OCCASION

This publication has been made available to the public on the occasion of the 50th anniversary of the United Nations Industrial Development Organisation.

DISCLAIMER

This document has been produced without formal United Nations editing. The designations employed and the presentation of the material in this document do not imply the expression of any opinion whatsoever on the part of the Secretariat of the United Nations Industrial Development Organization (UNIDO) concerning the legal status of any country, territory, city or area or of its authorities, or concerning the delimitation of its frontiers or boundaries, or its economic system or degree of development. Designations such as "developed", "industrialized" and "developing" are intended for statistical convenience and do not necessarily express a judgment about the stage reached by a particular country or area in the development process. Mention of firm names or commercial products does not constitute an endorsement by UNIDO.

FAIR USE POLICY

Any part of this publication may be quoted and referenced for educational and research purposes without additional permission from UNIDO. However, those who make use of quoting and referencing this publication are requested to follow the Fair Use Policy of giving due credit to UNIDO.

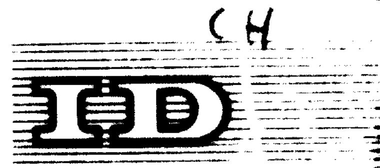
CONTACT

Please contact publications@unido.org for further information concerning UNIDO publications.

For more information about UNIDO, please visit us at www.unido.org

UNITED NATIONS INDUSTRIAL DEVELOPMENT ORGANIZATION
Vienna International Centre, P.O. Box 300, 1400 Vienna, Austria
Tel: (+43-1) 26026-0 · www.unido.org · unido@unido.org

D03907



Distr.
LIMITED

ID/W.G.5/10
September 1967

ORIGINAL: ENGLISH

United Nations Industrial Development Organization

UNITED NATIONS INDUSTRIAL DEVELOPMENT ORGANIZATION
Workshop on Financial Planning of Industrial Projects
Karachi, Pakistan
5-30 August 1968

Document number:

JOINT VENTURES AS A SOURCE OF INDUSTRIAL FINANCE

by

D.B. Zenoff

The opinions expressed in this paper are those of the author and do not necessarily reflect the views of the United Nations Industrial Development Organization.

67-20915

We regret that some of the pages in the microfiche copy of this report may not be up to the proper legibility standards, even though the best possible copy was used for preparing the master fiche.

1. For the businessman and entrepreneur in a less developed country, the problem of obtaining financing for a new business venture or for expanding an existing operation is a recurring one of significant importance. Although there are a wide variety of governmental and international agencies, and private financial intermediaries designed to alleviate at least a part of the capital shortage, it is becoming more apparent that the resourceful business in a LDC will have to seek funds from additional sources if it is to succeed in obtaining the required amount and type of business financing. This article explores the possibilities, advantages and problems associated with the consideration of whether or not to enter into a partnership with a foreign private investor who has the capital resources sought in the LDC.

2. It has become well-known that since the end of the Second World War, private investors in the economically-advanced countries (U.S.A., Canada, Western Europe, Japan) have been committing enormous amounts of their resources to building up business assets around the world. Table 1 illustrates the large absolute size and the rate of increase in the flow of private direct investment funds from advanced nations to the less developed ones since 1950.

Table 1

The Flow of Private Financial Resources from 14 Developed Countries[a] to Less Developed Countries, 1950-1965

(Millions of U.S. Dollars)

Year	Amount
1950 - 55 (annual average)	1600
1956	2900
1957	3600
1958	2900
1959	2700
1960	3000
1961	3000
1962	2450
1963	2390
1964	3200
1965	3870

Source: OECD Observer, February 1967, pp. 28, 29; OECD, The Flow of Financial Resources to Developing Countries in 1961, (Paris, 1963); IBRD, Annual Report 1965-66, pp. 38-40

a/ The so-called "developed countries" include the following: Australia, Austria, Belgium, Canada, Denmark, France, Germany, Italy, Japan, Netherlands, Norway, Sweden, United Kingdom, and United States.

3. What is not as well appreciated is that the proportion of these assets which are now held by the indigenous peoples in the LDC's has also grown significantly. It is not possible to measure the precise amount of local ownership in these international partnerships, but available data verifies the trends, and many experts expect the trend toward more local ownership to continue.[1/] It is important the the businessman operating in a LDC recognizes the increasing possibilities for becoming a partner with a foreign investor, in order to obtain the financial as well as technological and administrative resources which he otherwise may not be able to acquire.

4. In order to gain a clear understanding of the workings of an international commercial partnership (hereafter called a "joint venture"), it is important to appreciate the reasons for the build up in foreign business assets in LDC's, and to know how the investors typically view overseas investment opportunities. From a number of studies which have been made on the motivation for direct[2] investment abroad, the following factors stand out in importance:

1. The profitability foreseen in a large and growing foreign market.

2. The desire to avoid the loss of a foreign market by anticipated or existing strong competition.

3. A loss in competitiveness in an established foreign export market, due to an increase in trade barriers or transportation costs.

1/ See for example: Peter P. Gabriel, The International Transfer of Corporate Skills, Division of Research, Harvard Business School, Boston, 1967, Chapter 5; W.G. Friedman and G. Kalmanoff, Joint International Business Ventures, Columbia University Press, New York, 1961, p. 37; Michael Kidron, Foreign Investments in India, Oxford University Press, London, 1965, Chapter 6; Booz, Allen and Hamilton, Six Years (1960-1966) of New Foreign Business Activity of U.S. Firms, New York, 1966.

2/ Yair Aharoni, The Foreign Investment Decision Process, Division of Research, Harvard Business School, Boston, 1966; Lincoln Gordon and Engelbert Grommers, United States Manufacturing in Brazil, Division of Research, Harvard Business School, Boston, 1962; Stephen Hymer, The International Operations of Foreign Firms, A Study of Direct Foreign Investment, unpublished Ph.D. dissertation, Massachusetts Institute of Technology, Cambridge, 1960; Raymond Mikesell, United States Private and Government Investment Abroad, University of Oregon Books, Eugene, 1962.

5. An example of these factors is the position of the American Cyanamid Company, a large chemical producer:

> At the moment Cyanamid is exporting synthetic resins to 40 countries, but believes that if it is to maintain its five to ten per cent overseas plastics growth rate, more emphasis must be placed on local production in view of increasing import restrictions[3].... Competition from producers abroad and the pressures arising from dollar exchange allocations have prompted Cyanamid to install facilities in...Argentina, Brazil, and Mexico for the production and refining of antibiotics, sulfa drugs, and other pharmaceuticals.[4]

6. In addition to these factors, several other variables have also been instrumental in foreigners' decisions to invest abroad. Foremost among these are:

1. The desire by a top-level manager to see his company become "international" in scope and outlook. Two notable cases were Thomas J. Watson of International Business Machines and George Eastman of Eastman Kodak Company.

2. The expansion of export markets for other products is expected to result from foreign manufacture of one or a few products in the company's line.

3. The capability of spreading fixed costs and the expenses incurred in product research, which may result from the establishment of numerous foreign operations. The affiliates abroad will be charged a percentage of the parent company's total costs.

As reported by the Journal of Commerce,[5] a North American financial newspaper, the Chas. Pfizer Company is a noteworthy example of this rationale:

> "Chas. Pfizer and Co., Inc....is increasingly focusing its attention on markets throughout the world. One of the reasons for this is that its research work is expensive--'so expensive,' said the company president, 'that we can no longer think of a market of 200,000,000 in the U.S.

3/ Journal of Commerce, April 6, 1964, p. 5.

4/ Remarks of K.C. Towe, President of American Cyanamid to Security Analysts of San Francisco, November 29, 1956.

5/ Journal of Commerce, June 25, 1964, p. 3.

We think now in terms of a market for 2,000,000,000 people.' In other words, what Pfizer hopes to do is maintain higher research outlays but cut its unit cost by spreading results over a larger market."

7. The foreign investment decision is, of course, tempered by how the investor views the business environment in which his capital would be placed at risk. Where the LDC appears to be too "risky" in either the political or economic sense, the investment project may be definitely dropped or it may be pursued, but only on a cautious basis where the company's investment, if made, will be severely limited in size and in amount of equity funds committed. Key considerations in the environmental analysis are:[6]

I. Host Government Policies

A. The number of restrictions on access to foreign exchange for importing supplies and equipment, and for remitting a portion of the earnings to the parent company.

B. The policies governing the immigration of foreign technical and administrative personnel.

C. The degree of freedom of entry into various industries, permitted to foreigners.

D. The security of foreign-owned property vis a vis host country expropriation or nationalization policies.

II. Basic Characteristics of the Economy

A. The size of the LDC market (purchasing power and population size).

B. The state of local infrastructural development (roads, power, ports, law enforcement).

C. The degree of political stability.

8. Having considered foreign companies' interests in investing overseas and the factors that may inhibit or stimulate their decisions to proceed with a

6/ Y. Aharoni, op.cit., Chapter 4.

given foreign proposal, it is easier to appreciate the rationale of many firms for entering into a partnership in operations abroad. Although there are countless special reasons for any given company to seek a partner in a LDC, the following five factors are generally acceptable in explaining the behavior of most large companies:

1. The host country may require that local investors own a portion of any business in specified industries in which foreigners own a portion of the equity. India, Mexico and Japan are well-known advocates of this policy; and the recent example of the "Chileanization" of copper production is a striking example of accommodation between large foreign investors and a development-minded LDC national government.

   Until the mid-1960's, Chile's giant copper mine, El Teniente, was wholly-owned by the United States firm Kennecott Copper Company. After a series of negotiations between the government and the company, the ownership of the mine was changed. Today, the newly formed Sociedad Minera el Teniente S.A., owns the property; it, in turn, is 51 per cent owned by La Corporacion del Cobre, an agency of the Chilean government, and 49 per cent owned by Braden Copper Company, a subsidiary of Kennecott Copper Company.

2. The foreign investor may wish to minimize the size of its investment in particular countries because of a high degree of "riskiness" in those environments. Hence, the foreigner may seek a local partner with the required complementary commercial resources.

3. The foreign investor may find it necessary to restrict the amount of its resources invested in any individual foreign market, in order to effect local manufacture in a large number of foreign markets. To conserve its own resources, the investor will want to form a partnership which can alleviate the deficiency in management or capital. Often, this occurs when a foreign undertaking is of a very large size and the venture requires a pooling of partners' and often the government's financial resources. As an example, Reynolds International, Inc., of the United States, entered into a 50-50 partnership in 1963 with the Corporacion Venezolana de Guyana -- a Venezuelan government agency for investment promotion -- in order to establish an aluminum smelter costing $12 million. Each of the partners provided 20 per cent of the required funds, and the remaining 60 per cent came in the form of loan capital from the United States Export-Import Bank and the Agency for International Development.[7]

7/ The Guyana Region: A Portfolio of Investment Opportunities, Corporation Venezolana de Guyana, Caracas, 1963, pp. 35, 36.

4. The foreign investor in a LDC may seek a local partner who has the necessary experience, skills, and/or knowledge required for successful operations in that environment. There are many examples of joint ventures formed on this basis, two of which are large U.S. food processors:

   In 1963, the H.J. Heinz Company joined with La Cumbre, S.A. to form a subsidiary in Mexico. At the time the agreement was made, La Cumbre was a well-known packer of fruits, vegetables, jams, and tomato products, with an existing food business consisting of five additional factories and sales organizations.

   As stated by a top manager of the Corn Products Company, "We have local partners wherever we can. We are not particularly interested in the capital that they bring to the business. Rather, we want them to play a role in assisting us in their country. They inevitably know more about their country than we do. We expect them to get into the business and help us with their knowledge of the marketing aspects, the whole problem of getting into the market, of treating people properly...."[8]

5. The foreign investor may believe that its chance of competing successfully in a LDC market will, in the long run, be influenced by its ability to project an "image" of a local rather than a foreign company. In order to achieve this status, many companies have sought local partners and have adopted local brand names.

9. Joint ventures in less developed countries take many forms. A significant percentage of them includes one or more United States companies as partners, and these investors are usually engaged in manufacturing, marketing, or the extractive industries. However, the precise characteristics of a given international partnership will depend on the type of parties involved (their size, industry, private or government-owned), their relative bargaining strengths, the manner in which control is exerted, the respective objectives of the principals, and their contributions to the partnership. The Eregli Steel mill in Turkey is an interesting example of the complexities which may characterize the establishment, financing, and capital structure of a joint international enterprise.

8/ David M. Kiefer, "The National and Worldwide Impact of Global Companies," Chemical and Engineering News, July 4, 1966, p. 65.

10. Three U.S. heavy equipment manufacturers -- Koppers, Westinghouse Electric, and Blaw-Know -- operating as Koppers Associates (KA), [illegible] of the voting stock of the Eregli Steel mill. The U.S. government [illegible] $129.6 million to help finance the venture, $100 million of which was to be repaid in Turkish liras, and the balance in dollars over a [illegible]-year period. The Turkish government advanced $20.7 million in liras to finance local costs. The Chase International Investment Corporation (U.S.) provided $[illegible] million through medium-term debentures. And, KA arranged for equipment and supplies valued at $20 million to be exported by French, German, and Italian firms, under 7 to 10 year credits. The equity capitalization of the Eregli Steel complex is $[illegible] million, of which $24 million is held by Turkish government enterprises in the form of preferred shares with limited voting powers. Twelve million of the common stock is held by KA (which had not provided any cash for the project), $12 million is held by the Turkish government, and $11 million by private investors in Turkey.[9]

11. With respect to division of ownership and control in a joint venture, a partner's position may be that with a majority, equal, or minority interest. While, strictly speaking, management control does not have to be a function of the size of a principal's ownership in the business, it frequently is and therefore control will be treated as being synonomous with degree of ownership in this discussion. The respective equity and control positions of the principals in a partnership are typically determined by one or more of the following considerations:

1. The type and amount of the contribution which each partner makes to the joint venture.

2. The parties' respective reasons for making the investment and entering into a partnership.

9/ Financing Foreign Operations, Business International Corporation, New York, 1966, p. 2.

3. The relative bargaining strengths of the prospective partners.

4. The host government's regulations of the maximum degree of control over a local corporation which a foreign investor may possess.

5. The riskiness of the joint venture, as perceived by the respective parties.

12. Various studies on the foreign investment behavior of business enterprises around the world have confirmed that very often, the corporate manager hopes to secure a majority ownership position and effective control over the operations of any partnership arrangement entered into by his firm. The reasons usually given to explain preferences for the majority position, run along these lines: "When we risk our capital resources, our corporate image and established brand names, and our scarce management talents, we want to have as much influence as possible in the management of the joint venture, to ensure that the operation is successful and that our assets are well-utilized and protected." In addition, for the foreign investor, a joint venture in a particular foreign country, may represent only one of a great many operations around the globe which it must coordinate and plan for in conjunction with its other affiliates -- the Corn Products Company, for example, has operations in 30 foreign countries, and the Ford Motor Company in 3? nations. Hence, the foreign parent company must be able to exert effective control over any of its investments which may be jointly-owned. And any large multinational investor who is the leader in its industry and/or had unique technological capabilities (e.g., pharmaceutical and chemical companies) tries to protect its dominant position by settling for not less than complete control of any venture in which it invests, including close supervision of the production process to ensure adequate quality control.

13. The experienced and wise investor appreciates, however, that in certain circumstances he will be unable or it would be imprudent to try to secure a controlling

interest in a joint venture operation. In these instances, the choice then becomes one of settling for a 50-50 split or less of the ownership, or not making the investment.

14. The "50-50" venture, as an equal partnership is often called, ensures that both principals have a substantial interest in the well-being of the firm; and it may avoid many of the problem areas that sometimes exist between partners with uneven control of a venture. On the other hand, where neither party has effective control of an operation, deadlocks can be expected to arise over matters of company policy, and decisions will be slowed down, or ineffective and unsatisfactory compromises may have to be made to settle disputes. To overcome or preclude problems of this type between equal owners of a company, arrangements are often made whereby one of the partners is granted management control over specified areas. This control can be effected in a variety of ways, as indicated by the following three methods which many have used:[10]

(a) A provision can be made in the corporate by-laws to permit one of the partners to over-ride the demands of the other, by granting one partner a majority of the corporate directors.

(b) Two classes of equity shares in the venture can be issued, voting and non-voting, which will guarantee an equal division of company profits, and give management control to the shareholder with the majority of voting shares. The Indo-Burma Petroleum Co., Ltd., of India, used this method. "Its paid-up capital of Rs 1.5 crores consists of Rs 1 crore in ordinary shares held in the ratio of 60:40 by foreign and domestic interests and Rs 50 lakhs in preference shares, 98 per cent of which are Indian-owned. In this way, a minority holding of slightly over two-fifths of paid-up capital is converted into a decisive majority by reservation of voting rights.[11]

(c) One partner may be granted a contract by a joint-venture, which gives him responsibility for the management of the operation.

10/ For a discussion of control methods, see: Pros and Cons of Joint Ventures Abroad, Business International Corporation, New York, 1964, pp. 16-17; R.E. White, "Collaboration: Key to Joint Ventures," Business Abroad, November 29, 1965, pp. 34-38.

11/ M. Kidron, op.cit., p. 286.

15. Despite the variety of advantages to be gained by securing a majority or at least equal control of a firm, some investors <u>prefer</u> to take a <u>minority</u> position in international partnerships, and many firms have often been willing to settle for a minority ownership even though their original objective was to own more than half of it. A leading example of the former policy is Kaiser Industries. In its Willys-Overland investment in Brazil, Kaiser owns one-half of the preferred stock and about one-third of the voting shares. However, the remaining shares are widely-held by thousands of Brazilian investors, which means that Kaiser is able to retain management control while concurrently obtaining the benefits that accrue to a "local" corporation. Similarly, the Johns-Manville Corporation has often taken minority positions in overseas joint ventures provided that it was given the right to terminate the manager who had been selected by its partner, if the manager was considered inadequate by Johns-Manville.

16. The basic reasons for an investor to willingly take the minority position in a partnership are three-fold:

1. If the other partner's contribution to the venture is considered to be the key to its success, the prospective minority principal may be:
   (a) unable to bargain for a larger percentage of the equity, or
   (b) content to allow its partner to have the dominant position so as to best-utilize its critical resources in the operation of the venture, or
   (c) anxious to ensure that its partner will have a genuine and lasting interest in the success of the operation -- by virtue of the partner's dominant position and involvement in the venture.
2. The host country's regulations may preclude a foreign investor from owning more than 49 per cent of the equity in a local corporation; and
3. The prospective minority investor may be unwilling to commit the amount of capital and managerial resources to the joint venture commensurate with what is required for a majority position.

17. Implicit in all of the foregoing discussion was the possibility of disagreement between partners in a joint venture and the requirement for safeguarding the rights of interests of the minority position. In order to more fully appreciate the types of safeguards that should be considered while one is exploring the possibilities of an international partnership, it is important to first review the areas in which disagreements among principals are most likely to arise.

18. A basic cause of difficulty between partners is that they may differ in their objectives for the joint venture. One can readily envisage what might occur in the case where a large internationally-oriented company forms a partnership with a much smaller, less-complex firm operating in a less developed country. For the former, the new venture may be but one of perhaps thirty manufacturing and assembly operations which it has around the globe; the large corporation may therefore see this venture as only a relatively insignificant investment designed to gain a "foot in the door" of a small or medium-sized foreign market, which over the long run may have attractive earnings possibilities. "Although one of the top five companies active in India, Hindustan Lever accounted for scarcely more than two per cent of the total turnover of the parent concern (Unilever) in 1962, less than that percentage of net profit, net worth, or capital employed; Alkali and Chemical Corporation of India, a giant amongst Indian companies, accounted for 0.8 per cent of the assets of its principal (ICI) in 1960....These are not exceptions."[12]

19. On the other hand, the local investor may have committed a large percentage of its available financial resources to the joint venture, and therefore will be considerably more dependent on it for short-run cash returns. The possibility of conflict in this realm is illustrated by the comments of a German executive:

12/ Ibid., p. 240.

> In developing countries we have sometimes had interesting experiences with regard to the existing mentality. Domestic partners who come from the commercial sector often expect quick and high profits from industrial activities. Sometimes it is difficult for them to adapt themselves to an 'industrial mentality.' We have especially found a lack of understanding for the necessary efforts connected with a long-run policy which quite frequently involves considerable initial losses.[13]

20. The differences in partner's goals for an enterprise may result in or be related to another area of potential conflict in their relations: differences in management practices, policies and procedures, and a lack of mutual appreciation and acceptance of a partner's management approach. The inflexibility in attitude of many foreign investors was criticized by a leading businessman from Taiwan:

> "Many ventures fail because a foreign investor insists on his own ways, and considers his sole benefit without regard to local custom. Many foreign investors wish to supply their own machines and materials to make more profit...rather than to consider the advantage of the joint venture, even if the latter could get products and materials cheaper elsewhere."[14]

21. To minimize the likelihood of disagreements, prospective partners in an international joint venture are well-advised to thoroughly explore questions of management practice and policy before any contractual agreements between them are made. Among the many areas that should be discussed, particular attention should be paid to the following six questions -- which experience has demonstrated to be the source of recurring problems in existing partnerships:

13/ Karen Bivens, Enid Lovell, Joint Ventures With Foreign Partners, National Industrial Conference Board, New York, 1966, p. 49.

14/ Ibid., p. 50.

1. To what extent should administrative and technical positions be staffed by local versus foreign nationals?

2. What percentage of current earnings plus depreciation should be reinvested in the operation, rather than distributed to the owners?

3. What sources of funds should be utilized in financing working capital requirements and capital expansion?

4. What pricing policies should be followed on goods and components which are sold to the joint venture by any of the partners?

5. What pricing policies should be pursued in selling the goods to the market? High price and low volume or low price and high volume?

6. Should the joint venture export its products to third countries, in competition with goods produced by other affiliates of one of the partners?[15]

22. It is clear that all parties to a partnership must be reasonably satisfied with the answers to these questions before an enterprise can function in a viable manner over an extended period of time. To ensure that the minority partner may continue to have its interests protected, many legal experts recommend that certain formal safeguards be explicitly provided for in the corporate by-laws. Basic among these are: assurances against dilution of the partner's equity interest at will, concurrence of both partners on major financial decisions, right to audit and review financial accounts and transactions, and the right to appoint or to veto appointment of a key financial officer.

23. As suggested earlier in this discussion, a key determinant of the ability of each partner to gain the safeguards it wishes is the type and amount of its contribution to the joint enterprise. Capital funds, managerial resources, organization, technological know-how, and marketing management have to be provided in some combinations by the owners of a business. Depending upon the relative size, experience, and interest in a proposed venture, the contributions

15/ Ibid., pp. 47-72; Pros and Cons of Joint Ventures, Business International Corporation, New York, 1964, pp. 15-22.

by the respective principals can take a variety of forms and sizes. Excerpts from recent periodicals and company reports provide examples of members' respective contributions to international joint ventures:

> "In India, the Continental Drill Corporation of Chicago is investing in Speed Tools, Pvt., Ltd. The investment will be used to manufacture and sell twist drills and cutting tools in Bombay, helping to fill a great need for such tools in India. The U.S. firm's investment will consist entirely of machinery and equipment made in the U.S."[16]

24. Tubos de Acero de Mexico, S.A., an enterprise established for the production of seamless steel pipe for the petroleum industry was formed with a capital of 50 million pesos, of which 45 per cent was subscribed by private Mexican investors, 20 per cent by the Nacional Financiera, 20 per cent by four Italian enterprises connected with the steel industry and 15 per cent was placed with individual European investors from Sweden and France. Technical assistance arrangements were concluded with an engineering firm specializing in the field, the Compagnia Tecnica Internazionale, which was remunerated by stock in the enterprise.[17]

25. When the European automobile manufacturer, Daimler-Benz A G entered into a partnership with the Tata investment group (one of the largest industrial investment complexes in India), "Benz received ordinary shares worth Rs 60 lakhs, two-fifths the issued capital in Tata's automobile division, in return for the latter's right to act as sole agents for Daimler-Benz products in the area, to receive technical advice and assistance, to use Daimler-Benz patents, processes,

16/ International Commerce, April 26, 1965, p. 54.

17/ George Kalmanoff, B. Retchkiman K., Joint International Business Ventures in Mexico, unpublished Country Study No. 5 by the Columbia University Research Project on Joint International Business Ventures, New York, 1959, pp. 83-87.

trademarks, and training facilities -- all in addition to royalties, fees for jigs, tools, fixtures, designs, and, of course, profits on the assigned shares."[18]

26. For the parties to a joint venture agreement, the problem of how to evaluate the respective contribution of the investors exists. "Executives admit that it is not a simple matter to determine and weigh 'relative contributions.' The monetary value of capital funds and physical facilities are easiest to determine. The worth of specific technical skills is judged not too difficult to include in ownership calculations. However, the assessment of other factors, such as administrative ability, business and political contracts, knowledge of local conditions, and corporate reputation and image, is much more difficult. The importance of any one of these factors depends not only on the location of the joint venture enterprise and the objectives of each partner, but also on what each partner feels he requires in the proposed type of venture."[19]

27. It should be recognized that the existence of a variety of means for determining the valuation of a going concern (for those cases where an owner is taking in outside equity funds) or of tangible assets -- such as book value, historic cost to the original investor, capitalized earning power of the firm, going concern value, and liquidation value -- may lead to disagreements on the appropriateness of individual standards, among businessmen from different cultures and commercial environments.

28. The actual search for a foreign partner should be based on how the entrepreneur in a LDC answers two key questions: (1) What would characterize an "ideal" partner? and (2) How can a desirable partner be found? Action-oriented answers to these queries do <u>not</u> have to be complex. The businessman must begin by identifying in precise terms his objectives for the proposed

18/ M. Kidron, <u>op.cit.</u>, p. 267.

19/ K. Bivens, E. Lovell, <u>op.cit.</u>, p. 16.

venture, what resources will be required to establish and maintain a viable enterprise, and which of the required input he cannot provide himself.

29. The next step is to try to determine how the projected gap in requisite resources can best be closed. Theoretically, at least, the LDC businessman can seek assistance from a number of sources. He may be able to contract for specific management and engineering services provided by foreign firms or specialists;[20] obtain technical assistance from government or international agencies,[21] borrow capital from regional development banks, or government agencie or international agencies;[22] or enter into a partnership with a local or foreign investor. If, after considering the alternative sources of funds, the most promising prospect appears to be a joint venture with a foreign firm, the businessman must then determine which companies would make suitable partners.

30. There is no question that the search for a suitable partner from among thousands of corporations located in distant countries can be a difficult and discouraging task. Nevertheless, there are a number of available sources of information which can be used:

1. Local branches of foreign banks usually have useful information, or can contact their headquarters and affiliates in other countries to obtain it.

2. The Consulate and Embassy staffs of foreign governments and their aid-granting missions.

20/ For a thorough discussion of this topic, see: Peter Gabriel, op.cit.

21/ Technical Assistance is discussed in: Paul Hoffman, "Forms and Functions of Development Assistance," in A.W. Cordier, The Quest for Peace, Columbia University Press, New York, 1965; OECD, Foreign Skills and Technical Assistance in Economic Development, Paris, 1965; Anne Winslow, "The Technical Assistance Expert," in Gove Hambidge, Dynamics of Development, Praeger, New York, 1964.

22/ An up-to-date, illuminating review of this subject is presented in Raymond F. Mikesell, Public International Lending for Development, Random House, New York, 1966.

3. Published financial and industrial directories which are available in large libraries and through foreign Consulates. Best known among these are:

   Dun and Bradstreet's Million Dollar Directory

   Poor's Register of Corporations; Directors and Executives of the United States and Canada

   Henderson's European Companies: A Guide to Sources of Information

   Yamaichi's Manual of Japanese Corporations

4. International service firms, such as management consultants, advertising agencies, certified public accountants, and public relations agencies.

5. Published statements of publicly-owned corporations -- such as Annual Reports to Shareholders -- which are available from the companies upon request.

31. The purpose of the information search is, of course, to identify companies which (1) have the resources required in the LDC, and (2) appear, from available data, to be potentially receptive to a proposal to form a partnership in a LDC. The exact approach which is taken to interest a foreign investor in the proposal should be determined after consideration is made of (a) the resources and assets which the LDC businessman is willing to trade to obtain those which he seeks from the foreigner, (b) the most probable reasons which will motivate the foreign firm to even consider an investment in a LDC market, and (c) the experiences, operating policies and presumed international objectives of the foreign investor.

32. What can be encouraging for the businessman as he painstakingly works his way toward a viable joint venture agreement is the knowledge that (1) the absolute volume of foreign private direct investment is continuing to grow, (2) an increasing number of large American and European firms are beginning to become seriously interested in the prospects for investing in LDC's, (3) many foreign businessmen and their management and legal counsels are

accepting as a given for the future, the phenomena of jointly-owned rather than wholly-owned operations in foreign countries, and (4) typically, the large multinational investor possesses ample financial resources available to the businessman in the less developed country.

74.09.27