12] This was an increase of 47.6% over a two year period.

The distribution of Japanese investments in Canada according to industry is presented in Table 1.8. Investments in the "manufacturing" sector represented 49% of these investments. The bulk of such investments was in the "pulp and lumber" sector, which was responsible for 93% of the investments in the manufacturing sector and represented 46% of the total investments. The average value of an investment in "pulp and lumber" was $11,640,000, which was higher than the "world average" for similar projects.

The second most important Japanese investments were made in "mining": $95,290,000, or 34% of the total value of these investments in Canada. The average value of an investment, however, $2,382,250, was considerably lower than that for "pulp and lumber".

Investments in these two sectors, represented 80% of the total value of Japanese investments in Canada. It was interesting to note the total absence of investments in "chemical" and "transportation":

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12. This is an evaluation made by the vice-president of the "Canada-Japan Trade Council" in Ottawa.

TABLE 1.8

BREAKDOWN OF JAPANESE INVESTMENTS IN CANADA ACCORDING TO INDUSTRY, AS OF END OF 1972

Industry	Value of Investment ($000)	Number of Cases
Foodstuff	1,227	2
Textile	2,514	4
Pulp and Lumber	128,048	11
Chemical	-	-
Ferrous and Non-ferrous	870	1
Machinery	2,098	1
Electronic	1,150	3
Transportation	-	-
Miscellaneous	427	3
MANUFACTURING	136,334	25
Agriculture, Forestry	2,158	3
Fisheries	742	4
Mining	95,290	40
Construction	1,059	1
Trade	21,690	45
Banking, Insurance	528	2
Miscellaneous	16,998	15
Branch Offices	293	8
Total	275,092	143

Source: Consulate General of Japan, Vancouver (Bank of Tokyo).

there was "little weight put on manufacturing" in Canada.

British Columbia was the province where Japanese invested the most. "The bulk of limited investment in Canada to date has been in the resource industries, particularly in British Columbia,...".[13] Experts extimated that 66% of Japanese investments in Canada were made in British Columbia. [14]

Trade between Canada and Japan

"Japan accounts for 60 per cent of Canadian exports to the Pacific and almost the same proportion of imports. It is thus not only the dominant factor in Canada's Pacific trade, but a top trading partner in its own right. Japan is now Canada's third largest export market and will probably soon overtake the U.K. for the second place." [15] As shown in Table 1.9, in 1972, Japan became Canada's second largest partner for imports, and in 1973, Canada's second largest market for exports. On the other hand, Canada was also the third largest trading partner for Japan.

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13. IDTC, The Pacific Rim: An Evaluation of British Columbia Trade Opportunities, Victoria, 1972, p. 18.
14. Personal commitments from personnel of the Canada-Japan Trade Council.
15. The Standing Senate Committee on Foreign Affairs, Report on Canadian Relations with the Countries of the Pacific Region, Information Canada, Ottawa, March 1972, p. 13.

TABLE 1.9

MOST IMPORTANT TRADING PARTNERS OF CANADA AND JAPAN FROM 1970 TO 1973*

CANADA

	Imports, F.O.B. (Million U.S.$)				Exports, F.O.B. (Million U.S.$)			
U.S.A.	787.86	904.45	1087.92	1375.26	878.20	1006.74	1175.93	1425.64
U.K.	58.76	68.69	79.76	83.76	119.34	112.29	111.83	132.34
Japan	46.38	66.21	93.03	84.82	63.35	65.32	81.04	149.94
Canada	-	-	-	-	-	-	-	-
Australia	-	-	-	-	-	-	-	-

JAPAN

U.S.A.	463.69	415.13	488.05	772.95	501.25	633.21	747.52	795.65
U.K.	-	-	-	-	-	-	-	-
Japan	-	-	-	-	-	-	-	-
Canada	77.38	83.66	95.74	167.91	52.30	63.30	63.94	104.13
Australia	127.71	147.80	189.48	310.23	46.94	73.00	92.00	83.24

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* Monthly averages.

Source: OECD, Overall Trade by Countries, Paris, April 1974.

Canadian trade with Japan had two interesting characteristics: its distribution and its composition. Canadian exports to Japan were mainly from Western Canada. This part of Canada "accounted for almost 80% of Canada's total exports to Japan, comprising British Columbia, Yukon, and the Northwest Territories (52.5%), Saskatchewan (13.4%), Alberta (10.8%) and Manitoba (3.0%)." [16] In fact, "in 1967, Japan replaced the U.K. as British Columbia's second most important customer." [17] Japan's exports to Canada were mainly to Eastern Canada: Quebec and Ontario together took 67%, while Western Canada received 26.4% of the total.

"...More than 96 per cent of Japanese sales to Canada are accounted for by a diversified range of processed and manufactured goods" in 1969. [18] For 1971, 1972, and 1973, the ratio was the same. In 1971, exports to Canada of Japanese light and heavy industrial products were $844,733,000 of a total value of Japanese exports to Canada of $876, 209,000. In 1972, the corresponding values were $1,065,478,000 and $1,103,994,000. [19] From January to September 1973, the data were

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16. Ibid., p. 17.
17. IDTC, The Pacific Rim: An Evaluation of British Columbia Trade Opportunities, Victoria, 1972, p. 19.
18. The Standing Senate Committee,... op. cit. p. 17.
19. Data from JETRO's office in Vancouver.

$706,000,000 and $732,000,000, respectively.[20]

While Japan was mainly exporting manufactured goods to Canada, it was buying very few Canadian manufacturing goods itself: the bulk of its Canadian purchases were raw materials. For example, in 1973, from January to September, Japan imported from Canada: $312,000,000 in "food and live animals", $779,000,000 in "crude materials" and $151,000,000 in "mineral fuels, lubricants, and related materials", which represented 87% of the total value of Japan's imports from Canada.[21]

From a Japanese point of view, trade with Canada presented two difficulties: firstly, the general balance of trade was in favor of Canada; secondly, they complained about access for specific products, like textiles, in Canada.

From the Canadian point of view, the main problem was the composition of goods traded. Canadians admitted that the trade balance was in their favor, but wondered how Japanese could complain when they were exporting manufactured goods which created jobs at home, while importing raw materials from Canada, with low added value.

One last point of interest as background to this study was

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20. Trade by commodities, January - September 1973, OECD, Paris, 1974.
21. Ibid.

the importance of foreign trade for each country. In 1973, the ratio exports/GNP was 21% in Canada, while the ratio imports/GNP was 19%. In Japan, in 1971, the same ratios were 9% and 6% respectively. In other words, external trade was more important for Canada than for Japan.

A brief outline of the presentation

The analysis in the following chapters, is structured in terms of eight groups of variables, as follows:

(1) Reasons for investing in British Columbia (Chapter 2)

(2) Reasons for deciding to go into a joint venture (Chapter 2)

(3) Reasons for selecting a specific associate (Chapter 3)

(4) Size of Japanese parent firm (Chapter 4)

(5) Evaluation criteria (Chapter 4)

(6) The nature of business of the Japanese parent and of the joint venture (Chapter 5)

(7) Structural characteristics of the joint ventures (Chapter 5)

(8) Attitudes towards control on the part of the Japanese parent company (Chapter 6)

CHAPTER 2

The Joint Venture Decision

Three decisions are important in this study: the decision taken by Japanese companies to invest in British Columbia, the decision to invest into the form of joint ventures, and the decision to select an associate.

Decision to Invest in British Columbia

As pointed out before, the commercial links between Japan and Canada are very important. On one hand, Japan is the most important trading partner of Canada, after the United States. On the other hand, Canada is the third largest trading partner of Japan, after the United States and Australia. However, the Canadian government would like to increase exports of manufactured goods to Japan, which is at present mainly importing raw materials, a characteristic of the Japanese economy which needs this type of imports to operate at full capacity.

It is then reasonable to expect that the most important reason for Japanese companies to invest in British Columbia would be to secure their supply of raw material.

To find out why Japanese firms have invested in B.C., executives of these companies were asked to order the four most important reasons explaining the decisions of their firms. They had to select between:

1. New market.
2. Geographical diversification.
3. Protecting existing market.
4. Overcoming tariff barriers.
5. Matching competition.
6. Using patents/licences.
7. Lower cost conditions.
8. To obtain materials.
9. To obtain resources/facilities.
10. Host government incentives.
11. Political stability.
12. Other reasons.

The results are presented in Table 2.1.

As expected, the most important reason for the investment of Japanese companies in B.C. was "to obtain materials". This reason was mentioned most often: 25% of the time.[1] It was the reason selected most often as the first reason: 62%. And on a weighted score basis, it had the highest score: 54. Furthermore, out of 14 mentions, it was chosen as the most important one 13 times: only one company picked it up as a third reason. Seven times it was not cited: six companies

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1. This was not surprising as one-third of the Japanese companies investing in B.C. are in the raw material sector of the Japanese economy.

TABLE 2.1

REASONS CITED BY JAPANESE PARENT COMPANIES FOR

THEIR INVESTMENT IN BRITISH COLUMBIA

Reason	Order in Which Reason Was Cited 1	2	3	4	Total Responses (Out of 21)	Possible No. of Cases in Which the Response Was Not Cited	Weighted Score*
	Number of Cases						
New market	3	1	3	-	7	14	21
Geographical diversification	1	5	0	2	8	13	21
Protecting existing market	1	1	2	-	4	17	11
Overcoming tariff barriers	-	-	-	-	-	21	-
Matching Competition	-	-	-	-	-	21	-
Using patents/licenses	-	-	-	-	-	21	-
Using equipment	-	-	-	-	-	21	-
Lower cost conditions	-	-	1	1	2	19	3
To obtain materials	13	-	1	-	14	7	54
To obtain resources/ facilities	-	4	1	1	6	15	15
Host government incentives	1	-	-	-	1	20	4
Political stability	-	7	2	-	9	12	25
Other reasons	2	-	2	1	5	16	13
Total Responses	21	18	12	5	56		

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* Each time a reason was cited as first, it was multiplied by 4, as second it was multiplied by 3, as third it was multiplied by 2, and as fourth, by 1. These weighted values were then summed over each category to give a total weighted score for that reason.

in the "miscellaneous group" [2] did not underline this reason as an important one for them and one company in the "raw material group" [3] did the same. Their reasons will be discussed later.

The second most important criterion used by Japanese firms to decide upon investment in B.C. was "political stability". This reason was mentioned 16% of the time and selected 40% of the time as a second reason. It scored 25 on the weighted scale. Nevertheless, many executives emphasized that it was a significant reason, and that if they had to consider investing today, they would have to re-evaluate this criterion.

The third and fourth reasons were of equal importance: "new market" and "geographical diversification" scored 21 on the weighted scale. The first criterion was mentioned 7 times of a total of 56 (12.5%) and the second one 8 times (14%). "New market" was mentioned more often as a first choice; it was then classified as the third most important criterion for the purpose of this study.

Of the total of 15 mentions, for the two criteria, 13 came from the "miscellaneous category". Only two companies of the "raw material group" mentioned these reasons as important to them in their decision to invest in B.C.. One firm pointed out "geographical diversification" as the most important reason and the other one, "new market" as a

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2. Miscellaneous group: companies classified according to the nature of business of the joint venture. Restaurant, finance, steel, marketing.
3.Pulp, lumber and mining companies.

third reason.

It is interesting to point out the absence of mention concerning four criteria: "overcoming tariff barriers", "matching competition", "using patents/licences", "using equipment". These criteria are mentioned in the literature as possible reasons motivating firms to invest abroad. Also the fact that "lower cost conditions" was emphasized only twice and was the lowest item on the weighted scale.

<u>Decision to go into a joint venture</u>

As Canada has been a very liberal country concerning foreign investments, it would be reasonable to expect that no foreign investors would have been forced into a joint venture through "explicit or implicit host government pressures".

Enterprises might decide to go into a joint venture "to reduce the level of political or/and financial risks". "Political stability" was the second most important criterion for Japanese companies to invest in B.C.. Since this was a basic reason for investing in B.C., one could not expect it to be a frequent reason for going into a joint venture. When a firm invested in B.C. because it was politically stable, it will not go into a JV to spread political risks. Ten of the joint ventures of this study have as Japanese parent a "shoji kaisha" (trading company): because of their financial strength it is difficult to see these companies going into joint ventures merely in order to "spread financial risks".

A foreign corporation might establish a joint venture because it "needs local resources". Many executives, when talking of local resources, distinguished between raw material resources on one hand, and managerial and technical resources on the other hand. "Obtaining raw material" was mentioned as an important reason for investing in B.C.. As "obtaining raw material" from a country without processing it in the host country could raise up tremendous nationalistic objections, a judicious policy for foreign companies would be to go into joint ventures with local interests. This assumption is reinforced by the fact that not only do Japanese dislike to be seen as foreigners but also make many efforts to project a good picture of their businesses in North America. Concerning the second reason, one could argue that if the trading companies do not "need local financial resources" they do not "need managerial or technical resources". Nevertheless, the Canadian business environment is quite different from the Japanese environment, and one way to cope with this difference is to go into business jointly with Canadians; as one executive said: "In Canada, Canadian businessmen know how to run the show."

"Associate's project": if a Canadian business presented a good project to Japanese businessmen, they might be interested in investing in it and become partners.

Japanese do not like to be seen as Japanese and foreigners in

Canada: they prefer to be identified as local businessmen and this was expected to be a reason for them to become associated with Canadians.

"Other reasons": twice, companies mentioned this criterion partly as a residual category since the other reasons provided were not adequate to describe what they had in mind. These reasons will be discussed later.

As reasons may vary with the nature of business of the joint ventures, nature of business and reason for the joint venture decision will be analysed simultaneously. Tables 2.2 and 2.3 present the results.

"Need for local resources, managerial and technical", was the most important reason for Japanese companies to go into joint ventures. It was the reason mentioned most often: 32% of the time. It had the highest score on a weighted basis: 54. It was second in one way only: the number of times it was mentioned as first reason. It was mentioned by all the companies in the "raw material group" except in two cases: companies picked it first four times and second nine times. Table 2.3 indicates that the mining companies were the companies using this as the first reason. The "miscellaneous group" chose it twice as the most important factor.

The first reason, according to the number of times it was cited, was "need for local resources: raw material". As might be expected, it was mentioned by all the companies in the pulp and lumber

TABLE 2.2

REASONS CITED BY JAPANESE FIRMS FOR CHOOSING THE JOINT VENTURE FORM OF INVESTMENT IN B. C.

Reason	Order in Which Reason Was Cited				Total Responses (Out of 21)	Weighted Score*	Possible No. of Cases in Which This Response Not Made
	1	2	3	4			
	Number of Cases						
Explicit host government pressures	–	–	–	–	0	0	21
Implicit host government pressures	–	–	–	–	0	0	21
Spreading risk (Political-Financial-Other)	1	2	–	1	4	11	17
Need for local resources:							
-raw material	9				9	36	12
-managerial -technical	6	9	1	1	17	54	4
Associate's project	3	1	4	1	9	24	12
Local identity	1	3	6	3	13	28	8
Other reasons	1	–	1	–	2	6	19
Total responses	21	15	12	6	54		

* Same method as the one used in Table 2.1

TABLE 2.3

VARIATIONS BY NATURE OF BUSINESS IN REASONS FOR

GOING INTO JOINT VENTURES

Nature of JV Business	Reasons for Going into Joint Venture															
	Host Government Pressures		Spreading Risk		Need for Local Resources: Raw Material		Need for Local Resources: Managers and Technicians		Associate's Project		Local Identity		Other		Total
	Number of Cases and Cell % Based on Row Sum*															
	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%	No.
Pulp and Lumber	-	-	-	-	6	100	-	-	-	-	-	-	-	-	6
Miscellaneous	-	-	-	-	-	-	2	33	3	50	1	17	-	-	6
Mining (Operation)	-	-	-	-	3	75	1	25	-	-	-	-	-	-	4
Mining (Exploration)	-	-	1	20	-	-	3	60	-	-	-	-	1	20	5
Totals	-	-	1	4	9	42	6	28	3	14	1	4	1	4	21

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* Percentages do not all add up to 100 because of rounding.

group as the most important reason, and by three of the four mining companies involved in mining operations. The other companies in the mining group were involved in exploration. Three of them pointed out the "need for local resources: managerial and technical" as the first reason, one preferred "to spread the risks" and the fifth was concerned with capital availability.

"Local identity" was the third most important factor according to the weighted score. However, it ranked second according to the number of times it was underlined as an important reason. The only time it was mentioned first was by a finance company which wished to be seen as a Canadian company in this delicate field. Three companies mentioned it as a second reason to establish a joint venture, six as a third reason.

"Associate's project" was cited as the most important reason by three companies of the "miscellaneous group". One Japanese company was interested by its partner's project which gave it the opportunity to get involved more deeply in Western Canada carrying out the same type of business as at home. Another one judged that the proposition of its associate was good and fulfilled a part of its worldwide marketing policy. The third joint venture, set up between two Japanese firms, was a good occasion for one of the partners to increase its knowledge of the Western Canadian market. The "miscellaneous group" invested in B.C. for reasons different from the one mentioned by the "raw material group". Furthermore, it also went into joint venture for different reasons. The main explanation for this difference of behavior is surely due to the nature of business of each group.

"Other reasons" were pointed out twice: once by a company in the "raw material group" which invested in a joint venture "to obtain additional capital" and "to spread risks". The other company was in the "miscellaneous group" and indicated as a third reason the need to establish better business links with its Canadian partner.

Size of Projects

The size of projects has been defined as the total voting equity capital[4]. In the case of the "pulp and lumber group" and in the case of the "miscellaneous group", the value of the investment of the Japanese parent in shares (in $) and the percentage of equity it owned was used to evaluate the total value of the project as defined here.

For the mining group[5], the following method was used: number of shares issued and fully paid, according to the annual report of each

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4. Voting equity capital in $ millions:

Voting equity capital in $ millions	Category	No. of JVs
0.9 and under	VS	6
1.0 to 3.9	S	4
4.0 to 9.9	M	4
over 10.0	L	6

5. This method has to be used because some companies were reluctant to disclose the value of their investments.

company multiplied by the market value[6].

It was impossible to establish a clear relationship between the size of the joint venture and the size of its Japanese parent. Japanese parents were normally larger than their Canadian partners. It is then reasonable to expect that "medium" and "large" joint ventures would be closer to the size of the foreign parent. "Small" and "very small" JVs should be closer to the size of their Canadian partners. Facts sustained this assumption.[7]

What is the relationship between size of projects and reasons for going into joint ventures? The results are shown in Table 2.4, where the last four reasons of Table 2.2 have been regrouped under one reason: "need for local resources".

As one could expect, "very small" and "small" joint ventures were mainly established to profit from local resources: parents of 83% of the "very small" joint ventures and 100% of "small" joint ventures pointed this criterion as their first reason for going into joint ventures.

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6. As published in The Vancouver Sun, June 14, 1974.

7.

Category	JVs	Japanese Parent[a]			Canadian Partner[b]			
VS	6	2VS	4L		2VS	1S	1L	1Private
S	4	1S	3L		2S	1M	1with Japan	
M	4	1VS	1M	2L	3VS	1M		
L	6	6L			3L	1M	1Private	1VS

a) Classified according to value of sales:

TABLE 2.4

SIZE OF PROJECT AND REASONS FOR GOING INTO JOINT VENTURES

Reasons for Going into JV	Size of Joint Venture								
	Very Small		Small		Medium		Large		Total
	No. of Cases and Cell % Based on Column Sum*								
	No.	%	No.	%	No.	%	No.	%	
Host government pressures	-	-	-	-	-	-	-	-	
Spreading risk	1	16	-	-	-	-	-	-	1
Need for local resources	5	83	4	100	4	100	6	100	19
Total and % based on row sum	6	30	4	20	4	20	6	30	20[1]

* Percentages do not all add up to 100 because of rounding.

1 20 instead of 21 JVs. It has been impossible to get the financial data required for one company.

However, it is surprising to realize that many "large" joint ventures have been established partly for the same reason. On the other hand, as there is no government pressures in Canada to force foreigners to go into joint ventures, one could not expect that this reason would be mentioned very often. Furthermore, all the Japanese parent companies of those joint ventures are "large" companies, according to criteria described above: they do not go into joint ventures to "spread financial risks". When these companies pointed out their "need for local resources" they had in mind, as indicated in Table 2.5, raw material in 83% of the cases. On a residual basis therefore, one could expect such an answer, as the six parent companies were partners of joint ventures in the "raw material group".

This table also indicates that if "very small" and "small" joint ventures were established because the foreign partners were in-

---

a) cont.

$\frac{1}{2}$ billion and under	:	Very Small
$\frac{1}{2}$ to 1 billion	:	Small
1 to 4 billions	:	Medium
over 4 billions	:	Large

b) Classified according to value of sales:

under $100 millions	:	Very Small
100 to 250 millions	:	Small
250 to 500 millions	:	Medium
over 500 millions	:	Large

TABLE 2.5

SIZE OF PROJECTS AND REASONS FOR GOING INTO JOINT VENTURES

Reasons for Going into JV	Size of Joint Venture: Very Small		Small		Medium		Large		Total
	No. of Cases and Cell Based on Column Sum*								
	No.	%	No.	%	No.	%	No.	%	No.
Host government pressures	–	–	–	–	–	–	–	–	–
Spreading risk (Political – Other)	1	16	–	–	–	–	–	–	1
Need for local resources:									
– raw material	2	33	1	25	1	25	5	83	8
– managerial – technical	1	16	1	25	2	50	1	16	5
Associate's project	2	33	–	–	1	25	–	–	2
Local identity	–	–	1	25	–	–	–	–	2
Other reasons	–	–	1	25	–	–	–	–	1
Total and % Based on row sum	6	30	4	20	4	20	6	30	20[1]

* Percentages do not all add up to 100 because of rounding.

1 20 instead of 21 JVs. It has been impossible to get the financial data required for one company.

terested by local resources, it was mainly for something else than for raw material. "Very small" enterprises were interested by "local managerial and technical resources", "local identity" and "associate's project" 60% of the time. "Small" firms were looking for the same factors 75% of the time.

As far as the "medium" joint ventures are concerned, it is one of the two occasions when companies in the "raw material category" cited "need of local managerial and technical resources" as a reason for going into joint ventures. This was the criterion they mentioned most often: 50% of the cases. The two firms mentioning this criterion were involved in mining exploration.

The two companies in the category of "very small" joint ventures which pointed out the "need for local resources: raw material", should not really be classified as "very small" but rather as "large" joint ventures. The method to classify the joint ventures was chosen as a compromise so that all joint ventures could be analysed on the same scale. Nevertheless these two companies were special cases. Very often Japanese companies would invest in shares and make a loan. The general Canadian average ratio of Debt/Equity is 3/1. When companies were willing to disclose this information, it was realized that most of them were near this average, except for the two companies mentioned earlier. Their ratio was really much higher than the Canadian average and therefore they should strictly be classified as "large" joint ventures.

Thus a pattern emerges: as the size of a joint venture increases, the main reason for Japanese companies to become partners shifts from "associate's project", "local identity", "need for local managerial and technical resources", to "need for local raw material", as shown in Figure 2.1.

Selection of Associates

The reasons cited by Japanese companies for their investments under the form of joint ventures were presented in Table 2.2. How can these reasons influence the selection of an associate? If they were going into joint ventures mainly because they "needed local resources: raw material, managerial and technical", they would probably select a partner because of the "convenience of its facilities and resources", or go into a joint venture with a partner in the "same line of business". The criteria cited by Japanese companies to select their associates are presented in Table 2.6.

The company which went into a joint venture in order "to spread risks", selected its associate on the basis of the "convenience of facilities/resources": this is a clever way to spread risk. If your partner has the resources and facilities that you need in your business and you want to reduce risks, then you form a team with him. Instead of using only your facilities you enjoy the resources of another company which may also profit from its link with your enterprise.

FIGURE 2.1

SIZE OF PROJECTS AND REASONS FOR GOING INTO JVs

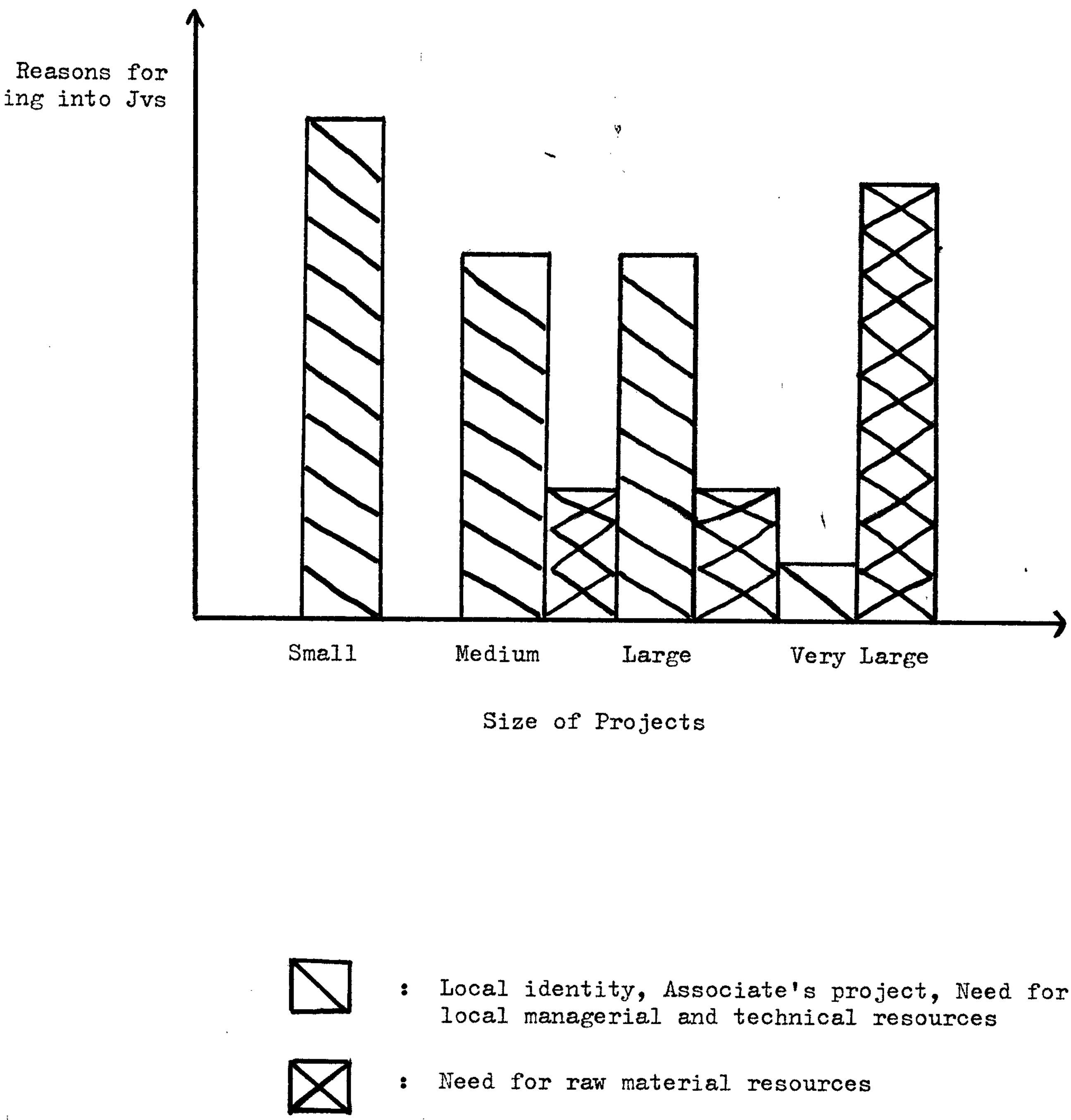

TABLE 2.6

CRITERIA FOR SELECTING ASSOCIATES AND REASONS

FOR GOING INTO A JOINT VENTURE

Reasons for Going into Joint Venture	Reasons for Selecting a Specific Associate												
	Forced Choice		Same Line of Business		Conveni-eence of Facilities/ Resources		Past As-sociation		Status Identity		Other		Total
	Number of Cases and Cell % Based on Row Sum*												
	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%	No.
Host government pressures	–	–	–	–	–	–	–	–	–	–	–	–	–
Spreading risk	–	–	–	–	1	100	–	–	–	–	–	–	1
Need for local resources:													
- raw material	–	–	1	11	5	55	3	33	–	–	–	–	9
- managerial	–	–	5	83	1	16	–	–	–	–	–	–	6
- technical													
Associate's project	–	–	1	33	–	–	1	33	1	33	–	–	3
Local identity	–	–	–	–	1	100	–	–	–	–	–	–	1
Other reasons	–	–	–	–	1	100	–	–	–	–	–	–	1
Totals			7	33	9	42	4	18	1	4			21

* Percentages do not all add up to 100 because of rounding.

Most of the companies, 80%, which cited "need for local resources" as the reason for going into joint ventures, chose their partners because they were in the "same line of business", 40%, or for their "facilities and resources", 40%.

"Convenience of facilities/resources" was the criterion mentioned 5 times out of 9 by companies which went into joint ventures because of "need for local resources: raw material". The "same line of business" was cited 5 times out of 6 by companies which chose the joint venture form of investment for managerial and technical resources. The partners were selected according to the nature of the local resources in which the Japanese parents were interested.

The remaining 20% used "past association" as a criterion for choice. In such a case the Japanese investors would have prior knowledge of the potential of the Canadian partner and their resources and facilities.

One company chose its partner for the "convenience of its facilities/resources" and went into a joint venture for "local identity". A valid assumption would have been that this company would also have selected its partner for "status/identity". However, the facilities provided by the Canadian partner allow this Japanese company to profit from its "facilities/resources", and also to be seen as Canadian. "Identity" was the second criteria used by the firm for the selection of its partner.

Summary

Japanese companies have invested in British Columbia for four major reasons in the past: "to obtain material", for "political stability", "new market" and "geographical diversification". However, there is a difference in the importance of the reasons mentioned according to the nature of business of the joint venture.

Their investments took the form of a joint venture because the Japanese "needed local managerial and technical resources". This criterion was chosen by companies which were not, with one exception, in the "raw material operating group". These latter companies considered their "need for local material" as the main reason for going into a joint venture.

As the size of a project increases, so does the importance of need for local material, as the reason for going into joint ventures.[8]

The choice of partners was determined by similarity of the line of business for companies looking for managerial and technical resources. Companies needing local raw material chose them for the "convenience of facilities/resources".

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8. Bigger projects are in the pulp, lumber and mining industry. Thus, it is not surprising to reach such a conclusion. The influence of nature of business on reasons for going into joint ventures would be discussed in Chapter 5.

CHAPTER 3

THE ASSOCIATES

This chapter will review different aspects of Japanese and Canadian partnership, mainly from the Japanese point of view. How did they select their associates? Before entering into a joint venture, how much knowledge did they have of each other? Was the choice of partners flexible? And finally, how much could Canadians contribute to the partnership?

Initial contact

Generally speaking, investors will pattern their decision as follows:

(1) Invest in British Columbia.

(2) Invest through a joint venture.

(3) Look for a potential associate.

Nevertheless, this may not always be the case. For example, Japanese investors may wish to invest in B.C. and then be contacted by a Canadian partner who would like to enter into a joint venture with them.

Table 3.1 indicates that for 66% of the joint ventures Canadians asked Japanese investors to become their partners: in other words, the pattern was reversed. These joint ventures had a total

TABLE 3.1

INITIATOR OF FIRST APPROACH TO SET UP A JOINT VENTURE

Origin of Approach (Initiator)	Number of JVs	% of Sample
Canadians	16	66.66
Japanese	8	33.33
Totals	24*	100

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* 24 instead of 21 because three companies indicated that contact was simultaneously initiated by Canadians and Japanese.

investment value of $182,893,000 or 89% of the total Japanese investments in B.C.. With one exception, all of the companies concerned were in the "raw material group".

However, when executives described the method used to establish the "initial contact", they indicated that the Japanese firms were very often known to be interested and were then approached by the associates. This seems to confirm the basic pattern above, Japanese firms wished to invest in B.C. through joint ventures, and while looking for a partner, they were contacted by Canadians. The results are presented in Table 3.2.

Sixty nine per cent of the time, the "initial contact" was made this way by Canadians [1] : all these joint ventures were in the "raw material group". In a further 15%, involving companies from the "miscellaneous group", the "cold canvas" method was used. In the other cases, the partners were informed by a private third party.

When Japanese companies made the "initial contact", 80% of the time they knew that their associates were interested. The "cold canvas" approach was used only once.

Executives of these companies were asked to underline the reasons which incited Canadian businessmen to establish a joint venture with them. The results are presented in Table 3.3.

---

1. On 3 occasions joint ventures were initiated by both sides simultaneously. This fact then reduces the number of JVs for this discussion to 18.

TABLE 3.2

ORIGIN OF INITIAL CONTACT WITH CHOSEN ASSOCIATE

Method/Origin of Initial Contact	Number of JVs	% of Sample
Japanese firm was known to be interested and was approached by the Associate.	12	42
Associate was known to be interested and was approached by the Japanese firm.	7	24.5
Cold Canvass: Japanese firm contacted by Associate.	2	7
Cold Canvass: Associate contacted by Japanese firm.	1	3.5
Partners put in touch by a private third party.	2	7
Partners put in touch by host government.	-	-
Initial contacts made at personal level.	3	10.5
Partners already JV Associates	1	3.5
Totals	28*	

* 28 instead of 21 JVs. 4 companies mentioned 2 methods and one, three.

TABLE 3.3

REASONS MENTIONED BY JAPANESE COMPANIES TO EXPLAIN THE INTERESTS OF THEIR CANADIAN PARTNERS TO SET UP A JV

Reason	Order in Which Reason Was Cited 1	2	3	Total Responses (Out of 21)	Possible No. of Cases in Which The Response Was Not Cited	Weighted Score*
	Number of Cases					
Know - How	4	-	2	6	15	14
Capital	14	1	-	15	6	44
Profit	1	-	-	1	20	3
Growth-Demand	2	12	-	14	7	30
Do not know	-	-	-	-	21	-
Other	-	-	-	-	21	-
Totals	21	13	2	36		

---

* Each time a reason was cited as first, it was multiplied by 3, as second it was multiplied by 2, and as third, by 1. These weighted values were then summed over each category to give a total weighted score for that reason.

Seventy one per cent of them pointed out that Canadians were primarily interested in capital. This was the criterion cited most often as the first reason: 14 times out of 21. It scored highest on a weighted scale: 44. The value of investments of the Japanese companies in these joint ventures was $196,355,000 or 95% of the total value of Japanese investments in B.C.. With two exceptions, all of these joint ventures were set up in the "raw material group".

The importance of the factor "growth-strengthen demand-profit" was revealed using a weighted score method. Even if it was mentioned only three times as the first reason, it was cited 12 times as a second reason for a weighted score of 33. Canadian firms went into joint ventures with Japanese companies, first to benefit from the capital of these enterprises, and secondly to strengthen the demand which allowed them to look ahead for growth and profit. A typical example would be a company in the "raw material group" [2] which needed money to expand or start production. Japanese firms provided capital and asked for a long term purchasing contract. The Canadian company then realized its objectives: capital and a secure market for its products.

Know-how was selected as the main reason for going into joint ventures by the "miscellaneous group". It represented a total value

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2. Only two companies in the "miscellaneous group" pointed out this reason, and it was as a second one.

of investments of less than a million dollars or 0.44% of the total Japanese investments in B.C.. Only twice was it mentioned by companies in the "raw material group", and in each case it was stated as the third reason.

Selection of a specific associate

Executives ranked "convenience of facilities/resources" as the most important criterion used to select their associates. This criterion was mentioned 52% of the time, and scored 28 on the weighted scale. It represented 35% of the total value of investments and was cited six times as the first reason. The results are shown in Table 3.4.

The second most important reason mentioned by Japanese companies in selecting an associate was the similarity of their businesses. It was very close to "convenience of facilities/resources" according to three different methods of evaluating the importance of the criteria used. However, it represented only 12% of the total value of Japanese investments in B.C..

It would be more appropriate to classify "past association" as the second most important reason. It was quite close to "convenience of facilities/resources" as far as the three first methods of evaluation were concerned. Furthermore, as far as value of investments was concerned, it was closer to "convenience of facilities/resources" than "same line of business". When investing substantial

TABLE 3.4

REASONS CITED BY JAPANESE PARENT COMPANIES FOR THEIR SELECTION OF A SPECIFIC JV ASSOCIATE

Reasons	Order in Which Reason Was Cited: First	Second	Third	Total Responses (Out of 21)	Weighted Score*	Possible Number of Cases in Which This Response Was Not Made	Value of Investments
	Number of Cases						
Forced Choice	-	-	-	0	0	21	-
Same Line of Business	7	2	-	9	25	12	$25,955,000
Convenience of Facilities/ Resources	6	5	-	11	28	10	$71,858,000
Past Association	6	2	-	8	22	13	$56,775,000
Status/Identity	2	-	-	2	6	19	$50,250,000
Other	-	-	-	-	-	21	-
Totals	21	9	-	30			$204,838,000

---

* Same method as the one used in Table 3.3

amounts of money, Japanese preferred "past association" to "same line of business" as a criterion for selecting their associates. Japanese investments were regarded to be more secure using this criterion.

Even though "status/identity" came last in the order of mention of the first three ways of evaluation, it was second in terms of the value of the investment involved. In fact, it included the second largest Japanese investment, which was responsible for approximately the entire $50,250,000.

"Past association" and "status/identity", even if mentioned less often than "convenience of facilities/resources", represented more than half of the total value of Japanese investments in B.C..

Only those investments in excess of one million dollars are considered for the purposes of this discussion. Therefore, the average value of an investment for each category is established as follows:

$12,500,000 - "same line of business".

$14,355,600 - "convenience of facilities/resources".

$18,858,333 - "past association".

$50,000,000 - "status/identity".

It is clear that, as the average value of an investment increased, a pattern of behavior was emerging. Japanese investors chose their partners: for "same line of business", for the smallest investments; for "convenience of facilities/resources", for slightly larger investments; for "past association", for "large" investments; and for "status/identity" for the largest investments. [3]

Prior knowledge of associates

More than 50% of Japanese investments in Canada are in British Columbia. B.C. is the closest province to Japan geographically. The abundant natural resources of B.C. are very important to the Japanese economy. It is therefore reasonable to assume that many companies which went into joint ventures with British Columbians had a previous knowledge of their associates.

Results presented in Table 3.5 indicate that 75% of the Japanese companies knew their Canadian partners through previous commercial links. Furthermore, in 90% of the cases, the Canadian reputations were known in the Japanese enterprises.

Only five joint ventures were set up between partners without previous commercial links. However, of these five partners, only two were unknown to the Japanese firm. In one case, the partners were put in touch with each other by a private third party. In the remaining instance, Japanese and Canadian businessmen initiated the negotiations.

It is reasonable, then, to assume that previous experience would be beneficial when investing large sums of money. Table 3.5 confirms Japanese thinking in this regard: 87% of the total value of investments was made when the Canadian partners were known to several

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3. This conclusion is drawn from averages, and does not necessarily represent truth in all cases.

TABLE 3.5

REASONS FOR SELECTION AND PRIOR KNOWLEDGE OF

ASSOCIATES BY JAPANESE PARENT FIRM

	Manner in Which Associate Was Known By People in Japanese Firm										
	No Previous Commercial Links		Known As Previous Associates		Several		One		Nobody		Totals
	Number of Cases and Cell % Based on Column Sum*										
Reasons for Selection	No.	%	No.	%	No.	%	No.	%	No.	%	No.
Forced Choice	-	-	-	-	-	-	-	-	-	-	-
Same Line of Business	2	40	5	31	6	31	-	-	1	50	7
Convenience of Facilities/ Resources	2	40	4	25	5	26	-	-	1	50	6
Past Association	-	-	6	37	6	31	-	-	-	-	6
Status/Identity	1	20	1	6	2	10	-	-	-	-	2
Other	-	-	-	-	-	-	-	-	-	-	-
Totals and % of Row Sum	5	23	16	75	19	89	-	-	2	9	21

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* Percentages do not all add up to 100 because of rounding.

people in Japan.

The fourth largest Japanese investment in B.C. was concluded with a Canadian partner not previously known in the Japanese firm. This contradicts the assumption above. Nevertheless, it must be emphasized that the Japanese companies control the great majority of the equity, thus securing their investment. Concerning the other investment made without previous knowledge of the associate, the Japanese firm owns slightly less than 50% of the shares. The remaining shares are controlled by five Canadian partners, the largest controlling 20% of the total equity. It appears that these companies have found a way to mitigate the consequences of their lack of previous knowledge. They reduced their level of uncertainty by increasing their equity share.[4]

Availability of associates

Executives of three companies refused to answer a question investigating the availability of other associates.[5] Of the remaining 18, 72% indicated that they did not consider any other potential

4. Reducing uncertainty by increasing control was mentioned by: Tomlinson, J.W.C., The Joint Venture Process in International Business: India and Pakistan, The M.I.T. Press, Cambridge, Massachusetts and London, England, 1970, p. 181.
5. 23% of the total value of Japanese investments in B.C. is attributed to these companies.

associate with whom they could establish a joint venture. Some of the reasons mentioned were:

(1) similar type of business.

(2) little or no interest by other companies.

(3) satisfactory past association.

The value of investments of these companies represented 26% of the total value of Japanese investments in B.C..

28% of the companies looked for potential alternative associates and stated that most other potential associates refused their offers. Unfortunately, Japanese companies did not disclose why their potential partners behaved this way. A potential associate was rejected by one Japanese company for its lack of reliability. Another one was eliminated because the chosen partner had a better geographical situation. These companies invested close to 51% of the total value of Japanese investment in B.C..

The size of the investment appears to have no bearing on whether Japanese companies look or not for partners.[6] The foregoing examples

6. Neither did the reasons mentioned by these executives for selecting an associate. Out of the 13 companies which did not look for any other potential associate, 46% chose their partners for "convenience of facilities/resources", 15% for "past association", and 38% for "same line of business". Five companies looked for potential alternative associates; 40% selected their actual partner for "convenience of facilities/resources", 20% for "past association", and 40% for "same line of business".

confirm this fact.

Driving force and deciding body

Some individuals or groups of individuals in a company may focus their attention on the possibilities of investment abroad and devote time and resources to the investigation of such possibilities.[7] It is the "driving force".

Once their studies are completed, someone in the enterprise will have to decide if the firm will invest or not. The "driving force" will submit its proposition to the "deciding body".

The driving force and the deciding body may influence the criteria used to select an associate. Concerning Japanese companies, how were the driving force to set up a joint venture and the criteria for selecting an associate related? What was the relationship between the deciding body and the criteria to select an associate? The results are presented in Figure 3.1.

When the criterion for selection was "same line of business", the driving force was an "individual" in 70% of the cases, whereas the decision was taken through "normal channels" 57% of the time. An interesting fact to note here is that "normal channels" were never

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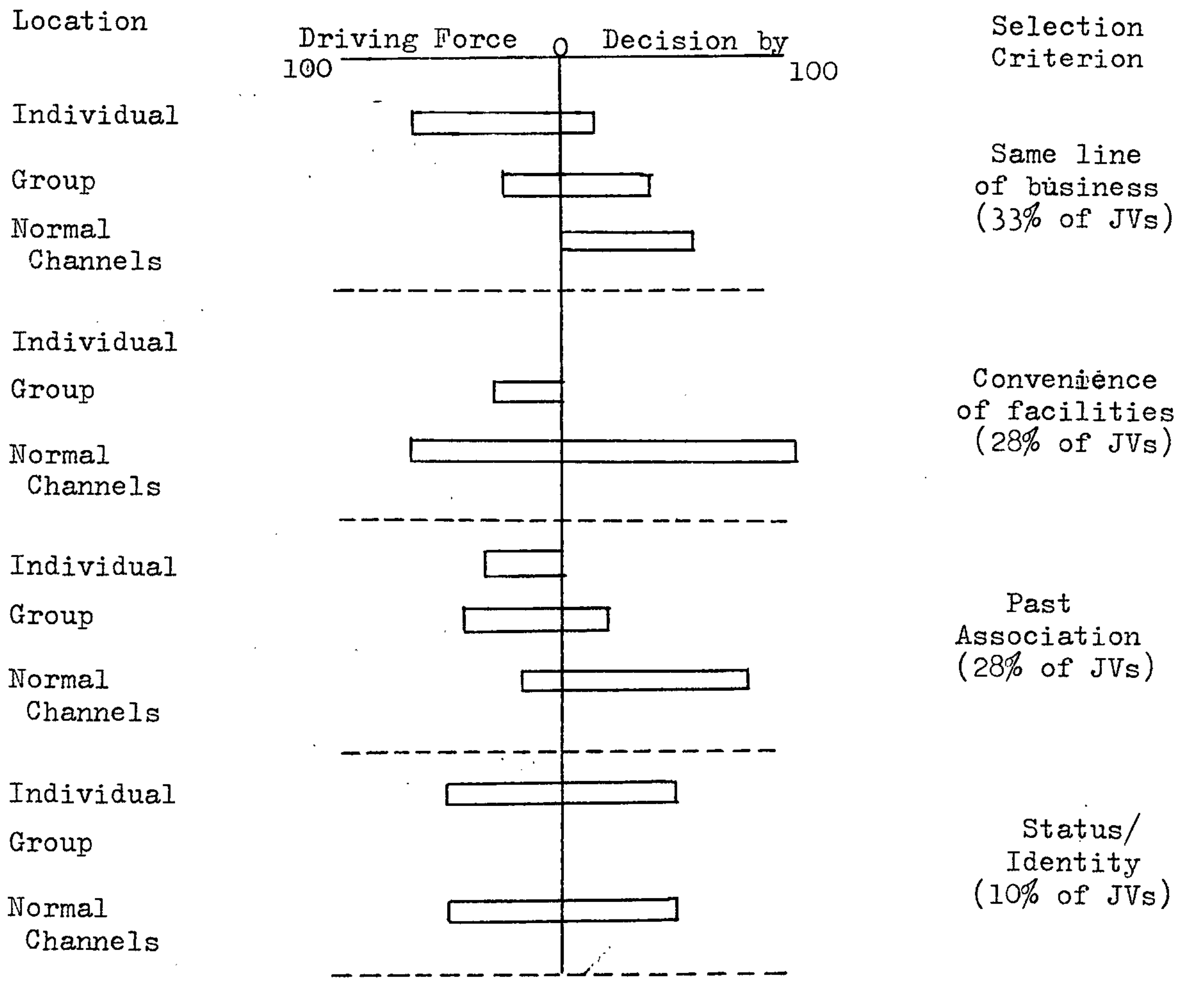
7. Aharoni, Yair, The Foreign Investment Decision Process, Division of Research, Graduate School of Business Administration, Harvard University, Boston, 1966, p. 49.

FIGURE 3.1

LOCATION OF DRIVING FORCE AND DECIDING BODY ACCORDING TO REASON FOR SELECTION OF ASSOCIATE



In Figure 3.1 the horizontal axes are calibrated in percentage. Each of the four major vertically divided segments represents the proportion of JVs, over the sample as a whole, in which associates had been selected for the reason given. The length of the bars running right or left from the central vertical axis represents the proportion of cases within each major vertical segment in which responsibility was attributed to the category of individuals or groups described at the left-hand margin. Bars running to the left represent proportions in the"driving force" variable, while those to the right represent the location of the final decision.

the driving force. The importance of an "individual" is the kind of situation that one could expect when the criterion of selection is "past association". Then familiar individuals may make a better evaluation of a potential partner than an executive in Japan who knows little about the associate.

Nevertheless, when "past association" was the criterion for selection, an "individual" was the driving force only 35% of the time. In these cases, "group" was the most important driving force whereas "normal channels" were the most important deciding body.

"Status/identity" was the only case where "normal channels" did not take more than 50% of the decisions: it is easier to evaluate such a criterion when you are more familiar with the country, which is the normal pattern of behavior.

The importance of "normal channels", as driving force and deciding body, was greater when "convenience of facilities/resources" was the criterion used to select an associate. When Japanese companies went into joint ventures and selected their associates according to this criterion, the information had to travel through the "normal channels" of the companies to be examined and studied by many people. This category involves 35% of the total value of Japanese investment in B.C..

As far as the nature of business of the joint ventures themselves is concerned, "normal channels" were the driving force in the following groups: 1) miscellaneous – 50%

2) mining – 33%

3) pulp and lumber - 0%

While decision was taken by "normal channels" in 50%, 100% and 66% of the cases respectively. In the mining industry, despite the importance of "individual" and "group" as driving force, the decision was always taken by "normal channels". As the total values of investments of one group increased[8], the importance of "normal channels" as driving force decreased.[9] However, "normal channels" was the deciding body 50% of the time in the "miscellaneous group", 100% of the time in the "mining group", and 66% of the time in the "pulp and lumber group", because usually large investments are carefully screened.[10]

Importance of Associates

One method of evaluating the importance of an associate in a joint venture is to ask its foreign partner how effective its Canadian associate to be. Normally, if a partner is "effective" he will be "important"; no associate will be classified as "effective" if he is not contributing to the relationship. As Japanese executives eval-

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8.

Group	Value of Investments	Driving Force
Miscellaneous	\$ 2,590,000	50% normal channels.
Mining	\$ 60,865,000	33% normal channels.
Pulp and lumber	\$141,383,000	0% normal channels.

9. One explanation for this situation may be that companies from the "miscellaneous group" have less human resources than the two other groups, which include the "shoji kaisha".

10. It seems to follow the "Parkinson Law".

uated their associates as "effective" in 90% of the cases, even if a certain number of joint ventures were too young to permit evaluation, this method of evaluating the importance of the Canadian partners was abandoned. One reason for this behavior could be due to the fact that Japanese are reluctant to admit a poor choice of partners. [11]

When a broader choice of evaluating the importance of their partners was presented to them, their answers were more readily and accurately given. These answers are summarized in Table 3.6.

Partners were always classified as "important" [12] when the criterion for selection was "convenience of facilities/resources". These cases represented 60% of the "important" category. "Normal channels" was always the deciding body. When "past association" was the criterion of selection, 33% of the partners were classified as "important". The decision to go into a joint venture was taken by "normal channels" 87% of the time. There appears to be no relationship between the deciding body and the importance of the partners.

Partners were "necessary" in 85% of the joint ventures when

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11. Schwind, H.F. and Peterson, R.B.: Personnel problems in international companies in Japan, U.B.C. unpublished research.

12. Executives had to classify their partners as: important, useful, necessary, useless. Necessary was mentioned by companies which needed their local partners who supplied raw materials to keep plants operating. The same partner could have been classified as important if he could help the Japanese partner to manage the plant properly, and contribute to the general success of the joint venture.

TABLE 3.6

IMPORTANCE OF ASSOCIATES ACCORDING TO THE REASON FOR THEIR SELECTION

Reasons for Selecting an Associate	Stated Importance of Associates								
	Important		Useful		Necessary		Useless		Total
	Number of Cases and Cell % Based on Column								Sum*
	No.	%	No.	%	No.	%	No.	%	No.
Forced Choice	–	–	–	–	–	–	–	–	–
Same line of Business	1	10	–	–	6	84	–	–	7
Convenience of Facilities/Resources	6	60	–	–	–	–	–	–	6
Past Association	2	20	2	66	1	14	1	100	6
Status/Identity	1	10	1	33	–	–	–	–	2
Other	–	–	–	–	–	–	–	–	–
Totals and % Based on Row Sum	10	47	3	14	7	33	1	4	21

* Percentages do not all add up to 100 because of rounding.

"same line of business" was the criterion used to select them. It was the criterion of selection which had the fewest "important" partners, in absolute terms: 1, and in percentage: 14%.

It is interesting to note that the only time a partner was evaluated as useless, actually is in a case when "past association" was the criterion mentioned. The associate was chosen for successful and happy past relations. However, actually the Japanese company is no longer happy with the managerial expertise provided by its Canadian partner.

<u>Summary</u>

The "initial contact" to set up a joint venture between Canadian and Japanese businessmen in British Columbia was made 66% of the time by Canadians who usually knew that the Japanese firm was interested. Canadians were interested in obtaining capital and securing a market for their products.

Japanese made the "initial contact" in 33% of the cases and knew that Canadians, who were looking for the know-how of their Japanese associates, were interested 80% of the time.

The most important criterion used by Japanese companies to select their associates was "convenience of facilities/resources". The "largest" investments were made in joint ventures when the partner was selected for "status/identity".

Seventy six per cent of the chosen Canadian partners had previous commercial links with the Japanese companies, and 90% of them were known by several people in Japanese firms. The value of investments by Japanese firms in joint ventures set up with Canadians known in their companies represented 87% of the total value of these investments in B.C..

Only 28% of the Japanese companies looked for more than one associate. Most of the joint ventures were set up with the first partner contacted.

"Individuals" were the most important driving force when "same line of business" was the criterion used to select an associate and when "status/identity" was the basis of selection. The driving force and the deciding body were "normal channels" when the criterion of selection was "convenience of facilities/resources". "Normal channels" were not the deciding factor more than 50% of the time when "status/identity" was the criterion used.

When the partner was selected for its "convenience of facilities/resources", it was also classified as "important" in all joint ventures. Most partners were considered as "necessary" when selected for "same line of business".

CHAPTER 4

Size of the Japanese Parent Company

It is interesting to analyse how the size of Japanese parent companies could affect variables like:: size of investments, reasons for going into joint ventures, control of joint ventures, selection of a specific associate, profitability of joint ventures, and method of evaluating joint ventures.

Size and value of foreign investments

Japanese parent companies and joint ventures were classified into four categories according to their sizes in assets and sales. This classification is shown in Table 4.1.

There was no linear relationship between the size in assets of foreign parent companies and the value of their investments in joint ventures. The latter did not necessarily increase when the former did; some "small" investments were made by "very large" companies. In fact, only 33% of the "small" investments were made by "small" companies; the remaining investments resulted from projects of "large" and "very large" companies: 33% from each category. However, as might be expected because of limitations in their resources, it is interesting to note that "small" companies never made "large" or "very large" investments. Seventy-five per cent of these invest-

TABLE 4.1

CLASSIFICATION OF JVs AND JAPANESE FIRMS BY TOTAL ASSETS AND SALES OF THE FOREIGN PARENT COMPANY

Value of Parent Company Assets or Sales (in $ Billion)	Value of Joint Venture Assets or Sales (in $ million)*	Category	Number of Cases			
			Size in Assets		Size in Sales	
			Japanese Firms	JVs	Japanese Firms	JVs
under ½	under 1	Small	2	3	4	2
½ to 1	1 to 10	Medium	2	6	0	2
1 to 4	10 to 50	Large	2	3	1	7
over 4	over 50	Very Large	5	5	6	2
		Not Applicable	-	4	-	8
		Totals	11	21	11	21

* Two different scales were used otherwise all the JVs would have been in the same category.

ments were made by "very large" companies, 12% by "large" firms and 12% by "medium" corporations. The results are presented in Table 4.2 and Figure 4.1.

Size, control, and reasons for going into a joint venture

It is generally assumed that when the size of a foreign company increases, it tends to control the joint venture in which it invests. Furthermore, when these companies are organized on an international basis, as the shoji kaisha are, the trend should be stronger. "...if the foreign investor is a large internationally aggressive company, with ample resources to expand outside the home market... it feels in a position to demand majority ownership in a joint venture..." [1]

Japanese companies did not behave this way. None of the three methods used to study the relationship control-size supported the assumption of the literature. Larger assets did not mean greater control. The results are presented in Table 4.3.

The "ownership equity" method was the opposite of what could be expected: as the size of Japanese companies increased, their

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1. Bivens, K.K. and Lovell, E.B. Joint Ventures with Foreign Partners, International Survey of Business Opinion and Experience, National Industrial Conference Board, New York, 1966.

FIGURE 4.1

RELATIONS BETWEEN SIZE OF PARENTS AND SIZE OF INVESTMENTS

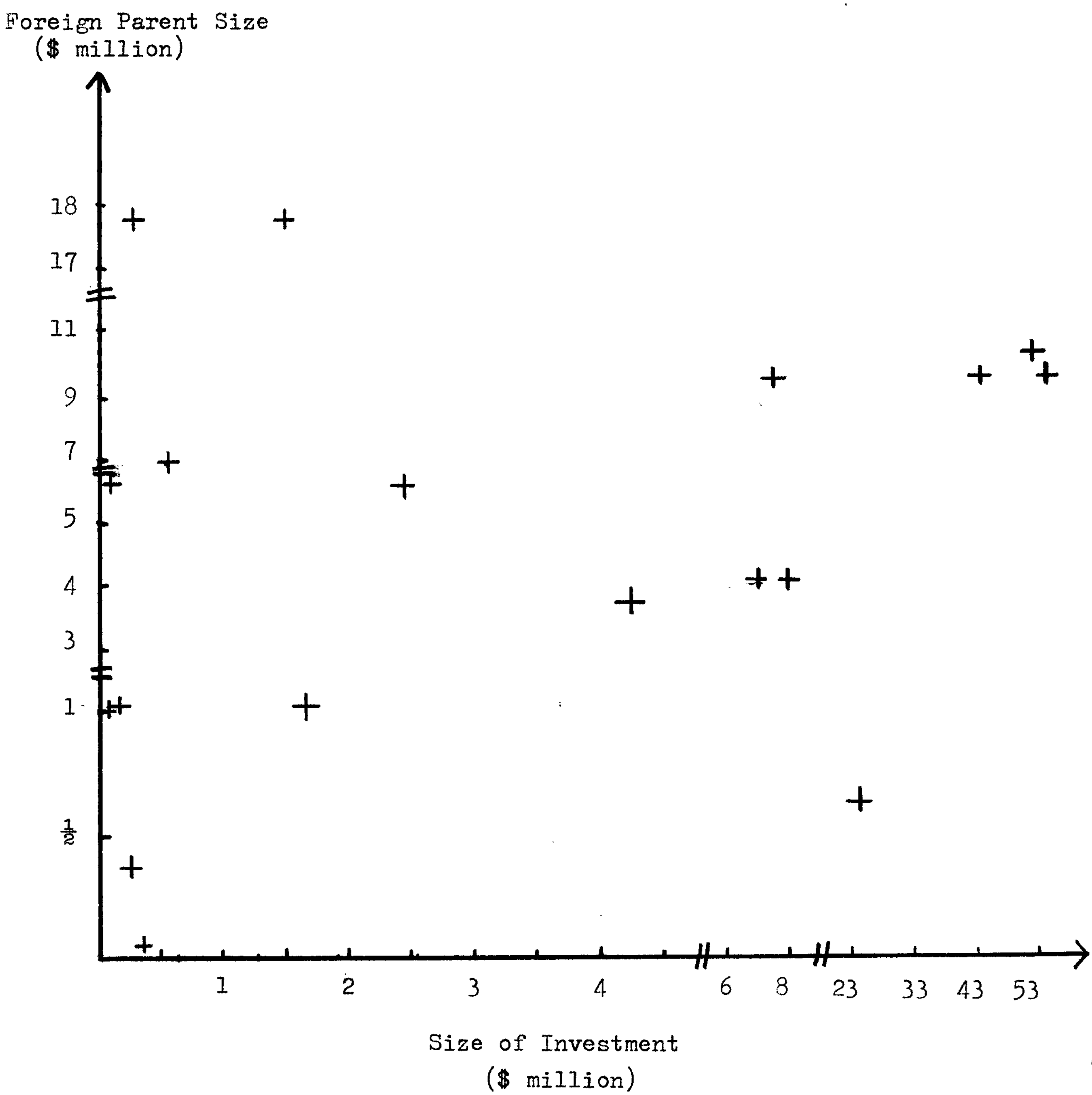

TABLE 4.2

RELATIONS BETWEEN SIZE OF PARENTS AND SIZE OF INVESTMENTS

Value of Parent Company in Assets (in $ Billion)	Category	No. of Cases	Value of Investments (in $ Million)	Category	No. of Cases
under $\frac{1}{2}$	Small	2	under $\frac{1}{2}$	Small	6
$\frac{1}{2}$ to 1	Medium	2	$\frac{1}{2}$ to 1	Medium	1
1 to 4	Large	2	1 to 4	Large	3
over 4	V. Large	5	over 4	V. Large	8

TABLE 4.3

SIZE OF PARENTS AND CONTROL

Parent Category	Parents' Equity Share*	Desire for Control*	Desire for Effective Control*
Small	3.5	2.50	2.00
Medium	2.5	2.50	2.00
Large	2.5	3.00	3.00
V. Large	2.27	2.55	2.55

---

* The values assigned in the three measures were as follows:

Parent Share in Joint Venture Equity:
- under 25% = 1
- 25% to 49% = 2
- 50% = 3
- over 50% = 4

Control and effective control:
- Necessary = 4
- Desirable = 3
- Acceptable = 2
- Unnecessary = 1

The values were then aggregated and averaged for each category.

degree of ownership of joint ventures decreased. This situation was a fact of life, whereas the other two methods, discussed below, describe what Japanese executives would prefer.

In the second method used to determine their preferences, Japanese executives were asked how important control was for them: was it necessary, desireable, acceptable, unnecessary? This showed that despite their differences in size, "small" and "medium" companies were similarly concerned over control. "Large" and not "very large" firms were interested in the greatest degree of control. Furthermore, "very large" companies wanted to control their joint ventures just slightly more than "small" and "medium" enterprises.

The third method was similar to the second with the exception that it tried to assess the importance of "effective control" rather than "control". This confirmed the stand of "large" companies. However, contrary to the two first methods, it indicated that "very large" corporations behaved as expected. They wanted to exercise "effective control" more than "small" and "very small" firms.

This phenomenon of lack of desire for control by "very large" companies was a real surprise. No theory of bilateral power of negotiation could explain it as far as the size of the company was concerned. In most cases, Japanese enterprises were bigger than their Canadian associates and could theoretically have used this superiority to increase their control. Furthermore, most of the time, Canadians were attracted by the availability of capital and the secure market Japanese could provide. [2] The latter could therefore have used these two factors to increase their control, but they did not. It seems that the level of control is difficult to explain in terms of the size of foreign companies and of the nature of contribution.

One potential explanation to this situation could be the reasons mentioned by Japanese for their investments through joint ventures. If "very large" Japanese companies entered into joint ventures because they needed local resources, then their advantages over their Canadian partner in terms of size in assets and nature of contribution would be weakened during the negotiations.

Results presented in Table 4.4 indicate that 63% of the "very large" companies went into joint ventures because they needed local resources. [3] In negotiations, when a foreign partner needed local resources, a Canadian firm could be more reluctant to permit it to control any possible joint venture. Considering the actual situation, it seems that raw material was more important to Japanese interests than capital was to Canadians..

Results were not clear enough to explain the overall control

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2. Sixty-four per cent of the companies providing capital and secure markets were of greater size than their Canadian partners.
3. Sixty-three per cent of the "very large" companies which entered into joint ventures for this reason were of greater size than their Canadian partners.

TABLE 4.4

FOREIGN PARENT SIZE IN ASSETS AND REASONS FOR

GOING INTO A JOINT VENTURE

Reasons for Going Into Joint Venture	Foreign Parent Size in Assets — Number of Cases and Cell % Based on Column Sum*								
	Small		Medium		Large		V. Large		Total
	No.	%	No.	%	No.	%	No.	%	No.
Host government pressures	-	-	-	-	-	-	-	-	-
Spreading Risk (Political - Other)	1	50	-	-	-	-	-	-	1
Need for local resources:									
- raw material	-	-	1	50	1	50	3	38	5
-managerial - technical	-	-	-	-	1	50	2	25	3
Associate's project	1	50	-	-	-	-	2	25	3
Other	-	-	1	50	-	-	1	12	2
Total and % based on row sum	2	14	2	14	2	14	8	56	14[1]

* Percentages do not all add up to 100 because of rounding.

1 14 instead of 11 because three v. large foreign parent companies were involved in more than one joint venture. They then had more than one reason for going into JV.

situation.[4] Nevertheless, they indicate that "small" companies which were able to get the higher level of control went less often into joint ventures for local resources. It was not the size of the parent company or the nature of its contribution which influenced its level of control, but mainly the reasons why it went into a joint venture.

Size and reasons for selecting a specific associate

If companies went into joint ventures for local resources, it seems reasonable to expect that they would select their partners for "convenience of facilities/resources". Table 4.5 shows that 50% of the "very large" companies based their selection on this criterion whereas 63% of them went into joint ventures for local resources.

Out of the eight joint ventures set up for local resources by the five "very large parents", 63% selected their partners for "convenience of facilities/resources". One partner was chosen for "same line of business" and the other two for "past association".

Even if two "large" Japanese corporations went into joint ventures for local resources, neither chose its partner for "convenience of facilities/resources". The criteria mentioned were "past association" and same line of business". The situation was the same

4. If 63% of the "very large" companies went into joint ventures for local resources, 100% of the "large" enterprises underlined the same reason and had more control than very large firms.

TABLE 4.5

FOREIGN PARENT SIZE IN ASSETS AND REASONS

FOR SELECTING A SPECIFIC ASSOCIATE

Reasons for Selecting an Associate	Foreign Parent Size in Assets — Number of Cases and Cell % Based on Column Sum*								
	Small		Medium		Large		V. Large		Total
	No.	%	No.	%	No.	%	No.	%	No.
Forced Choice	–	–	–	–	–	–	–	–	–
Same Line of Business	1	50	1	50	1	50	1	12	4
Convenience of Facilities/ Resources	–	–	–	–	–	–	4	50	4
Past Association	1	50	1	50	1	50	2	25	5
Status/Identity	–	–	–	–	–	–	1	12	1
Other	–	–	–	–	–	–	–	–	–
Total and % Based on Row Sum	2	14	2	14	2	14	8	56	14

* Percentages do not all add up to 100 because of rounding.

with "medium" firms. One went into a joint venture for "other reasons" and chose its partner for "past association", whereas the other entered into a joint venture for "local resources" and selected its partner for "same line of business". This firm was looking for local raw material.

All "large" and "very large" companies which were also interested in raw materials and which did not choose their partner for "convenience of facilities/resources", selected them for "past association" rather than "same line of business". "Same line of business" was the criterion mentioned by these firms when they were looking for local technical and managerial resources.

It was interesting to note that the only time "status/identity" was mentioned as the criterion of selection, it was by a "very large" corporation. You could usually expect this from "small" companies looking for a well-known and established partner in the country of their investments. This "very large" enterprise set up a joint venture in the "miscellaneous group" and it was very important for it to obtain a Canadian identity. Also important was the status of its partner.

Parent size and profits of the joint venture

If the Japanese partner was a well established enterprise providing capital, a secure market, and some managerial expertise,[5] one would expect that the joint venture would be profitable. As companies fulfilling these characteristics are usually large ones, it is reasonable to expect that the larger the Japanese firm is, the higher the profits of the associated joint venture should be.

The analysis of the relationship between size and profit did not include all the joint ventures of this study. Some were too young, while others were involved in mining exploration, and neither group showed profits. They are identified as N.A. (not applicable) in Table 4.6 and Figures 4.2 and 4.3.

Two "small" Japanese companies recently entered into two separate joint ventures. Due to their lack of experience, few statistics were worth analyzing. Two other Japanese companies of greater prominence also entered into two joint ventures. One venture is still in its infancy, and the other had not enjoyed financial success. Consequently, neither one could be discussed with any degree of accuracy.

The two "large" parent companies set up five joint ventures; one showed "small" profits, one had "very large" profits, and three were in the exploration field. The five "very large" foreign firms got involved in twelve joint ventures: one had "small" profits, one showed "medium" profits, four "large profits", and three "very large

---

5. Only three companies want into joint ventures for local managers.

TABLE 4.6

SIZE OF PARENTS AND PROFITS OF JVs

Value of Parent Company in Assets (in Billion)	Category	No. of Cases	Value of JV Profit (in Million)	Category	No. of Cases [1]	Weighted Score*
under ½	Small	2	under ½	Small	3	0
½ to 1	Medium	2	½ to 1	Medium	1	0.5
1 to 4	Large	2	1 to 4	Large	4	1.0
over 4	V. Large	5	over 4	V. Large	4	2.25

---

* When a parent was partner of a JV showing very large profits, it was multiplied by 4; when the JV showed large profits, it was multiplied by 3; medium profits, by 2; and small profits, by 1. These weighted values were then summed over each category to give a total weighted score for that parent.

[1] 12 instead of 21 JVs. 9 JVs are too young to show profits.

FIGURE 4.2

RELATIONSHIPS: SIZE OF PARENTS, OF JVs, OF JVs' PROFITS

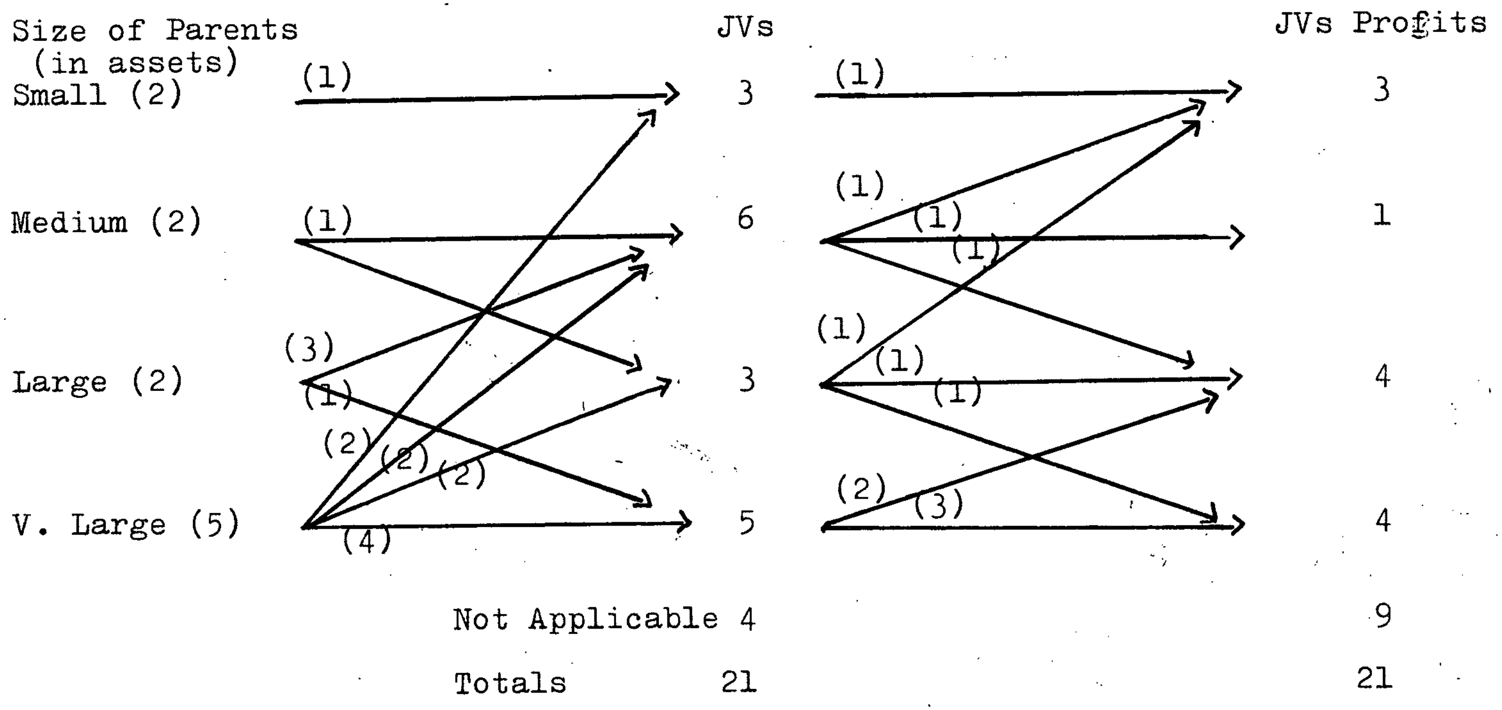
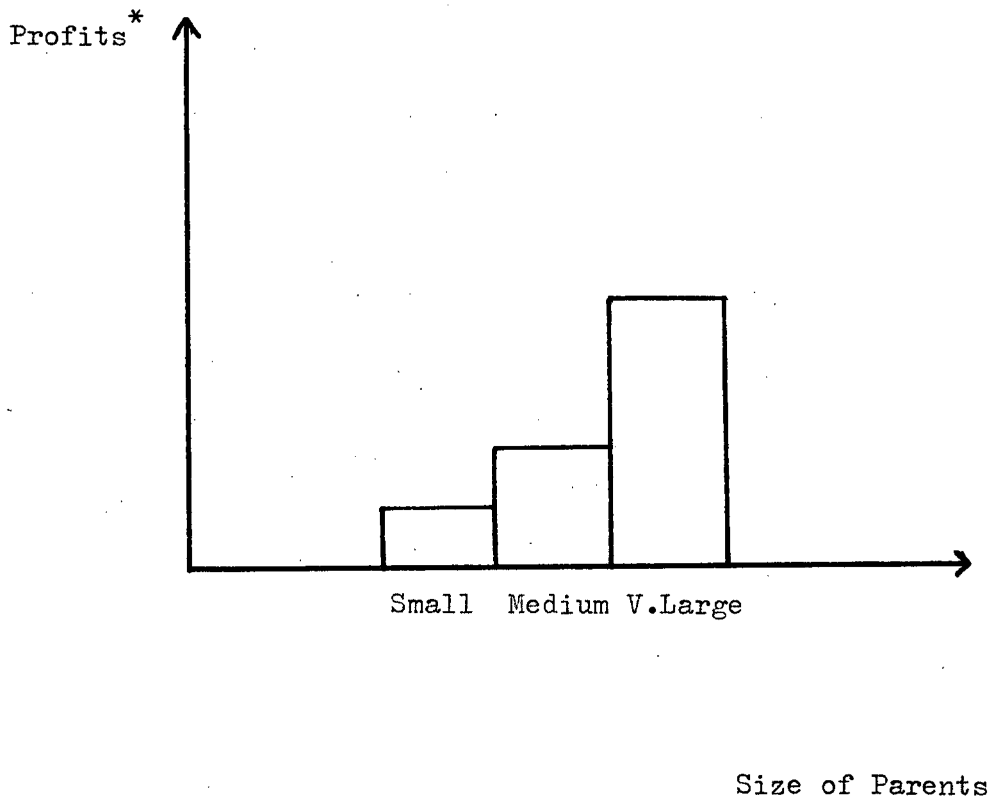


FIGURE 4.3

PARENT SIZE AND PROFITS OF JVs



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* Results from Table 4.6 weighted scores.

profits". Three were in the category N.A.

It is clear therefore that as the size of foreign parent companies increased, so did the profits of associated joint ventures.

Parent size and method of evaluation

Executives of Japanese companies were asked which method they used to evaluate the performance of their joint ventures. Was it in terms of profits, return on investment, or in terms of the achievement of scheduled objectives?

Sixty seven per cent [6] of them used "achievement of scheduled objectives" as the first criterion, whereas "profitability" was their second criterion most of the time. In fact, only two companies did not primarily evaluate their joint ventures accorking to "achievement of scheduled objectives".

The scheduled objectives of all companies in the "raw material group" were related to securing their supply of raw material. Objectives of joint ventures in the "miscellaneous group" were different; it varied from the fulfillment of a worldwide marketing policy to a greater penetration of the Western Canadian market.

Executives were then asked to evaluate the performance of their joint ventures. The results are presented in Table 4.7 and Figure 4.4.

---

6. Ninety three per cent, if companies which did not disclose information on this topic are eliminated.

TABLE 4.7

FOREIGN PARENT SIZE IN SALES AND EVALUATION OF JVs THROUGH PERFORMANCE AGAINST SCHEDULED OBJECTIVES

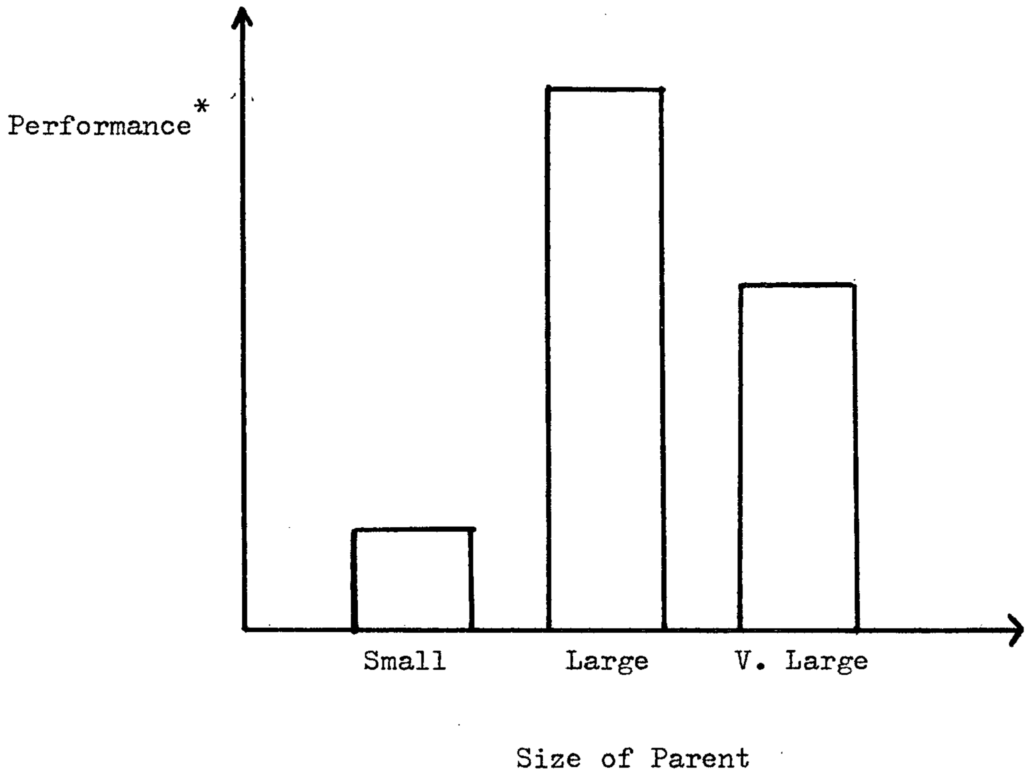
	Foreign Parent Size in Sales									
	Number of Cases and Cell % Bases on Column Sum*									
	Small		Medium		Large		V. Large		Total	
	No.	%	No.	%	No.	%	No.	%	No.	%
Better than expected	–	–	–	–	1	25	4	33	5	23
About the same as	–	–	–	–	3	75	1	8	4	18
Less then	2	40	–	–	–	–	3	25	5	23
Too soon to judge	3	60	–	–	–	–	4	33	7	32
Total and % based on row sum	5	23	–	–	4	18	12	56	21	
Weighted score[1]	0.4		–		2.25		1.41			

* Percentages do not all add up to 100 because of rounding.

1 Each time the performance was "better than expected", it was multiplied by 3; "about the same as", it was multiplied by 2; "less than", it was multiplied by 1. These weighted values were then summed over each category to give a total weighted score for that size.

FIGURE 4.4

SIZE OF PARENT AND PERFORMANCE AGAINST SCHEDULED OBJECTIVES



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* Results from Table 4.7 weighted scores.

As the size of the foreign parent companies increased, so did the fulfillment of their scheduled objectives. However, "large" Japanese companies were, generally speaking, more successful than "very large" corporations. It is a fact that "very large" companies realized their objectives, "better then expected", 33% of the time compared to 25% for "large enterprises". Nevertheless, their general performance is weakened by the fact that in 25% of the cases, they realized their objectives "less than expected".[7]

Summary

There was no linear relationship between the size in assets of foreign parent companies and the value of their investments. Furthermore, this characteristic of foreign companies had a very small influence on their degree of control of their joint ventures. Nevertheless, it influenced the profitability of their joint ventures: size of the Japanese parent and profits increased simultaneously. It also had an impact on the achievement of scheduled objectives of the Japanese company, by the joint venture.

"Very large" companies chose their partners mainly for

7. If joint ventures from the "miscellaneous group" were eliminated from the category "very large", it was more successful than the "large" group.

"convenience of facilities/resources". All other categories chose their partners for "same line of business" and "past association": both criteria were mentioned once by each category.

CHAPTER 5

THE NATURE OF THE BUSINESS

It seems reasonable to expect that the nature of business of Japanese foreign companies will influence the nature of business of joint ventures in which they invested.

As already pointed out, more than half of the Japanese parents were trading companies, and most Japanese joint ventures in B.C. were involved in raw material operation. Was the situation in B.C. an exception to the general pattern?

At first sight, results presented in Table 5.1 appeared to confirm this exception. Eleven joint ventures, when classified according to the nature of business of foreign firms, were in the trading category. There was no joint venture in this group when joint ventures were classified according to their nature of business. The explanation to this situation, however, concerned the organization of the trading companies. Within each company, there were different divisions as follows: textile division, machinery division, chemical division, etc.. In fact, investments were made on a divisional rather than on company basis. Thus, the nature of business of joint ventures was similar to the nature of business of both partners.

The six trading companies invested in eleven joint ventures: five in the "pulp and lumber" group", three in the "miscellaneous category", and three in the "mining group". All other parents invested

TABLE 5.1

CLASSIFICATION OF JAPANESE PARENT COMPANIES AND ASSOCIATED JVs ACCORDING TO THE NATURE OF BUSINESS

	Number of Cases		
		Joint Ventures Classified by Business of the	
Nature of the Business	Japanese Parent Firm	Parent	JV
Trading	6	11	0
Pulp and Lumber	1	1	6
Miscellaneous	2	3	6
Mining (Operating)	3	6	4
Mining Exploration	0	0	5
Totals	12	21	21

in joint ventures in the same line of business as their own.

Nature of business and reasons for going into joint ventures

Table 2.3 previously indicated how the nature of business of joint ventures [1] influenced the reasons mentioned by Japanese companies for going into joint ventures. It was established that all joint ventures in the "pulp and lumber category" were set up for purposes of obtaining raw materials. Seventy five per cent of the companies in the "mining category" also used this philosophy. Companies from the "mining exploration group" usually mentioned this criterion as the most important, while 33% of joint ventures in the "miscellaneous category" were set up for this reason.

In some cases, this situation influenced the equity share that Japanese companies obtained in their associated joint ventures, in influencing the power of negotiation of each partner. As this issue was covered in the previous chapter, it will not be re-examined.

Nature of business and attitudes towards control

The difference between "control" and "effective control" was

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1. The nature of business of the joint venture and of the Japanese parent company were usually similar and closely related.

explained to Japanese executives and they were then asked to comment on the importance of "effective control". Their opinions were tabulated and the results indicated, in effect, there was very little difference between the two. Actually, only 9% of the executives differentiated between the two. The results are presented in Table 5.2. [2]

Before examination of Table 5.2, it seemed reasonable to assume that the desire for "effective control" increased with the value of investments. The significance of the partners could also influence the desired degree of "effective control". It seemed also reasonable to assume that the Japanese desire for "effective control" was influenced by the shares owned by the foreign company. The greater the former, the greater the latter should be. When owning a certain number of shares, foreign investors usually desire not only to exercise control, but also "effective control".

Eighty three per cent of the time, companies in the "pulp and lumber group", indicated that "effective control" was "necessary". Their investments represented 69% of the total value of Japanese invest-

2. In order to describe a level of necessity for "effective control", Japanese executives had to choose between: "necessary", "desirable", "acceptable" and "unnecessary". When the Japanese firm made "effective control" a condition of its participation into a joint venture, "effective control" was classified as "necessary". When the Japanese enterprise asked for "effective control", but was ready to re-evaluate its decision on this point, it was classified as "desirable". If a Japanese company could obtain "effective control" and was interested, it was classified as "acceptable". When "effective control" was not an issue for the Japanese enterprise, it was classified as "unnecessary".

TABLE 5.2

NATURE OF BUSINESS AND ATTITUDES OF JAPANESE PARENT FIRMS

TOWARDS EFFECTIVE CONTROL OVER A JOINT VENTURE

Number of Cases and Cell % Described in Row Sum*

Nature of Business	Effective Control Described As: Necessary No.	%	Desirable No.	%	Acceptable No.	%	Unnecessary No.	%	Totals No.	%	Value of Investment	Weighted Scores[2]
Pulp and Lumber	5	83	-	-	-	-	1	16	6 (3.83)	31	141,383,000	3.50
Miscellaneous	-	-	1	25	3	75	-	-	4 (2.75)	20	2,590,000	2.25
Mining (Operating)	-	-	-	-	1	25	3	75	4 (1.00)	20	60,530,000	1.25
Mining (Exploration)	-	-	1	20	4	80	-	-	5 (1.40)	26	335,000	2.20
Totals	5	26	2	10	8	41	4	21	19[1]			

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* Percentages do not all add up to 100 because of rounding. Percentages in the last column are based on the column sum.
1. Two companies did not provide information.
2. Each time "effective control" was described as "necessary", it was multiplied by 4; as "desirable", by 3; as "acceptable", by 2; and as "unnecessary", by 1. These weighted values were then summed over each group to give a total weighted score for that group.
() The number indicates the equity share of the Japanese parent. It was calculated in the same manner as in Table 4.3

ments in B.C.. Fifty per cent of their partners were classified other than "important". This group also had the highest "equity-share": 3.83. This was the group for which "effective control" was the most "necessary": 3.50, on a weighted scale. The "pulp and lumber group" paralleled the above assumptions.

The "miscellaneous group" which ranked its partners as the most important, [3] considered "effective control" as "acceptable" 75% of the time. Despite the small value of its investments, their "equity-share" was the second highest one: this could explain the fact that "effective control" was quite "necessary" for this group: it scored 2.25 on a weighted scale.

The situation concerning companies from the "mining group" did not parallel the accepted theory. The "mining group" investments were higher than the investments from the "miscellaneous group". Their partners were less effective than those in the "miscellaneous group". For these two reasons, they should have greater "effective control" over their associated joint ventures,than companies from the "miscellaneous group". However, their low level of "equity share" was the lowest one, and could explain this situation.

Companies from the "mining exploration group", even with the small value of their investments, stressed that "effective control" was quite "necessary" for them: maybe it was because their partners were the least important ones.

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3. See Table 5.8.

It has been impossible to establish a clear relationship between the "importance" of Canadian partners for Japanese executives, and their desire for "effective control". As the total value of investments of one group rose, so did the "necessity" for "effective control", with the exception of the "mining operating group". [4] Nevertheless, as the Japanese "equity-share" in their associated joint ventures increased, "effective control" was increasingly "necessary" for Japanese executives.

Nature of business and "driving force", "deciding body"

The driving force and the deciding body were the same for all joint ventures setup in the "miscellaneous" and the "mining group", Both were different in 20% of the cases studied in the "mining exploration group", and 33% of the time in the "pulp and lumber group". The results are presented in Table 5.3.

It would seem sensible for companies in the "mining exploration group" to use a "familiar individual" as driving force and deciding body since they could make a more accurate evaluation of the local possibilities. However, the four companies which had "normal channels" as driving force and deciding body, had all been previously involved in mining operations in B.C.. This previous experience could compensate

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4. "Control" was not an issue for Japanese companies involved in JVs in the "mining operating group": it was stressed very often by Japanese executives in these firms.

TABLE 5.3

NATURE OF BUSINESS AND LOCATION OF RESPONSIBILITY FOR DRIVING FORCE AND DECISION TO GO INTO A SPECIFIC JOINT VENTURE

Number of Cases and Cell % Based on Row Sum*

Final Decision Taken By:

	Familiar Individual		Individual		Special Group		Normal Channels		Total		
Nature of Business	No.	%	No.	%	No.	%	No.	%	No.	%	
Pulp and Lumber	1	16	-	-	3	50	2	33	6	28	Driving Force
	1	16	-	-	1	16	4	66	6	28	Decision
Miscellaneous	1	16	-	-	2	33	3	50	6	28	Driving Force
	1	16	-	-	2	33	3	50	6	28	Decision
Mining (Operating)	-	-	-	-	-	-	4	100	4	18	Driving Force
	-	-	-	-	-	-	4	100	4	18	Decision
Mining (Exploration)	1	20	-	-	-	-	4	80	5	23	Driving Force
	-	-	-	-	-	-	5	100	5	23	Decision
Totals	3	14	-	-	5	23	13	61	21		
	2	9	-	-	3	14	16	75	21		

* Percentages do not all add up to 100 because of rounding. Percentages in the last column are based on the column sum.

for possible lower levels of accurate local information available when these companies used "normal channels" as driving force and deciding body. The relations between companies of each group helps to explain their similar behavior. [5]

The "miscellaneous group" was the only group where no more than 50% of the decisions to go into joint ventures were made through "normal channels". The following facts could contribute to an explanation; size of investments, the smallest of all groups; nature of business of the joint ventures: the only joint ventures outside the "raw material category"; the small number of Japanese parents which were trading companies.

"Pulp and lumber" was the group where the difference between driving force and deciding body was the most significant. A "special group" was more often the driving force than "normal channels". In 66% of the cases, the deciding body was "normal channels". It was the only group in the "raw material category" not always using "normal channels" as deciding body.

It was underlined in Table 5.2 that the behavior of "pulp and lumber" companies differed from the behavior of "mining" enterprises.

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5. One company was involved in a joint venture in the "mining operation group" and was also a partner in three joint ventures in the "mining exploration group".

A similar situation existed in this instance.

Attitude towards potential associates

Entering into joint ventures with "fellow national" is obviously more convenient than with strangers. Cultural barriers and language differences do not exist. Furthermore, trade customs and business habits are more familiar than those of a foreigner. These facts may not be a major concern because a potential associate could be a local competitor, and because of a desire for local identity.

To enter into a joint venture with "other foreign", other than Canadians, presents few advantages. Unless there is a specific need, this practice is highly discouraged. Canadian subsidiaries with external control, usually American, were considered as Canadian owned for the purposes of this report.

Joint ventures can be more easily controlled if the partner is "local public investors" rather than "local private". "Local public investors" are usually satisfied to receive their dividends and interfere very seldom in the management of the joint ventures.

Nevertheless, if the need for local management, local technicians and local identity is greater than the need for local raw material, it is more convenient to negotiate with "local private".

It is not a popular practice for enterprises to enter into joint ventures with the host government and crown corporations, for the following reasons: bureaucratic complications, unbalanced power of negotiation, political involvement, etc..

The selection of a potential partner, in decreasing order of choice, should then be as follows: "fellow national", "local public investors", "local private", "other foreign", "host government". The preferences of Japanese executives are shown in Table 5.4.

Neither the global results or any other group followed the predicted pattern. In general, the preference was for "local private", and there was a total agreement between each group to choose this potential associate first. Following "local private" the choices, in descending order of importance, were as follows: "local public investors", "fellow national", "other foreign", and "host government". Except for the "miscellaneous group", "host government" was always chosen last. An explanation for this situation will be discussed later.

It was also interesting to note the strong preference indicated for "local private". Only 31% of all other cases scored less than 3.0, [6] with the lowest one at 2.50. Fifty six per cent of the answers were between 3.0 and 3.99, while 12.5% were over 3.99.

On the average, when the score of "local partner" was eliminated, the strongest preference for "local private" was from the

6. The lower the score, the stronger was the preference.

TABLE 5.4

RANKING OF POTENTIAL ASSOCIATES BY JAPANESE COMPANIES

ACCORDING TO NATURE OF BUSINESS OF PARENT FIRM

	Rank Ordering of Potential JV Associates*					
Nature of Business of Japanese Parent	Fellow National	Other Foreign	Local Private	Host Government	Local Public Investors	Average[1]
Pulp and Lumber	3.50	3.50	1.00	3.50	2.50	3.25
Miscellaneous	3.20	3.60	1.00	3.40	3.00	3.40
Mining (Operating)	2.66	2.66	1.00	3.00	3.00	2.83
Mining (Exploration)	2.80	4.00	1.00	4.40	2.80	3.50
All Industry Score	3.04	3.44	1.00	3.57	2.82	-

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* Responses were given a value from 1 (for a first place ranking) to 5 (for a fifth place ranking). These values were multiplied by the frequency of occurence for each group of parent companies by nature of business, and then summed over each group. This sum was then divided by the number of responses made by the related group, to give a weighted average score which represented the group's responses to that type of associate.

1 All potential associates with the exception of Local Private.

"mining exploration group" which scored 3.50.[7] It was followed by the "miscellaneous group" at 3.40, the "pulp and lumber group" at 3.25, and the "mining group" at 2.83.

This general behavior reflected the great importance for companies from the "mining exploration group" to find partners familiar with the local environment. It also indicated that mining companies did not consider "local private" to be significantly important. They needed raw materials, and did not mind obtaining it through a joint venture with or without "local private".

The preferences of the "pulp and lumber group" closely paralleled the general results. This group showed the most preference for a second partner ("local public investors" scored 2.50). Considering their desire for "effective control" discussed previously, this choice was not a surprise. Discovering that these firms made no distinction between "fellow national", "other foreign", and "host government", was something unexpected. Procurement of local raw material would be easier when the partner of a joint venture is the "host government" rather than the two other potential associates. An explanation for this could

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7. If a second partner scored 1.50, the preference for this partner would have been close to the preference for "local private". If he scored 4.00, the preference would clearly have been for "local private". The higher the score, the greater the preference for "local private".

be lack of interests in doing business with government bodies.

Firms from the "miscellaneous group" were the only ones which did not choose a potential partner in the 2.0 range. Also important to note was their choice of "host government" as a fourth, rather than a fifth potential associate. It was the only case where this partner was not the last choice. An executive of an enterprise from this group was surprised to realize that Canadian businessmen were reluctant to deal with the government or crown corporations. The Japanese company did not concur with these thoughts.

The mining companies were the only ones to prefer "fellow national" and "other foreign" to "local public investors". They felt it was to their advantage to be involved in mining operations with the first two partners mentioned, rather than with "local public investors", due to the ease of procurement of raw material. Why they did not choose "host government" can not be intelligently explained.

Companies from the "pulp and lumber", and "mining group", both have a need of raw materials; however, their behavior patterns differed.

Reasons for selecting a specific associate

Results presented in Table 5.5 indicate that the "pulp and lumber group", when selecting its associates, behaved once again differently from the "mining group". However, this distinction was less pronounced than the other ones previously mentioned. One company in

TABLE 5.5

NATURE OF BUSINESS AND REASONS FOR SELECTING SPECIFIC ASSOCIATES

Reasons for Selecting an Associate

Nature of Business	Forced Choice		Same Line of Business		Convenience of Facilities/ Resources		Past Association		Status Identity		Other		Totals	
	Number of Cases and Cell % Based on Row Sum*													
	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%
Pulp and Lumber	-	-	1	16	2	33	2	33	1	16	-	-	6	28
Miscellaneous	-	-	2	33	2	33	1	16	1	16	-	-	6	28
Mining (Operating)	-	-	1	25	2	50	1	25	-	-	-	-	4	18
Mining (Exploration)	-	-	3	60	-	-	2	40	-	-	-	-	5	23
Totals	-	-	7	33	6	28	6	28	2	9			21	

* Percentages do not all add up to 100 because of rounding. Percentages in the last column are based on the column sum.

the "pulp and lumber group" chose its partner for "status/identity", whereas none did in the "mining group". Two companies in the first group instead of one in the second group chose it for "past association". One firm instead of two set up a joint venture with a partner selected for "same line of business". They were the minor differences of behavior. The major one was that the "mining group" used only one main criterion for selecting its associates: "convenience of facilities/resources", whereas the "pulp and lumber group" used two criterion: "convenience of facilities/resources" and "past association".

The "miscellaneous group" behavior was not very different from the first two groups mentioned above. Companies involved in "mining exploration" have a special characteristic: they never selected their partners for "convenience of facilities/resources", the most important criterion of all other groups. Their main criterion of selection was "same line of business": they mentioned it 60% of the time. These cases represented 43% of "same line of business" category, taken over all industries. "Past association" was their second criterion.

Structural dependence

To evaluate the independence of a joint venture vis-a-vis its parent company, the three following methods were used:

(1) Percentage of equity of the foreign firms.

(2) Responsibilities of the associate.

(3) Independence of the joint venture regarding some policies.

To judge the degree of responsibility of the associate, Japanese executives were asked to point out if their associates had full responsibility, full to joint responsibility, joint to no responsibility, or no responsibility, regarding the conduct of the following activities:

(1) Marketing and distribution.
(2) Purchasing and procurement.
(3) Engineering and technical matters.
(4) Production.
(5) Administration and control.
(6) Finance.
(7) Recruitment and personnel.
(8) Relations with the host government and local authorities.
(9) Public relations.

The independence of the joint venture vis-a-vis its parent company was evaluated for the following policies:

(1) Capital expenditure.
(2) Pricing.
(3) Dividend policy.
(4) Organization.
(5) Product selection, design and planning.
(6) Production, planning and control.
(7) Quality control.
(8) Marketing and sales.
(9) Purchasing.
(10) Wages and labor policy.
(11) Selection, promotion and compensation of executives.

The results are presented in Table 5.6. The lower the score, the lower the number of shares owned by Japanese companies, the higher the level of responsibility of the associate, the lower the level of dependence of the joint venture.

These results indicated that the most independent joint ventures, in decreasing order, were from the: "mining group", "mining exploration group", "miscellaneous group", and "pulp and lumber group". Once again, joint ventures from the "mining" and the "pulp and lumber group" behaved differently.

When the equity share of Japanese parents increased, so did their responsibilities and the dependence of their associated joint ventures. In fact, out of the six joint ventures in the "pulp and lumber group", the most dependent joint ventures, five were majority owned by Japanese, whereas the sixth one was a 50-50 joint venture. No mining company entered into JVs, the least dependent joint ventures, in which they owned more than 25% of the shares. Figure 5.1 illustrates this situation.

When the Japanese equity share increased from 1.0 to 2.33, [8] the dependence of the joint venture increased rapidly, whereas the associate's responsibility decreased. However, any further increase

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8. These numbers represented the extremities of the left straight line in Figure 5.1.

TABLE 5.6

STRUCTURAL DEPENDENCE SCORES OF JOINT VENTURE

ACCORDING TO NATURE OF BUSINESS

Nature of Business	Number of JVs	Equity Share of Foreign Parent*	Associate's Responsibility For Operations[1]	JV's Independence in Policy Areas[1]
Pulp and Lumber	6	3.83(4)	2.33(4)	2.34(4)
Miscellaneous	6	2.33(3)	2.29(3)	2.03(3)
Mining (Operating)	4	1.00(1)	1.28(1)	1.25(1)
Mining (Exploration)	5	1.40(2)	1.63(2)	1.70(1)
All Industry Average Score		2.14	1.88	1.83

---

* Same method as the one used in Table 4.3

1 The values assigned in these two measures were as follows:

Associate's Responsibility for Joint Venture's Operations:

Full Responsibility = 1
Full to joint responsibility = 2
Joint responsibility = 3
Joint to no responsibility = 4
No responsibility = 5

Joint Venture's Independence:

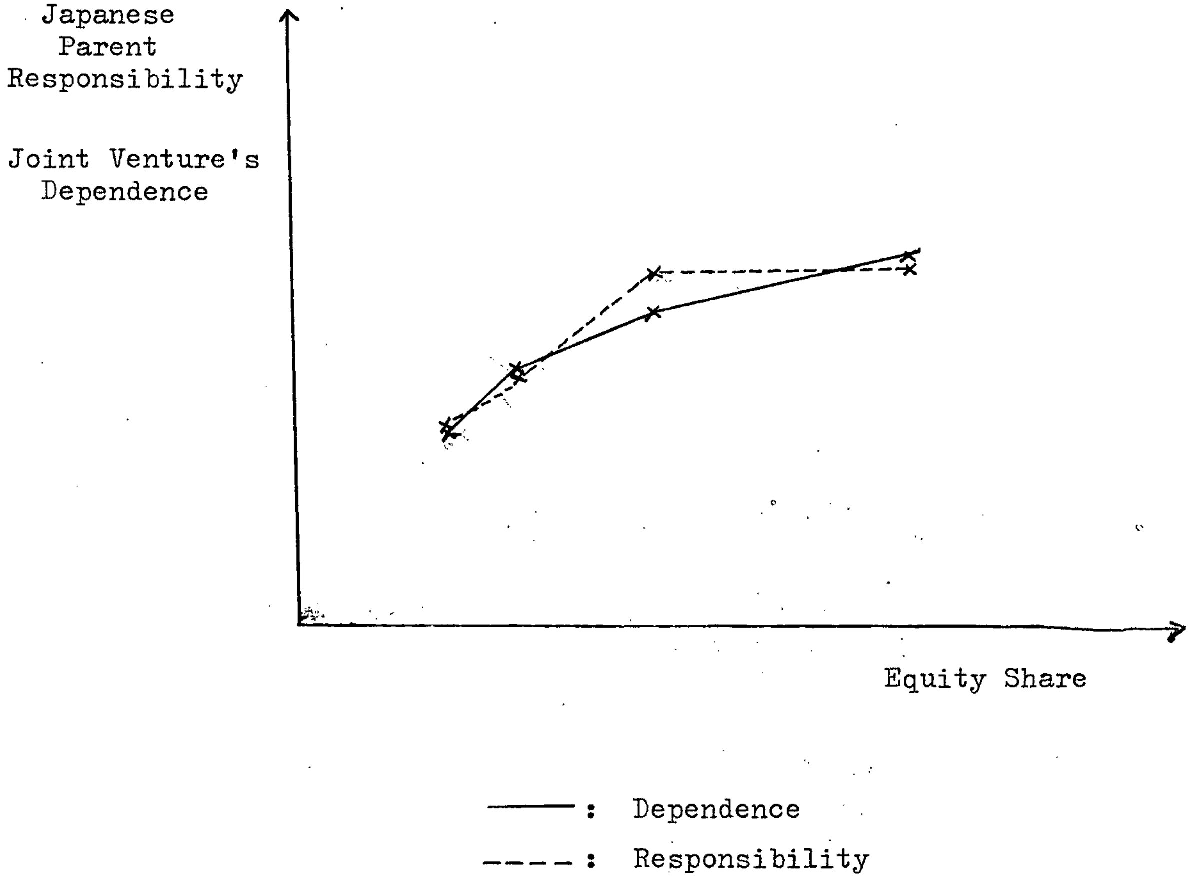
Highly independent = 1
Independent = 2
Joint decisions = 3
Considerable control by Japanese parent = 4
Close control by Japanese parent = 5

These values were then aggregated and averaged for each category.

FIGURE 5.1

EQUITY SHARE OF JAPANESE PARENT, JAPANESE PARTNER RESPONSIBILITY,

AND JOINT VENTURES DEPENDENCE



would have a smaller influence on these two variables. For a Japanese company, to look for a greater equity share with the sole purpose of increasing its power over the joint venture, could be fruitless, after a certain level of ownership: the marginal cost is greater than the marginal gain.

Data on the relations between activities, policies, and the nature of business are shown in a more explicit form in Table 5.7. In general, Japanese companies were reluctant to delegate responsibilities to their associates regarding the following activities: (1) engineering and technical matters; (2) finance; (3) marketing and distribution. Joint ventures were dependent on their Japanese parents over the following policies: (1) capital expenditure; (2) selection, promotion and compensation of executives; (3) product selection, design and planning; (4) marketing and sales.

Associates in the "pulp and lumber" joint ventures were highly responsible concerning public relations, relations with the host government and local authorities, recruitment and personnel, and production. However, for each activity, they had less responsibilities than the overall industry average. Japanese companies assumed high responsibility in finance, marketing and distribution. Their role was more important than it was for companies of other groups.

In the "miscellaneous group", partners of Japanese firms assumed more responsibilities in relations with the host government and local authorities and public relations than the "pulp and lumber"

TABLE 5.7

RELATIONS BETWEEN ACTIVITIES/POLICIES AND NATURE OF BUSINESS*

Activities/ Categories	P[1]	Mis	Min	Minex	Aver.
Marketing and Distribution	2.83	2.20	2.00	1.00	2.00
Purchasing and Procurement	2.16	2.60	1.50	1.60	1.96
Engineering and Technical Matters	2.16	2.60	1.50	1.80	2.01
Production	2.00	2.40	1.50	1.00	1.72
Administration and Control	2.66	1.80	1.00	1.40	1.71
Finance	3.00	2.60	1.00	1.40	2.00
Recruitment and Personnel	2.00	2.80	1.00	1.80	1.90
Relations with Host Government/ Local Authorities	2.00	1.60	1.00	1.80	1.60
Public Relations	1.66	1.60	1.00	1.80	1.51

Policies/Categories	P	Mis	Min	Minex	Aver.
Capital Expenditure	3.50	2.80	1.00	1.80	2.27
Pricing	2.00	1.60	1.50	1.00	1.52
Dividend Policy	2.80	2.25	1.00	1.00	1.76
Organisation	1.83	2.00	1.00	1.80	1.65
Product Selection, Design, Planning	3.33	2.25	1.00	1.00	1.93
Production Planning and Control	2.00	1.00	1.50	1.00	1.37
Quality Control	1.33	2.25	2.00	1.00	1.64
Marketing and Sales	3.00	2.00	1.75	1.00	1.93
Purchasing	1.33	1.25	1.00	1.25	1.20
Wages and Labor Policy	1.16	1.40	1.00	1.20	1.19
Selection, Promotion, Compensation of Executives	3.50	2.40	1.00	1.75	2.16

* Low scores indicate a high level of responsibility for the Associates, or an independent joint venture.

1. P: Pulp and lumber group — Minex: Mining exploration
   Mis: Miscellaneous group — Aver: Average
   Min: Mining Operating group

partners, whereas they had few responsibilities to recruit personnel. As Japanese companies provided mainly know-how instead of capital and secure market as in the other categories, it seemed obvious that they would exercise more control over personnel selection.

Parents of the "mining group" usually delegated more responsibilities than the average. However, this was not the case for marketing activities. As for policies of production planning and control, and quality control, they preferred to supervise them closely. Securing their supply of raw materials was their most important objective and influenced their behavior.

Associate's responsibility in the "mining exploration group", was low concerning relations with the host government and local authorities and public relations. It was the only case where Japanese partners fully exercised such responsibilities themselves. For these companies, obtaining government authorization to operate if their exploration was successful, was very important. Good relations were therefore very important, and Japanese partners preferred to be responsible for them.

Each group behaving differently, it was impossible to elaborate a general valid statement concerning the associates' responsibility over the activities studied. Concerning the policies, all groups exercised close control on the most important ones, as the average results showed.

Evaluation of associates

Normally, when the level of responsibility of an associate increases, so does its importance. Was it so for Japanese joint ventures in British Columbia? The results are presented in Table 5.8.

There was no clear relation between the associate's responsibility and its level of importance evaluated on an average weighted score. Associates in the "mining group" assumed the most responsibilities, and ranked second on the scale. However, even if they represented only 27% of the cases when an associate was classified as "important", they were cited as "important" by their Japanese partners 75% of the cases.

Associates in the "mining exploration category", who assumed the second highest level of responsibilities, ranked fourth on the same scale. Furthermore, no one was mentioned as "important".

Joint venture associates in the "miscellaneous group" were ranked third on an associate's responsibility scale. Nevertheless, they were the most "important" partners. Their average weighted score was the highest: 2.66, and 83% of them were classified as "important". Furthermore, they represented 45% of the "important" cases taken over all groups.

"Pulp and lumber" companies delegated less responsibilities to their associates than any other companies. It would have been natural therefore for them to classify their partners as not "very

TABLE 5.8

NATURE OF BUSINESS AND IMPORTANCE ATTRIBUTED TO

ASSOCIATES IN JOINT VENTURES IN B.C.

	Importance Attributed to Associates										
	Important		Useful		Necessary		Useless		Totals		
	Number of Cases and Cell % Based on Column Sum*										
Nature of Business	No.	%	No.	%	No.	%	No.	%	No.	%	Weighted Score [1]
Pulp and Lumber	3	27	1	33	1	16	1	100	6	28	1.83
Miscellaneous	5	45	–	–	1	16	–	–	6	28	2.66
Mining (Operating)	3	27	–	–	1	16	–	–	4	18	2.50
Mining (Exploration)	–	–	2	66	3	50	–	–	5	23	1.40
Totals and % Based on Row Sum	11	52	3	14	6	28	1	5	21	–	

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* Percentages do not all add up to 100 because of rounding.

1 Each time a partner was cited as important, it was multiplied by 3, as useful it was multiplied by 2, as necessary it was multiplied by 1, as useless by -1. These weighted values were then summed over each category to give a total weighted score for that group.

important" in general. Nevertheless, 50% of their partners were considered as "important". However, it was the only category in which a case arose where an associate was considered "useless".

Summary

The most important foreign parents were the trading companies. Six of them had interests in eleven joint ventures in B.C.. There were six joint ventures in the "pulp and lumber", and "miscellaneous group", and nine in the "mining sector". The nature of business of foreign firms influenced the nature of business of their associated joint ventures.

Obtaining raw material was the reason mentioned for going into joint ventures by more than 50% of the companies in the raw material category.

"Effective control" was "very important" for the "pulp and lumber group". It was more "acceptable" than "desirable" for the "miscellaneous" and "mining exploration group". Seventy five per cent of the companies in the "mining group" described it as "unnecessary".

Decisions to enter into a joint venture were always taken by "normal channels" in the companies involved in the "mining sector". A "familiar individual" took such a decision 16% of the time in the "pulp and lumber" and "miscellaneous group". A "special group" did the same in these two groups 16% and 33% of the time respectively.

"Pulp and lumber group" was the group where "driving force" was the most often distinct from the "deciding body".

"Local private" was the potential associate that all groups would like to have as a partner in a joint venture. "Local public investors" was the second choice of all categories except mining. "Host government" was classified as the least desirable potential associate by all groups except the "miscellaneous group".

"Convenience of facilities/resources" was the most important criterion for selecting an associate for almost all groups. The "mining group" was the only exception, in this case "same line of business" was the most significant criterion. Joint ventures in this group were the most independent. They also were the JVs in which the associates assumed the highest level of responsibility. Joint ventures from the "pulp and lumber" companies were at the opposite end of the spectrum. This situation illustrated that when the Japanese equity share increased, so did the dependence of the joint ventures.

Associates were responsible for: relations with the host government and local authorities, public relations and usually recruitment and personnel. Japanese partners kept authority over areas such as: finance, marketing and distribution, and technical matters. Joint ventures were under the control of Japanese parents for capital expenditure, marketing and sales, and selection, promotion and compensation of executives.

Associates in the "miscellaneous group" were the most "important". Unfortunately, it has been impossible to establish a clear relation between the level of responsibility and the importance of the associates.

CHAPTER 6

ATTITUDES TOWARDS CONTROL

This chapter studied some of the relationships between Japanese attitudes towards control and certain aspects of their associated joint ventures. How, for example, could their attitudes towards control influence their ranking of the following potential associates: "fellow national", "other foreign", "local private", "host government", and "local public investors"? What was the relationship between their attitudes towards control and the dependence of their associated joint ventures? Were their joint ventures more profitable when they exercised close control? Did they increase their control when the perceived level of importance of their partners decreased? These are some of the questions analysed.

Ranking of potential associates

Attitudes towards control of foreign investors should influence their choice of potential associates. If a foreign investor wished to control the joint venture he was setting up in a foreign country, the easiest way was to go into this particular joint venture with "local public investors". "...Les liens qui les unissent sont purement pécuniaires. L'actionnaire typique ne s'identifie pas aux buts de l'entreprise: il n'espère pas les influencer. Il détient une part de la propriété; normallement son seul souci est qu'elle lui rapporte le plus possible." [1] This was one of the simplest methods through which to control a joint venture. Furthermore, the foreign investor did not have to invest as much money as "local public investors" in order to have "effective control" of the joint venture. It is a well known fact that in public companies, an enterprise can take control even though it acquires less than 50% of the shares. Therefore, this potential associate not only would not interfere in the management of the joint venture, but would also present to the foreign investors the opportunity to control a firm without investing too great an amount of money in it, or at least rather less perhaps than if the joint venture was to be set up with another potential associate.

A reasonable second choice for companies desiring to exercise control of a joint venture, would be "local private" partners. Theoretically, the foreign investors can use, during the negotiations with its future partner, its superiority in size and the nature of its contribution to the joint venture to increase its equity share. Furthermore, very often, responsibilities assumed by the "local partner" could be so restricted, that the foreign investor will have control over the

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1. Galbraith, J.K.: Le Nouvel Etat Industriel, Gallimard, France, 1968, p. 158.

principal activities of the joint venture.

For companies with no marked preferences for control, there should be no difference in their choices and ranking of potential associates. However, "host gòvernment" would most likely be the last choice of all companies. For all enterprises, "host government" was not a favoured partner: such a partnership would have gone against the "free enterprise" policy of most companies because of the fear that the foreign investor could be subjected to all kinds of political pressures. Attitudes towards control of Japanese executives and their ranking of potential associates are presented in Table 6.1, where the lower the score, the more preferable the associate.

These results did not verify all the previous assumptions. Firstly, "local private" and not "local public investors" was always the first choice and this, despite the differences of opinions over the necessity for "effective control". As a Canadian identity is easier to obtain through a partnership with "local private" than with "local public investors", this choice could be explained by the fact that to be seen as Canadian was more important than "effective control" for Japanese companies. They were ready to restrain their desire for "effective control" in order to acquire a Canadian identity. Secondly, "host government" was not always the last partner chosen: the only time it was not happened when "effective control" was mentioned as "necessary". However, it must be stressed that all firms mentioning

TABLE 6.1

RANKING OF VARIOUS TYPES OF POTENTIAL ASSOCIATES ACCORDING TO JAPANESE COMPANY'S ATTITUDE TOWARD EFFECTIVE CONTROL OF A JV

Stated Level of Necessity for Effective Control	Rank Ordering of Potential JV Associates				
	Fellow National	Other Foreign	Local Private	Host Government	Local Public Investors
	Weighted Average Score and (Overall Rank) for Groups*				
Necessary	3.60(4)	3.60(4)	1.00(1)	3.20(3)	2.60(2)
Desirable[1]	3.00(2)	4.00(4)	1.00(1)	5.00(5)	3.00(2)
Acceptable	2.62(2)	3.75(4)	1.00(1)	4.37(5)	3.25(3)
Unnecessary[1]	3.00(4)	2.33(2)	1.00(1)	4.00(5)	2.66(3)
All-Group Score	3.05(3)	3.42(4)	1.00(1)	4.14(5)	2.88(2)

* Scores calculated in the same manner as in Table 5.4

1 One company refused to disclose information.

"effective control" as "necessary" were in the "pulp and lumber group"; for these firms, who were basically looking for raw materials, "host government" was a better potential associate than "other foreign" or "fellow national".

The assumption stating that "local public investors" are the best partners for enterprises wishing to exercise close "effective control" was partially verified. Companies in the "control-conscious group" [2] mentioned "local public investors" as their second choice, whereas firms in the "control unstressed group" [3] mentioned them as third choice.

It was interesting to note that companies mentioning "effective control" as "unnecessary", selected "other foreign" as their second choice while it was the fourth choice of all other companies in other groups. A potential reason could be that 75% of these companies were involved in mining operations and that these companies had a special interest in this group of potential associates. As this issue was examined in the previous chapter, it will not be discussed again in detail. [4]

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2. Companies mentioning "effective control" as "necessary" or "desirable".
3. Companies mentioning "effective control" as "acceptable" or "unnecessary".
4. Table 5.4.

Reasons for going into joint ventures, size of Japanese parents, scheduled objectives, and reasons for selecting an associate, were examined in relationship with the stated level of necessity for "effective control". The results are presented in Table 6.2.

Reasons for going into joint ventures were "need for local raw materials" for all companies considering control as "necessary" and "unnecessary": there was no relationship between these reasons and the stated level of necessity for "effective control". It was the same situation when analyzing the relationships between the size of Japanese parents, scheduled objectives, and the Japanese desire for "effective control".

However, reasons for selecting an associate explained, to a certain extent, this desire for "effective control". The "control-conscious group" selected its partners, most of the time, for "convenience of facilities/resources", whereas most of the companies in the "control unstressed group" selected their partners for "same line of business".

Structural characteristics of joint ventures

If "effective control" was important for Japanese companies investing in B.C., they would try to increase their equity share in their associated joint ventures. It would also be reasonable to expect that they would increase the level of dependence of their joint ventures

TABLE 6.2

JAPANESE COMPANY'S ATTITUDE TOWARD EFFECTIVE CONTROL AND SOME OTHER FACTORS*

Stated Level of Necessity for Effective Control	Reasons for Going Into Joint Ventures	Size of Japanese Parent	Scheduled Objectives	Reasons for Selecting an Associate
Necessary	Need for local raw material -100%	Very Large - 60% Large - 20% Small - 20%	Secure supply of raw material - 100%	Convenience of facilities/ resources - 60% Past association - 40%
Desirable	Need for local managers -50% Other reasons -50%	Very Large - 50% Medium - 50%	Exploration - 50% Miscellaneous - 50%	Convenience of facilities/ resources - 100%
Acceptable	Need for local managers -40% Associate's project -40% Spreading risk -20%	Very Large - 25% Large - 50% Small - 25%	Supply raw material - 12% Exploration - 50% Miscellaneous - 38%	Convenience of facilities/ resources - 12.5% Past association - 12.5% Same line of business - 75%
Unnecessary	Need for local raw materials-100%	Very Large - 75% Medium - 25%	Secure supply of raw material - 100%	Convenience of facilities/ resources - 50% Past association - 25% Same line of business - 25%

* Percentages based on the number of companies in each sub-sample.

vis-à-vis the Japanese parents, and limit the level of responsibilities of their partners. To own more than 50% of the shares of a joint venture, to restrict the responsibilities of a partner and to influence the policies of a specific joint venture, really seemed to be the best ways of controlling a joint venture.

Results presented in Table 6.3 paralleled the above expectations. As the stated level of necessity for "effective control" went from "unnecessary" to "necessary", the equity share of Japanese companies and their level of responsibilities increased. There was, however, one exception: when "effective control" was described as "desirable", the pattern was not followed. Not only did these companies have a lower equity share than companies for which "effective control" was "unnecessary", but also their level of responsibilities was higher than for the most "control-conscious" companies. Three reasons could explain such a situation: firstly, there were only two companies in this category, which could bias the results; secondly, one of the two companies entered into a joint venture with other Japanese companies, which could surely influence its desire for owning more or less shares and its willingness to delegate more or less responsibilities to its associates; [5]

5. In this particular case, the Japanese company that initiated the joint venture owned few shares, but assumed a high level of responsibility.

TABLE 6.3

STRUCTURAL DEPENDENCE SCORES OF JOINT VENTURES ACCORDING TO FOREIGN PARTNER'S DESIRE FOR EFFECTIVE CONTROL

Stated Level of Necessity for Effective Control	Number of JVs[1]	Equity Share of Foreign Parent	Associate's Responsibility	JV's Independence in Policy Areas
		Weighted Average Score and (Group Order Rank)*		
Necessary	5	3.80(4)	2.59(3)	2.36(4)
Desirable	2	1.50(1)	3.13(4)	2.22(3)
Acceptable	8	2.00(3)	1.66(2)	1.78(2)
Unnecessary	4	1.75(2)	1.28(1)	1.57(1)
All-Group Average Score		2.26	2.16	1.98

* Scores calculated in the same manner as in Table 5.6

1 2 JVs did not disclose information.

thirdly, neither company was in the "operating raw material group": one was in the "miscellaneous group" whereas the other was involved in mining exploration.

Concerning the "joint venture's independence in policy areas", Japanese joint ventures in B.C. followed the assumption: as the necessity for "effective control" increased, so did the dependence of joint ventures. The "control-conscious" companies exercised closer control over their associated joint ventures than did "all companies" in general, while the "control-unstressed group" controlled them less than "all companies" in general.

Profitability of joint ventures

Relationships between the desire for "effective control" mentioned by Japanese executives, and the profitability of their associated joint ventures are presented in Table 6.4. The results indicated that 44% of joint ventures set up by the "control-unstressed group" showed "very large" [6] profits, while this was only true for

6. Profits were classified according to the following scale:

Very large	:	Over \$4 millions.
Large	:	\$1 to \$4 millions.
Medium	:	\$½ to \$1 million.
Small	:	Under \$½ million.

TABLE 6.4

ATTITUDES TOWARD CONTROL AND PROFITABILITY OF JOINT VENTURES

Size of Profits	Control-Conscious Group			Control-Unstressed Group			Equity Share[3]
Very Large	1	20%[1]	4[2]	3	44%	12	1.56
Large	3	60%	9	1	14%	3	3.25
Medium	-	-	-	1	14%	2	2.00
Small	1	20%	1	2	28%	2	3.66
Totals	5	100%	14(2.8)	7	100%	19(2.71)	-

(1) Percentages based on column sum.

(2) Each time a joint venture showed very large profits, it was attributed 4 points; large profits, 3; medium profits, 2; and small profits, 1 point. These values were summed over each group and divided by the number of JVs in each group to give an average weighted score for that group. (Value shown in ())

(3) When the parent share in JV equity was under 25%, it was attributed 1 point; between 25% and 49%, 2 points; 50%, 3 points; and over 50%, 4 points. These values were added and divided by the number of companies within each category, to give an average value for each category.

20% of those from the "control-conscious group". One group seemed to be involved in joint ventures showing larger profits than those of the other. Nevertheless, when the average weighted scores were compared, the latter scored 2.80 and the former 2.71: it was impossible to state that joint ventures from one group showed significantly larger profits than those from the other group. However, if "very large" and "large" profits categories were regrouped, then 80% of joint ventures from the "control-conscious" compared with only 58% from the "control-unstressed group" were in the "very large-large" profits category. It was obvious that different conclusions were possible according to the method of analysis used. Therefore, the general conclusion was that there was no clear relationship between the stated level of necessity for "effective control" and the profitability of joint ventures.

If the Japanese equity share was taken as representing the desire for "effective control" by Japanese companies over their associated joint ventures, then a pattern of behavior emerged: as the equity share of Japanese parents decreased, profits of joint ventures increased. Joint ventures showing medium profits did not follow the pattern. However, there was only one joint venture in this category, and it could be omitted for the purpose of this discussion because it was not a typical joint venture.[7]

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7. This joint venture was in the "miscellaneous group" which represented less than 1% of Japanese investments in B.C.. If the other JV from this group was eliminated from the "small" profits category, this category would have shown 4.0 instead of 3.6.

Importance of associates

Usually, when foreign investors did not evaluate its partners as important, they tried to increase their control over joint ventures in order to increase the chances of success. Attitudes of Japanese executives should be analysed with a certain prudence, for two reasons: first, "a poor opinion may be said to reflect a poor level of competence (in selection of associates), and respondents may therefore try not to recognize or publicize such an opinion."[8] Secondly, as pointed out previously, Japanese do not like to confess their mistakes.[9] Therefore, it would be reasonable to expect that, despite their preferences for "effective control", Japanese executives would not classify their partners as "unimportant". Results presented in Table 6.5 confirmed our expectations: only one partner was classified as "useless" and six as "necessary".

Sixty per cent of the partners of Japanese companies considering "effective control" as "necessary" were classified as "important": it was the highest percentage taken over all categories. The "control-conscious group" classified 85% of its partners as "important" or

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8. Tomlinson, J.W.C.: The Joint Venture Process in International Business: India and Pakistan, The M.I.T. Press, Cambridge, Massachusetts and London, England, 1970, p. 148.
9. See Chapter 3.

TABLE 6.5

JAPANESE PARENT COMPANIES' ATTITUDES TOWARD EFFECTIVE CONTROL AND THEIR COMMENTS ON ASSOCIATES' IMPORTANCE TO THE JV

Stated Level of Necessity for Effective Control	Importance of Associates to this JV				
	Important	Useful	Necessary	Useless	Row Total
Necessary	3	1	-	1	5
Desirable	1	1	-	-	2
Acceptable	3	1	4	-	8
Unnecessary	2	-	2	-	4
Column Total	9	3	6	1	19*

* Two JVs did not disclose information.

"useful", while the "control-unstressed group" classified 50% of their partners in the same categories. It seemed that a strict attitude towards control tended to be related to a higher stated importance of partners.

Summary

Japanese executives always ranked "local private" as their first choice for a potential associate, despite their different attitudes towards control. "Local public investors", the potential partner theoretically permitting greater control, was the second choice of the "control-conscious group", and the third choice of the "control-unstressed group". Out of four criteria used to explain the behavior of Japanese executives concerning "effective control", reasons for selecting an associate was the most accurate.

Joint venture dependence and necessity for "effective control" increased simultaneously. However, it has been impossible to find a clear pattern of causality to explain the relationship between attitudes towards "effective control" and profitability of joint ventures. Nevertheless, it was noted that profits of associated joint ventures increased as the Japanese share in these joint ventures decreased.

While allowing for certain constraints on the part of foreign investors, and especially for Japanese executives, in describing the level of importance of their partners, it was established that Japanese companies preoccupied by "effective control" had the most important partners.

CHAPTER 7

CONCLUSIONS

Japanese enterprises invested in British Columbia for four major reasons; they were, in decreasing order of importance, as follows: "to obtain raw material", "political stability", "raw market", and "geographical diversification". The two first reasons were mentioned by companies looking for raw materials, while the other two were mentioned by firms in the "miscellaneous group".

For the benefit of the provincial and federal government, it must be stressed that Japanese mentioned that the political environment had been more stable in the past than it was at the time this research was carried out. Since close to half of Japanese joint ventures in British Columbia were involved in mining operations or mining exploration, and because "Bill 31" was being debated in Victoria when this study was conducted, it was reasonable to expect such a nuance from Japanese investors. The provincial government clearly does not have to change its policy on natural resources, just because foreign investors do not appreciate it. However, they should be aware of the consequences of these policies and should try to mitigate them by establishing closer contacts with the business community in general. Any action selected, and it was not the purpose of this study to suggest some, to keep "political stability" as important as it was in the past, would certainly please Japanese and other foreign investors.

Japanese executives also criticized the absence of clear rules regarding foreign investments in Canada: quite often they admitted that their problem was not with the potential changes in the law that Ottawa might make, probably towards more restrictive regulations, but rather their difficulties in estimating the amplitudes of these changes, and their timing. As investors in general try to lessen the level of uncertainty, the Japanese have reduced their level by freezing, or at least reducing, their investments in Canada. Since Japanese investments are very large in British Columbia and important to the economy of the province, the sooner this situation is clarified, the better for B.C..

One objection to this conclusion could be that as Japanese firms need raw materials, they will invest in B.C. despite their evaluation of low "political stability". Furthermore, one could also argue that first, they invest in countries where "political stability" is even lower than in Canada, and second that the two countries maintain good relationships. Then, why be worried? One reason could be that "political stability" could be a more important factor in the future if Canadians want to obtain larger Japanese investments outside the raw materials industry.

Japanese investors usually entered into joint ventures because they needed local resources. "Need for local raw materials" and "need for local managers and technicians" were the most important reasons mentioned by Japanese companies for explaining their investments in the form of joint ventures. Enterprises in the "raw material group" mentioned the first reason as the most important one, and the second reason as their second justification to go into joint ventures. All joint ventures in the "pulp and lumber group" were set up because Japanese firms needed local raw materials, while only three joint ventures in the "mining group" were set up to satisfy the same needs. Four joint ventures from the latter group were set up by Japanese firms looking for local managers and technicians. Most joint ventures from these two groups mentioned "need for local managers and technicians" as the second reason for going into joint ventures.

Half of the companies in the "miscellaneous group" went into joint ventures because of their "associate's project". As the size of a project increased, Japanese investors entered into joint ventures for the following reasons, in descending order of importance: "need for local raw materials", "need for local managers and technicians", "local identity", and "associate's project".

Canadian businessmen, according to Japanese executives, were interested in setting up joint ventures with them for two main reasons: "availability of capital", and "growth-strengthen demand-profit". Most Canadian businessmen were interested by the first reason: the value of joint ventures set up for this reason represented 95% of the total value of Japanese investments in British Columbia. "Growth-strengthen demand-profit" was usually the second reason mentioned. "Know-how" was the reason mentioned as the most important one, by most joint ventures in the "miscellaneous group": even though these joint ventures represented 28% of Japanese joint ventures in British Columbia, they accounted for less than 1% of the total value of Japanese investments in B.C..

Japanese control

The Japanese level of control over their associated joint ventures was not influenced by the size of the Japanese parent or by the nature of its contribution. It was, however, influenced by the reasons mentioned by Japanese firms for going into joint ventures: when they entered into joint ventures for "need for local resources", their level of control was weaker than when they did for other reasons.

The nature of business of associated joint ventures was the main criterion for evaluating the "necessity" for "effective control" for Japanese parents. Joint ventures in the "pulp and lumber group" stated that "effective control" was "necessary" for them, those in the "miscellaneous" and "mining exploration group" described it as "acceptable", while joint ventures in the "mining operation group" stated that it was "unnecessary". Usually, as the size of investments increased, the stated level of "necessity" for "effective control" did the same; the "equity share" of Japanese parents also increased simultaneously with the importance of "effective control".

As the level of dependence of joint ventures vis-a-vis their Japanese parents increased with the stated level of "necessity" for "effective control", joint ventures in the "pulp and lumber group" were the most dependent ones, while joint ventures in the "mining operation group" were the most independent ones. In general, Japanese executives assumed a high level of responsibilities over the following activities: "engineering and technical matters", "finance", "marketing and distribution". Joint ventures were under close Japanese control regarding the following policies: "capital expenditure", "selection, promotion, and compensation of executives", "product selection, design, and planning", "marketing and sales".

Selection of a specific associate

Two main criteria were used by Japanese investors in their selection of a specific associate: "convenience of facilities/resources", and "same line of business".. Japanese companies which entered into joint ventures for "need of local raw material" selected their partners for "convenience of facilities/resources", while those looking for local managers and technicians selected theirs for "same line of business".

As the largest investments were made in raw material industries, which included "pulp and lumber" and "mining group", Japanese investing large amounts of money selected their partners for "convenience of facilities/resources". Furthermore, as "very large" enterprises made "large" investments, their partners were chosen for "convenience of facilities/resources".

Finally, as the size of investments increased, the stated level of "necessity" for "effective control" did the same; thus, the "control-conscious group" selected its partner for "convenience of facilities/resources", while the "control-unstressed group" selected its partner for "same line of business".

Canadian businessmen

Canadian businessmen interested in setting up joint ventures with Japanese investors should try, first, to establish commercial links with Japanese companies; the "shoji kaisha" would certainly be a good start. Even if they are not successful in the establishment of such links, they should, nevertheless, stay in touch with these companies and let them know that they exist and are interested in establishing such links in the future, if possible. This study made it very clear that prior knowledge of Canadian businessmen by Japanese companies was important.

Secondly, Canadian businessmen should make the initial contact when they want to set up a joint venture. Most of the time, the initial contacts in this study were made by Canadians, who knew that Japanese firms were interested. When Japanese made the initial contact, they in turn knew that Canadians were interested. One of the best ways to find out if Japanese are interested, or to let them know that a local firm would be interested in a joint venture is clearly to establish some preliminary relationship with them.

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APPENDIX

QUESTIONNAIRE FORM USED IN THE STUDY

SECTION 1

GENERAL AND FINANCIAL INFORMATION

1. What is the nature of business of your company?

2. Would you please specify for the following years:

Year	Assets	Sales	Profit	NRI	NPCE	NPGS
1960						
1965						
1970						
1971						
1972						
1973						

NRI : net return on investment.
NPCE: net profit on capital employed.
NPGS: net profit on group sales.

3. For each joint venture in which you are involved in British Columbia, please specify:

   (a) Nature of business:

   (b) Date of commitment agreement:

   (c) Date operations commenced:

   (d) Assets:

   (e) Sales:

   (f) Total capital employed:

   (g) Net Worth:

   (h) Profitability:

4. Please provide as far as possible, the profitability figures for the JV's activities in the years listed below:

Financial Year	Earnings before Local Taxation	Earnings Net of Local Tax	Income Distributed	Income Repatriated to Your Company
1965				
1970				
1971				
1972				
1973				

5. Please specify for each joint venture:
   (a) Name(s) of partner(s):
   (b) Value of his investment:
   (c) His % of equity:
   (d) His % of debt:
   (e) Value of your investment:
   (f) Your % of equity:
   (g) Your % of debt:
   (h) If "c" and "f" are not equal to 100%, who holds the remaining part?
   (i) If "d" and "g" are not equal to 100%, who assumes the remaining part?

6. Who was the driving force in your company for the decision to go in JV?
   (a) An individual from your firm who was familiar with Canada/B.C.
   (b) An individual in your firm
   (c) A special interest group
   (d) Normal channels

7. How long did the commitment decision take? (number of months)
   a( ); b( ); c( ).

8. Who took the final decision? (Apart from final board approval)
   (a) An individual from your firm who was familiar with Canada/B.C.
   (b) An individual in your firm
   (c) A special interest group
   (d) Normal channels

9. How much of your participation in the capital of the JV was in the form of:

	Initially	Subsequently	Comments
(a) Machinery, plant equipment?			
(b) Technical services?			
(c) Patents, licences, information?			
(d) Cash?			
(e) Other? (Please specify)			

10. What were the most important contributions of your company, in each JV? (Please rank in importance from <u>1=most important</u>, <u>4=least important</u> reason)
   (a) Cash:
   (b) Equipment:
   (c) Patents and technical assistance:
   (d) Production know how:
   (e) Market:
   (f) Management:
   (g) Other (Please specify):

11. Please indicate how much your company received under following items, for: (for each joint venture)

Year	Interest	Royalties	Fees: management, know how	Capital repatriated
1st year of operation				
5th year of operation				
1970				
1971				
1972				
1973				

12. How many Canadians and Japanese were employed at the following levels?
    (a) Board of directors:
    (b) Executives:
    (c) Directors:
    (d) Managerial:
    (e) Supervisors:
    (f) Other:
    (g) Total:

SECTION 2

DECISION TO INVEST IN BRITISH COLUMBIA

1. Please indicate what reasons encouraged you to invest in British Columbia. (Choose four; 1=most important, 4=least important reason)
    (a) New market
    (b) Geographical diversification
    (c) Protecting existing market
    (d) Overcoming tariff barriers
    (e) Matching competition
    (f) Using patents/licences
    (g) Using equipment
    (h) Lower cost conditions
    (i) To obtain materials
    (j) To obtain resources/facilities
    (k) Host government incentives
    (l) Political stability
    (m) Other reasons (please describe)

2. Were these investments made after:
    (a) An international survey of opportunities?
    (b) A prior survey of the province of B.C.?
    (Please indicate who carried this survey after "a" and "b")
    (c) Unsolicited information received from external source?
    (d) Other source or method (Please describe)

3. How long did any surveys take? (Number of months)

4. How long did the decision to invest take after first consideration of the opportunity? (Number of months)

5. Please indicate why you opted for a joint venture in British Columbia. (1= most important reason; 4=least important reason)

   (a) Explicit host government pressure

   (b) Implicit host government pressure

   (c) Spreading risk (Political-Financial-Other)

   (d) Need for local resources - Financial
   - Managerial
   - Technical

   (e) Associate's project

   (f) Local identity

   (g) Other reasons (please describe)

6. Did you take a minority or a majority ownership? Why? (Please indicate for each joint venture).

7. What criterion did your firm use for the selection of your associate? (1=most important; 4=least important)

   (a) Forced choice

   (b) Same line of business

   (c) Convenience of facilities/resources

   (d) Past associations (licence, customer, distributor, purchaser) (Please indicate).

   (e) Status, Identity

   (f) Other reasons (please discuss)

8. Why, do you think, your partner was interested in setting up a joint venture with your firm?

   (a) Know how

   (b) Capital

   (c) Profitability

   (d) Growth

   (e) Do not know

   (f) To strengthen demand

   (g) Other (Please discuss)

SECTION 3

ASSOCIATES

1. Did you have a previous knowledge of your associate? (Please indicate for each joint venture.)

			Know by people in JV		
Name of the company	None	Past associates	several	one	nobody

2. How long did you look for your partner? (Number of months)

3. Who made the original contact, regarding a joint venture?
   (a) Canadians
   (b) Japanese

4. Please indicate which of the following methods was used:
   (a) Japanese firm was known to be interested and was approached by the associate
   (b) Associate was known to be interested and was approached by the Japanese firm
   (c) Cold canvas: Japanese firm contacted by associate
   (d) Cold canvas: Associate contacted by Japanese firm
   (e) Partners put in touch by a private third party
   (f) Partners put in touch by host government
   (g) Initial contact made at personal level
   (h) Partners already JV associates

5. Would you say that your partner is: (please indicate for each joint venture)
   (a) Important
   (b) Useful
   (c) Necessary
   (d) Useless

6. Would you evaluate your partner as: (please indicate for each joint venture)
   (a) Effective
   (b) Non-effective
   (c) Neutral

7. Did you consider other potential associates? If not, why? If yes, why were they rejected?

8. If you could have a complete freedom in the choice of your associate for a joint venture in B.C., who will you select? (1=first choice; 5=last choice) (Please comment)
   (a) Fellow national
   (b) Other foreign
   (c) Local private
   (d) Host government
   (e) Local public investors

SECTION 4

EVALUATION

1. How does your company evaluate the performance of the joint ventures?
   (a) In terms of return on investment:
   (b) What is the minimum acceptable level:
   (c) In terms of % overall profit (before or after local taxes):
   (d) What is the minimum acceptable level:
   (e) Achievement of other scheduled objectives: (Please describe)

2. Are the acceptable levels indicated in 1(b) or 1(d) or implied in 1(e) higher/lower, or the same as in:
   (a) Your company's parent country?
   (b) Other developed countries?

3. Has the joint venture reached these objectives? (For each joint venture) (Please comment)
   (a) Better than expected
   (b) About the same as
   (c) Less than
   (d) Too soon to judge
   (e) Unclear

4. Is your company satisfied with the manner in which the joint ventures were set up and developed, and its present operations?

5. What was the importance of your partner in reaching these objectives? (Please indicate for each joint venture and discuss.)
   (a) Very important
   (b) Important
   (c) Necessary
   (d) Useless

6. Would your company participate in other JVs?
   (a) In the province of this study?
   (b) In the country of this study?
   (c) In other developed countries?
   (d) In less-developed countries?

SECTION 5

CONTROL

1. Does your company (or parent company) consider control as:
   (a) Necessary
   (b) Desirable
   (c) Acceptable
   (d) Unnecessary

2. Does your company (or parent company) consider effective control as:
   (a) Necessary
   (b) Desirable
   (c) Acceptable
   (d) Unnecessary

3. Please indicate your associate's responsability for the following activities in the joint venture. (F: full responsability; FR: full to joint responsability; J: joint to no responsability; N: no responsability.) (For each joint venture)
   (a) Marketing and distribution.
   (b) Purchasing and procurement.
   (c) Engineering and technical matters.
   (d) Production.
   (e) Administration and control.
   (f) Finance (including obtaining capital).
   (g) Recruitment and personnel.
   (h) Relations with the host government and local authorities.
   (i) Public relations.

4. Please indicate the JV's independence in the following policies: (H: highly independent; I: independent; C: considerable control by Japanese parent; CC: close control by Japanese parent.) (For each JV)
   (a) Capital expenditure.
   (b) Pricing.
   (c) Dividend policy.
   (d) Organization.
   (e) Product selection, design, and planning.
   (f) Production planning and control.
   (g) Quality control.
   (h) Marketing and sales.
   (i) Purchasing.
   (j) Wages and labor policy.
   (k) Selection, promotion, and compensation of executives.

5. Have conflicts arisen with your associates over the following issues? (Please discuss)

   (a) Reinvestment:

   (b) Increasing investment:

   (c) Growth rate of sales:

   (d) Growth rate of profits:

   (e) Transfer pricing of materials:

   (f) Other sources of return to your company:

   (g) Other issues:

6. How were these conflicts resolved?