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OWNERSHIP AND CONTROL IN JOINT VENTURES

A case study of AutoNova

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Abstract

To run a joint venture effectively and without conflicts has in several cases proven to be problematic. The need for good relationships between the partners is therefore necessary. It is of great importance that the partners' objectives and contributions to the venture are clearly described and the control and ownership structure of the joint venture is properly defined.

A current example where conflicts occurred is the joint venture AutoNova, originally owned 51% by TWR Group Ltd. (TWR) and 49% by Volvo Car Corporation (VCC). AutoNova was founded in 1995, but already in 1999 serious conflicts between the two owners occurred. The thesis starts by presenting these conflicts actual in the case of AutoNova. A comprehensive theoretical framework relevant to the actual case including the 'concept of ownership', 'control mechanisms', 'ownership structure design' and 'vertical relationships' is presented. Based on the empirical findings and the theoretical framework, the analysis chapter presents how the conflicts were handled and how the ownership structure has affected the control mechanisms and the relationship between the two owners. The analysis leads to the factors that really caused the conflicts.

Key words: joint venture, ownership resources, ownership structure, control, vertical relationships, conflicts, AutoNova

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Chapter 1 Introduction

1.1 Background

Joint venture is a corporate form traditionally used when a company wants to enter into a foreign market. With the rapid development of globalisation, technology innovation and intense competition of the global marketplace, companies are embracing cooperative ventures with increasing frequency as a means of competitive and strategic weapons. Hardly a day goes by without announcements in the business press of new linkages, partnerships, or alliances.

Joint venture offers a strategy to succeed in a highly competitive environment. In such a rapidly changing, highly competitive environment, companies are expected to provide sustained competitive advantages and they must constantly innovate to get ahead of their competitors. Internal expansion seems far from serving this need. By establishing joint ventures, companies pool resources and complementary strengths together to improve their competitive positions in a way that they could not achieve alone. Joint venturing is faster, more flexible, less risky and less costly than internal start-ups and acquisitions, while simultaneously increasing the partner's access to critical resources such as marketing, technology, raw materials and components, financial assets and managerial expertise. It provides the opportunity to share costs and risks, to acquire knowledge, to enter new markets, to gain economies of scale and so on. A multitude of joint ventures can be found in the automotive, electronics, telecommunications, and aircraft industries, since such ventures are particularly suited to high-tech products where the cost of research and development is high and timely introduction of improvement is important.

The number of new joint venture announcements has risen dramatically in recent years, however, this does not mean that they always yield satisfactory results. Studies of operational activities in joint ventures suggest that joint ventures are less successful, fairly complicated forms of investment. Business week (1986) refers to independent studies by McKinsey & Co. and Coopers & Lybrand which found that about 70 percent of joint ventures fell short of expectations or were disbanded. Other studies suggest that on average joint ventures do not last as long as one half term of years stated in the joint venture agreement (Berg, Duncan, and Friedman, 1982). An independent survey by Weston, J.F., (1997) uncovered many examples of joint ventures that came apart either before they started or early into the venture.

A current example is AutoNova AB (AN), the joint venture founded in 1995 between Swedish Volvo Car Corporation (VCC) and British Tom Walkinshaw Racing (TWR) where VCC originally owned 49 percent shares and TWR owned 51 percent. AN builds niche cars for VCC, the C70 coupes and C70 convertibles. Five years later when the cars were selling well, the quality was high, and the productivity was increasing all the time, on 7th of March, 2000, the production was suddenly stopped, the 800-900 built cars were suspended for delivery, the 1040 employees were sent home, the factory was threatened with shut down. The reason for this was nothing but the conflicts between the two owners. Then after three weeks of the locked position which cost AN about 1-1,5 MSEK per day, a solution was finally reached by the end of that month where VCC got 75 percent shareholding of AN and by that has become the majority owner with an option to acquire the remaining 25 percent shares in 2003. The production is going on again, the employees are back to their plant, and the conflicts which had ever been that severe seem to have disappeared.

The event that happened at AN captured our curiosity, leading us to write a thesis concerning the subject of joint ventures, since the increasing use and strategic importance of joint venturing, as well as the reported high failure rate and the complexity of the joint management, point to the need to know more about what underlying problems affect the operation of the joint ventures.

1.2 Research issue

Joint ventures that combine resources, strengths, capabilities and other attributes from two or more companies are undeniably advantageous from the viewpoint of competitiveness. However, despite their many potential uses and benefits, ventures frequently go awry and create problems because they are a much more difficult form of organisation to manage well. Joint venture problems tend to be internal, not external (Killing, 1983). There are some inherent problems in the type of joint ventures. Among other things, first, a joint venture has by nature of two or more parents with different corporate or national cultures, and divergent and dynamic objectives. These parents, unlike the shareholders of a widely held public corporation, are visible and powerful and can and will disagree on just about anything (Ibid.). Goal conflicts may thus occur, and what is beneficial to one party may need to sacrifice the interest of another. Second, the size of ownership structure may cause the management problems in such a way that "it may take twice as much time to manage as wholly owned business units if owners are unwilling to delegate decision making to the venture managers" (Harrigan, 1986). Third, a joint venture is a kind of long-term contract formed in a dynamic environment, as the environment surrounding the partners and the venture are changing all the time, the contract may be too inflexible to permit the required adjustment to be made. Thus joint ventures are inherently unstable organisation forms (Harrigan, 1986). Finally, problems may be created by owner's inability to manage the ventures effectively (Harrigan, 1986).

The question is how much the potential problems are perceived by the partners, how much willingness among the partners to negotiate any dispute, and whether there is a way to effectively manage the problems. The conflicts which occurred at AN themselves are not as surprising as how the two owners (VCC and TWR) handled the conflicts-as mentioned in the background, the production was stopped, the employees were laid off and the voice between the two owners became even tougher when both parties wanted to buyout each other. Therefore our main research issues are:

What were the conflicts in AutoNova? What was the main reason that caused the conflicts? How did the owners handle the conflicts?

1.3 Purpose

The main purpose of this thesis is to investigate the conflicts that occurred in AutoNova, identify the underlying factors that may have caused the conflicts, and explore how the conflicts were handled. Our second purpose is to, based on the theoretical study and on the problems that we defined in AutoNova case, give some considerations for companies to manage the joint ventures.

1.4 Scope and limitations

The focus of the empirical study of AutoNova is from the beginning of year 2000 when the conflicts began to be frequently mentioned in the press until the 31st of March 2000 when they were solved. In this case, the conflicts identified have the time and press character, i.e. they may actually happen before 2000, but they must be mentioned in the press during the beginning of 2000 to the end of March 2000.

We will not conduct any interviews with the purpose of finding any opinions on the conflicts, only for completing facts that might not be clearly expressed in the written materials available.

The theoretical framework-*ownership and control*-will focus mainly on the factors that are special in the joint ventures, i.e. partners rely on a wide range of ownership resources to realise their control on the venture. We will not look at those modern management control methods such as the balanced scorecard, the just-in-time techniques and the computer integrated manufacturing systems.

We will not give any solutions to any specific conflicts, but only identify the underlying factors that may cause the conflicts, and give some considerations that could be thought of before the conflicts occurred and could be kept in mind when handling the conflicts.

1.5 Disposition

In chapter two our methodological choices are presented.

In chapter three the story of AN, describing the sequence of events, is presented.

In chapter four a theoretical framework in areas related to this case is given.

In chapter five the case as a whole and the factors that caused the conflicts are analysed.

In chapter six we will give some final conclusions.

Chapter 2 Methodology

The choice of method used during research is important. A good choice saves time and the likelihood that the researcher presents a good result increases. In this chapter different methodological approaches will be described followed by a presentation of our approach chosen.

2.1 Research approach

There are three different common scientific approaches. The inductive approach has reality as its starting-point. The researcher conducts observations in reality and after measurement and interpretation of the empirical findings, he forms his own theories based on empirical evidence. The deductive approach on the other hand is used when the researcher from an existing theory forms hypotheses and by testing the theory in reality verifies if it is correct or not.

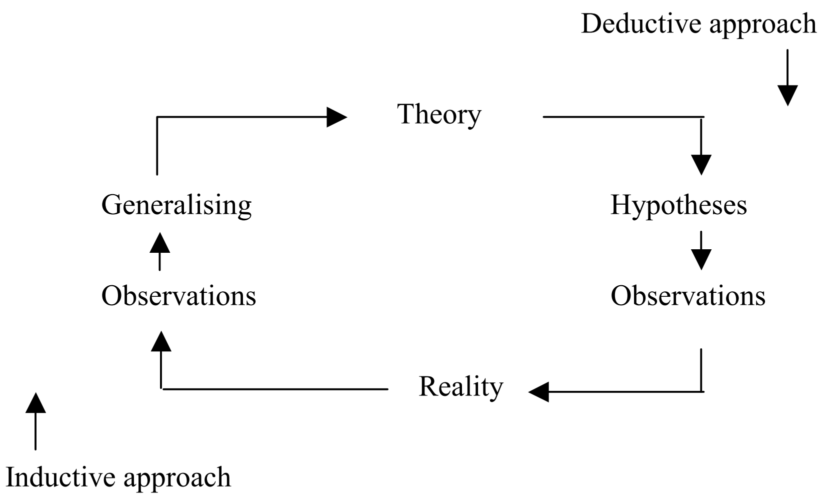

Figure 2.1 Research approach (Wiedersheim-Paul and Eriksson, 1991)

The third type, the abductive approach, is a combination of the inductive and the deductive approach. The researcher is continuously inspired by both theory and empirical findings and looks back and forth between the two. We read theories about joint ventures in general and investigated the reality at AN in particular. We started with an empirical study, and from these findings we identified the areas relevant to concentrate on. In relation to this we read relevant theories from which we became inspired to interpret our empirical observations. Our approach seemed quite similar to an inductive approach, but we did not form any theories of our own. Theory was only used to inspire us in our study, not to be tested or formed. The approach towards how to plan, describe and solve our problem areas has been the abductive approach.

2.2 Research strategy

Wiedersheim-Paul and Eriksson (1991) define three main types of research strategies:

The explorative research strategy is suitable when the researcher has limited knowledge about a problem. It is useful when the problem is difficult to delimit and there is an unclear comprehension of which model is suitable and which characteristics and relations are important. It is commonly used during the initial phase of research to get a clear picture of the problem. The descriptive research strategy is useful when the problem is fairly well structured and the intention is not to examine causal relationships but rather to show the characteristics of a specific problem. The explanatory research strategy aims at study cause/action relations between variables. This research strategy presumes besides a clear structure of the problem also hypotheses and assumptions that one factor is causing another.

The research strategy of this case was at a starting point of an explorative character since the problem was not clearly defined when we started our study and we wanted to get a clear picture of the happenings in AN. When we had got the whole sequence of events and knew which theoretical framework to use we continued with an explanatory research strategy in order to find which factors had caused the conflicts.

2.3 The case study

According to Merriam (1988):

The case study is used to get deep insights concerning a certain situation and how the parties involved interpret this one.

The focus is on process rather than result, on context rather than specific variables.

Case studies discover rather than prove.

A qualitative case study is an intensive and holistic description of a limited phenomenon.

The case study is focused on insight and interpretation rather than test of hypotheses.

A case study is a study of a specific phenomenon. It is often very extensive and should include as many factors as possible to describe this specific phenomenon. Case studies are also suitable to increase the basic knowledge concerning a specific problem. Depending on the nature of our research problem, in order to fulfil our purpose, the case was best investigated in the way of a case study. The initial stage of our research was to get deep insight in the actual conflicts in AN and see how they were handled. From this basic knowledge, we studied literature relevant to this topic in order to analyse the conflicts and find the underlying factors for them. Since we only investigated the conflicts and aimed to find the underlying factors for the conflicts at one specific enterprise, performing a case study was a natural choice. We did not intend to find the correct or true interpretation of the facts available, but rather find the most credible interpretation. The nature of the research problem made the result of the case study best investigated and presented in an explanatory way. The research has not focused on anything that could be measured, in comparison with the quantitative research, which focuses more on presenting the result, by quantifiable factors.

2.4 Selection of material for our study

Our research has been mainly based on written material, but in some cases we have been in contact with some persons at AN, by phone and personally, for supplementary details. Foremost Cecilia Kallin, public relations manager, but also Natalie Trimming, managing director secretary, Carina Karlsson, financial accountant and Ann-Mari Robinson, public relations manager. It should be noted that we have not asked these persons for any opinions concerning the conflicts in AN, only for some background information, not found in the press, concerning AN. We chose between two ways of performing the study; base it on already written material or by performing interviews with the parties. We chose to base our research on already written material instead of performing interviews with the parties for basically two reasons; firstly because there was a lot of written material available and secondly because a process between AN and VCC, concerning the take-over, is still going on and maybe it could be difficult to get information for fear of calling up old disputes. For practical reasons it would also be difficult to get in contact with all three parties, since TWR has its head office in England. If we had only got in contact with AN and VCC we would not have got all parties' points of view which would have been desirable.

The written materials we have used are mainly Swedish newspapers, but also press releases, brochures and annual reports. The newspapers used are principally Dagens Industri (DI) and Göteborgsposten (GP). DI was chosen to get a more financial perspective of the events while GP was chosen to get a more regional and social perspective. To get an even more local perspective we have, in some cases, used Bohusläningen (Boh). It would have been of interest to see if Swedish and British newspapers had different points of view of the happenings in AN. Before we started the selection of material, our aim was to present three stories of the sequence of events, one from TWR's, one from VCC's and one from AN's point of view. We searched British newspaper's homepages and used several databases in order to find British articles and material, but only a few articles of interest for our research were found, so only one story mixing the three parties' points of view of the conflict is presented. Most British articles available are from automotive press and do not contain much, desirable for our research, information. The time period from which the papers were selected was from 1995 when AN was founded until 2000 when the conflicts were solved, but mainly from the beginning of year 2000 when the conflicts began to be frequently mentioned in press until the 31st of March 2000 when the conflict was solved. The main part of the sequence of events according to the conflicts is included within this period of time.

In the bibliography the articles are presented in chronological order in order to possibly be used as a very broad framework showing the happenings in AN. We have not used all the articles when writing the story but they have been a basic knowledge when writing the story and therefore they are all included in the bibliography.

2.5 Source critic

In order to form an opinion of a source, different criteria can be used. According to Wiedersheim-Paul and Eriksson (1991), two of the most important criteria are if the source is contemporary, i.e. if it reproduces the happenings not long after they have actually happened, and if the respondent, in our case the authors of the articles, have any personal interest in the current matter. When using mainly daily newspaper articles, the criteria concerning contemporaneity is fulfilled. Though a potential problem when using secondary data can be the authors' eventual effect on the articles, he/she might not have any direct own interest in a matter, but can be partial anyway. This ought to be more common in the case of an author of a local newspaper than an author of a newspaper of more national character. GP is a regional newspaper and the authors of the articles might thus not always be objective. When studying the articles in DI and GP it is found that there are no major discrepancies in the descriptions of the happenings between the two newspapers. Accordingly, the question if the authors of DI might not always be objective arises. Since the conflicts are between a Swedish and a foreign company the Swedish authors might be coloured by their origin.

2.6 Validity

To test the quality of a thesis the concepts validity and reliability are used. In our case the level of both the internal and external validity are of relevance. Internal validity means how well the researchers can reflect reality, in our case how well we can reflect the sequence of events in AN. One way for the researcher to increase the internal validity is to use several sources of information. In our case it would have been desirable to have more British articles that could be set in contrast to the Swedish ones. Also interviews with the parties involved would have increased the internal validity. We discussed the possibility of sending the thesis to TWR and VCC to let them give their comments. But as mentioned, since a process is still going on between the parties and it would be difficult to get in contact with both parties, we chose not to. We based our study on newspaper articles, and in order to get an as complete picture as possible from the material available, we chose newspapers with different perspectives. Though, when mainly using newspaper articles we can not guarantee a complete picture of the happenings will be presented. It is not possible to say that this is the true picture of the happenings in AN. The sequence of events is presented from the press' point of view, which should be considered when reading the story.

External validity means how well the results from one study can be used in other situations, i.e. how well they could be generalised. In our case this means if our results could be relevant for other companies. This is a single case, and the aim is to see how things were handled in this specific case. Therefore it could be difficult to draw any general conclusions, but it could be used to see what could go wrong and maybe also what is important to think of when entering into a joint venture. (Wiedersheim-Paul & Eriksson, 1991)

2.7 Reliability

The reliability of the empirical study describes if a measuring instrument gives reliable findings, i.e. if two independent researchers would reach the same result. We started our research by describing the sequence of events in AN by using mainly secondary data, which makes it easy for other researchers to find the material used. We have chosen articles relevant for the conflicts in AN, to give a good picture of the happenings in AN, and the divergent opinions of the parties involved are presented. Even if our aim has been not to affect the story presented, we have chosen which articles and which part of the articles to use so the story will to some extent be affected anyway. Another researcher might have a different selection of articles and might therefore show another view of the happenings. Though, when using secondary data we will avoid the ambiguities that can arise when the researchers produce the empirical primary source material themselves.

Chapter 3 “The Story” of AutoNova

This is the story about the car manufacturer AutoNova AB (AN), mainly from the newspapers point of view. It can be used to get the framework of the large events in the history of AN. In the first part of the chapter, the joint venture AN and the reasons why it was founded are described, in the second part, the conflicts in AN and the parties’ different points of view are shown and in the third part, the solution is briefly mentioned. The chapter ends up presenting VCC’s press release related to the solution of conflicts.

3.1 The foundation and the structure of AN

AN was a joint venture between British TWR Group Ltd. (TWR) and Swedish Volvo Car Corporation (VCC) situated in Uddevalla approximately 90 kilometres north of Göteborg. In June 1994 an engineering contract between VCC and TWR was signed and the 18th of January 1995 AN was formally founded, originally owned 51% by TWR and 49% by VCC. (AN brochure)

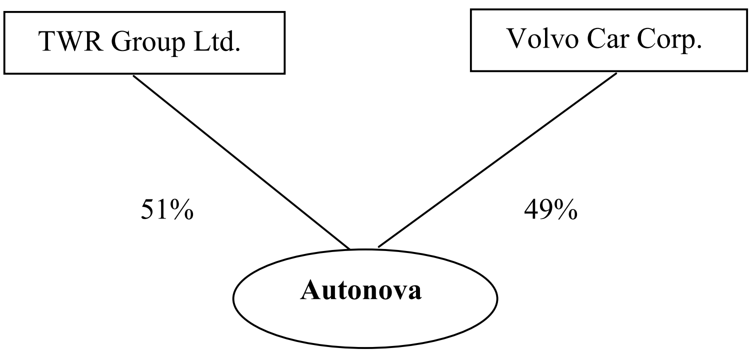

Figure 3.1 Ownership structure of AN

The venture was set up to manufacture two niche cars, Volvo C70 coupe and C70 convertible, for VCC, its sole customer. At the time of the foundation of AN the two partners TWR and VCC had already been collaborating for some years in the British racing series, the British Touring Car Championship, BTCC. They were well known and TWR's experiences and knowledge about racing together with VCC's whole competence seemed to be a good ground for cooperation.

3.1.1 VCC

The Swedish car manufacturer VCC's objectives for AN were to broaden their product range and when the planned merger with Renault crashed, VCC was still in need of new models. Another reason why they decided to increase their investments in the production of niche cars was the great success with the special variant of Volvo 850, Volvo 850 T5R, where all cost estimations of the sales were exceeded. (DN, 95-06-19) VCC's strategy to survive in the global vehicle market was to carefully choose strategic areas on which to concentrate and for other areas turn to other companies for help. The niche that Volvo C70 fitted into was one that VCC could not fill on its own, but which would enhance VCC's global consumer image, therefore they had to turn to another company for help. The production of Volvo C70 at AN was a part of VCC's strategy of cooperating with other companies, to broaden its product range and to attract a new range of customers. (Automotive News, 97-03-17)

3.1.2 TWR

TWR, a British engineering company, owned 51% by Tom Walkinshaw and 49% by the Italian Benetton family had, since 1976, worked with design, development and manufacturing for the automotive industry and had collaborated with several large car manufacturers. Tom Walkinshaw, the chairman of the board of TWR, is a former race car driver who turned entrepreneur and also runs a racing team called Tom Walkinshaw Racing. According to his associates, he takes a cautious approach in business and for this reason he has no desire to build a car bearing his own name, but prefers modest profits with the risk being someone else's. (Business Week, 96-12-30) His majority owned, TWR has cooperations within the racing area, e.g. it owns 51% of the Arrows Formula One team. It also has several collaborations with other players within the automotive industry, like General Motors, Aston Martin and Jaguar (Business Week, 96-12-30). (TWR Brochure) When AN was founded it was, up to that date, TWR's biggest deal and they expected AN to double TWR's annual sales. (Business Week, 96-12-30)

3.1.3 TWR's and VCC's resources contributed to AN

The share capital invested by TWR and VCC was originally 100 MSEK, TWR 51 MSEK and VCC 49 MSEK, and the ownership was shared in relation to their respective shareholding. The board was constituted by people both from TWR and VCC, with a majority from TWR. From the beginning many employees of AN were brought over from VCC, e.g. the prospective managing director and functional managers. TWR was responsible for engineering and production of the cars while VCC was responsible for the design of the car (DN, 95-06-19; TWR Brochure). In addition VCC also contributed the factory premises in Uddevalla and VCC's large supplier chain. According to AN, VCC stands for all contracts with suppliers (DI, 00-03-09).

3.1.4 Brief overview of the development of AN

In 1996 a small-scale production of Volvo C70 started. The main production did not start until spring 1997 and at that time it only comprised the coupe version. After additionally one year, fall 1998, the production of C70 Convertible started and during 1999 two thirds of the cars built were convertibles. (AN brochure)

As a brief summary of the development of AN from the foundation 1995 to the end of 1999 some essential figures are presented in the table 3.1.

	Unity	1995	1996	1997	1998	1999
Number of employees	Persons	100	370	700	1 100	1 100
No. of cars manufactured	Cars	-	-	1 500	10 300	15 001
Net sales	MSEK	*	237	271	1 968	3 164
Net Profit/Loss	MSEK	0	-3	-10	6**	22

Table 3.1 Key figures of AN (AutoNova annual reports 1998, 1999, phone call to the Patent and Registration Office, AN brochure)

*Only total incomes are available (49 MSEK)

**The item "Net Profit/Loss" for 1998 should not be taken for granted. As will be shown in the following chapter of this thesis the parties have differences of opinion concerning the result.

3.2 The conflicts

During the years from 1995 to 1998, we did not locate any large events of interest for our research. The production seems to have proceeded as planned. But in 1999 and in the beginning of 2000 the two owners faced three large conflicts.

How to share a great deficit occurred in AN in 1998.

Which price VCC should pay for the cars delivered from AN.

The ownership question between the two owners.

These three conflicts will be described in more detail in this chapter. Firstly the press' point of view of the events in AN will be shown, and secondly the companies' press releases related to these will be presented in order to get their unadulterated view. It should be noticed that the press releases are presented in original, nothing has been rewritten.

3.2.1 AN's deficit for 1998

Common phenomena for new car-manufacturing projects, during the build-up, are delays in production and lack in quality of the cars. The production of Volvo C70 at AN was no exception, but it was not until 1998 they faced a great deficit. In the beginning of 1998 the sales of Volvo C70 coupe was worse than expected and later during the year C70 convertible was hit by heavy delays which led to a poor result for AN for 1998, after nine months the deficit was already 150 MSEK. (GP, 00-02-25) As a result of the decrease in sales and heavy delays, AN ran out of money. To keep the factory running AN's sole customer VCC, the same year, made an extra payment of 251 MSEK.

The difficulties to agree upon AN's annual accounts for 1998

The two owners, TWR and VCC, had for several years quarrelled concerning who was responsible for the increased costs occurred during the initial years, and when the deficit during 1998 occurred, the quarrel proceeded into an open conflict between them. In September 1999 AN and VCC turned to arbitration concerning the interpretation of the agreement between them concerning how to share the deficit for 1998, a process that could take up to one year. (GP, 00-02-25) The oppositions between them were so large that they could not agree upon the establishment of any annual accounts for 1998. When a proposal for annual accounts was presented in October 1999 the differences in opinions were so large that VCC's two representatives on AN's board, as a consequence they could not stand behind the proposal, departed (GP, 00-01-22).

The owners inability to agree how the deficit for 1998 should be covered led to no annual accounts for AN for 1998 being handed in to the Patent and Registration Office and AN got hit by several charges of delay (GP, 99-12-03). Because no annual accounts arrived at the

Patent and Registration Office in time it set a deadline to the 25th of April 2000, if the annual accounts had not arrived at that point, AN would be liquidated (GP, 00-02-08). In the beginning of 2000 AN's final accounts for 1998 were approved. An extra general meeting constituted by lawyers and economists approved the final accounts (GP, 00-01-22) and the 24th of February, the annual accounts were sent to the Patent and Registration Office. The annual accounts showed a gain of 6 MSEK. But at the same time it showed a "controversial claim" of VCC of 310 MSEK. (DI, 00-02-25)

The parties' different opinions concerning VCC's payment of 251 MSEK

The payment of 251 MSEK from VCC to AN in 1998 was the reason for the differences in opinion between the two owners. On the one hand, AN called this payment a onetime contribution, according to Tom Walkinshaw, a penalty fee for VCC's diminished order by 6 000 cars and the change in production mix to a bigger number of C70 convertible, in September 1998 (DI, 00-03-24), and besides demanded that VCC pay additionally almost 60 MSEK with reference that VCC had promised to compensate AN for costs to reach a zero result for 1998. This resulted in a total amount of approximately 310 MSEK, which was the "controversial claim". On the other hand, VCC maintained that the 251 MSEK was not a gift at all but a loan, and they had not promised to cover any loss. VCC considers the deficit for 1998 should be covered by the two owners and be divided according to their relative shareholding, which according to Ingmar Hesslefors, press spokesman at VCC, is the basic idea behind a limited company (DI, 99-12-08). (GP, 00-02-25)

TWR and AN saw the deficit as the company's costs were not covered, and in February 2000 AN, whose board at that time was constituted only by TWR, maintained that the additional costs should be paid by the customer VCC. (GP, 00-02-23) But VCC maintained the opposite and saw the deficit as a loss. According to Ingmar Hesslefors, AN were paid by cars delivered according to the agreement available, but AN had not followed that agreement and not been that cost efficient as the agreement prescribed. (DI, 99-12-08) The partners had completely different opinions concerning who should pay for the deficit. The following two quotations are selected in order to show the differences in opinion even more clearly:

-*"We think we have already paid our share of the loss"*, said Ingmar Hesslefors, VCC's information manager. (Boh, 00-02-25)

-"We believe the customer, in this case VCC, should stand the whole loss", said Mike Flewitt, AN's managing director. (Boh, 00-02-25)

The negotiations concerning how the deficit should be shared continued at the highest level between the two companies' representatives, VCC's managing director Tuve Johannesson and TWR's chairman of the board Tom Walkinshaw.

3.2.2 The price of the cars

AN stopped the deliveries

According to DI (00-03-08), in order to keep the business running VCC paid an interim price for the cars delivered from AN. This interim price should be paid from the beginning of 1999 until the arbitration concerning how to share the deficit for 1998 was finished. The interim price was, according to Ingmar Hesslefors, 15 000 SEK more per convertible and 19 000 SEK more per coupe than the price originally agreed (DI, 00-03-08). But despite the ongoing arbitration VCC, at the end of February 2000, informed that they did not intend to pay the interim price any longer (DI, 00-03-09) and instead began paying the price originally agreed. AN replied by stopping the deliveries of cars to VCC (GP, 00-03-08). Tom Walkinshaw considered the price originally agreed something he could not accept since it would lead to financial problems for AN (DI, 00-03-08). His opinion was that if VCC did not pay the interim price, it would be impossible for AN to cover its costs and they would not be able to keep the production running. In the same breath he described VCC's attitude as *"extremely unreasonable"*, (GP, 00-03-08) he considered that what AN needed was a customer who should pay the price agreed (DI, 00-03-18).

What price should VCC pay for the cars?

According to The Sunday Times (00-03-12), the price at which AN sold the C70 to VCC was renegotiated each October. VCC's attitude after they stopped paying the transfer price was that they were now paying the price originally agreed. They referred to a contract from 1995 where it was stated how much VCC should pay for the cars. This contract was adjusted for changed technical content of the cars and other, and via indexation increased the price per car originally agreed (GP, 00-03-08; DI, 00-03-17). VCC's opinion was that if AN was not able to produce cars at the price originally agreed it was something AN's management and board had to do something about and should not burden VCC. (GP, 00-03-14) Though, AN sustained that VCC ordered them to produce cars according to plan without considering the costs. According to AN, this was documented in writing in the company's audits.

To solve the situation AN, the 7th of March 2000, offered VCC to pay a cost price for the cars, but VCC said definitely no (DI, 00-03-09). VCC's production manager, Curt Germundsson, maintained it should not be a problem to produce the Volvo C70 at AN at the price originally agreed. According to AN, this price was much lower than the cost price of AN. Mike Flewitt's opinion was that it was expensive to build cars at AN because the production was so small and implied AN would need an additional project of the same size as Volvo C70 (GP, 00-03-22).

3.2.3 The ownership question

Also a conflict concerning the ownership question in AN occurred (Boh, 00-02-25). The question was first mentioned in summer 1999 when TWR wanted AN to manufacture sport cars for Renault, in order not to be totally dependent on VCC as the sole customer. Though, this was refused by VCC's both members of the board in AN with reference that VCC did not intend to take any business risks for Renault (GP, 99-09-07).

In the beginning of 2000 the ownership question again arose, Tom Walkinshaw offered 350 MSEK for VCC's part in AN (DI, 00-03-24). VCC on the other hand, offered Tom Walkinshaw 100 MSEK plus to take all AN's historical costs for his part in AN (DI, 00-03-22). The historical costs included the controversial 310 MSEK from 1998 that the parties disagree about. Tom Walkinshaw's immediate counter demand was that he wanted 100 MSEK plus a share in AN's profit during 1999 corresponding to TWR's part of the shares, accordingly 57 MSEK (GP, 00-03-21). The positions between the two parties were locked and none of them wanted to accept the other one's offer or demand.

TWR stopped the production at AN

In the morning the 7th of March Tom Walkinshaw gave VCC a new offer. What it included was not official. Though the offer presented was immediately rejected by VCC. Tuve Johannesson found the price demanded by Tom Walkinshaw unacceptable and there was no point in discussing it (DI, 00-03-22). VCC stated they wanted to take over AN and had given a final offer. The price TWR was offered for its 51% shares (100 MSEK) was not negotiable (DI, 00-03-09). TWR replied by the same day stopping the production at AN, and at the same time cancelling all deliveries from the suppliers. (DI, 00-03-08)

A lengthy close down of AN could be costly for both AN and VCC. To keep the factory at AN running without any production, with 1 100 employees, would cost approximately 1 – 1.5 MSEK a day. VCC on their hand did not only risk a lot of upset customers, they also risked being sued by AN's suppliers since VCC, according to AN, had signed the contracts with these. (DI, 00-03-09) The unions' opinion concerning the close down was that it was an absurd situation when the production was stopped at a profitable company. The owners had to take their responsibility and solve the conflicts immediately (GP, 00-03-08).

The discussions concerning the offers and demands can be difficult to survey. In order to clearly show the parties' offers and demands of shares, table 3.2 is included.

Tom’s and Tuve’s negotiations

Several negotiations between the representatives of TWR and VCC, Tom Walkinshaw and Tuve Johannesson, took place. But the positions were locked, and depending on which side to listen to, the actual deadlock was motivated once by this, once by that.

The voice between the two owners became tougher throughout the conflicts, especially when Ford bought VCC. Ford had several old fights with Tom Walkinshaw and made sure the VCC management were tough in their negotiations. (GT, 00-03-11) Tom Walkinshaw described the negotiations with VCC as follows:

“Imagine that someone tells you that if you do not sell your house cheap to me, I’ll blow it into pieces. That is how VCC has acted.” (GP, 00-03-16) “I understand absolutely nothing. But it is obvious I have never met a company acting so badly as VCC is doing” (DI, 00-03-08)

Ingmar Hesslefors’ comment was: *“I do not know his other business relations”* (GT, 00-03-11) and Tuve Johannesson indirectly graded Tom Walkinshaw’s acting: *“I have decided not to slip down in the gutter.”* (GP, 00-03-22)

Tom Walkinshaw’s new offer

In an interview with DI the 24th of March, Tom Walkinshaw presented a new offer. It implied that he was prepared to start the production immediately and was willing to accept VCC's offer of 100 MSEK. Though he demanded an informal arbitration concerning how to share AN's result for 1998, and 50% of the result of that arbitration should go to TWR. VCC's line through the negotiations had been they were willing to pay 100 MSEK and take all AN's historical costs (310 MSEK) for TWR's shares in AN, and kept to this as a final offer. But the 29th of March Ingmar Hesslefors stated that VCC kept the doors open and they had asked Tom Walkinshaw to present the offer presented in DI the 24th of March directly to VCC. (DI, 00-03-29)

Date	Part	Offer/Demand
January*	TWR	Offered VCC 350 MSEK
February*	VCC	Offered TWR 100 MSEK + take all AN's historical costs (310 MSEK)
February*	TWR	Demanded 100 MSEK + share in AN's gain for 1999 (57 MSEK)
March 7	TWR	Unofficial offer
March 24	TWR	Demanded 100 MSEK + 50% of the result of an informal arbitration, concerning how to share AN's result for 1998

Table 3.2 The parties' offers and demands for their shares

* No exact dates for the three first offers/demands are available.

The unions turned against TWR

Two other forces during the conflicts were the unions and Jacques Nasser, Ford's managing director and CEO. The unions took a neutral position when the conflicts first occurred and only wanted the parties to agree and start the production again. But after a meeting, the 15th of March, between the unions and TWR, they chose to take VCC's side in the conflict and openly demanded that VCC take over. The unions saw a takeover by VCC as the only rescue for AN. Tom Walkinshaw had at the meeting presented three possible alternatives for AN's future: To continue as before, to manufacture other car models with maybe 100 employees or to completely close down the factory. According to the unions, they had got the information that he was not quite alien to closing the factory down already in June or July. They assumed that Tom Walkinshaw only wanted to make as much money as possible before he left AN. They also considered TWR not to have the resources to run and develop AN and therefore openly took VCC's side in the conflict. They thought the situation at AN had completely got off the track and wanted Tom Walkinshaw off, as owner of AN.

During a visit to Göteborg the 29th of March Jacques Nasser, in an interview with GP, also commented on the conflicts that had arisen and said he rather saw a fast solution. He thought Tuve Johannesson and Tom Walkinshaw to be grown up boys and was sure they would sit down to calm and reasonably find out what was right and good for AN, and reach a good agreement (GP, 00-03-30).

3.3 The Solution

After a long period of time the conflict was finally solved. The solution came sometime during the night between the 30th and the 31st of March when Tom Walkinshaw and Tuve Johannesson finally agreed. As a result of the agreement the deliveries of the about 800 undelivered Volvo C70 coupes and convertibles resumed already the same day and the 3rd of April the employees went back to work. (Boh, 00-04-01). The agreement implied that VCC increase its possession to 75% and has an option to acquire the remaining 25% year 2003. VCC also broke all connections with Tom Walkinshaw, in racing. (DI, 00-04-05) After the takeover of VCC, Mike Flewitt was dismissed and instead Walter Fortgens was nominated as new managing director for AN, he took over in the summer 2000. (TT, 00-07-04) In fall 2000, AN changed name to Volvo Cars Uddevalla.

A parenthesis in the context can be that also Tuve Johannesson the 6th of June was dismissed from the post as the managing director of VCC.

According to what DI learns it was an expected change, several internal sources testified that Tuve Johannesson could not agree with the highest Ford head as well as his closest manager and chairman of VCC´s board, Wolfgang Reitzle. According to DI another reason for the aggregated disappointment against Tuve Johannesson and his management team was the handling of the conflicts in AN, which was treated as any supplier despite VCC owning 49% of the company. (DI, 00-06-07)

3.4 Press releases

The following press releases are included in order to give the reader the possibility to see what information the companies have released according to the conflicts in AN. They are not going to be analysed but are only included to show the companies unadulterated view of the conflicts.

AutoNova

7 March 2000

THE PRODUCTION OF VOLVO C70 HALTS

Autonova, mutually owned by Volvo Car Corporation and TWR Group Ltd., manufacturing the coupe- and convertible versions of Volvo's C70 series, have been forced to halt the production in the Uddevalla factory. The reason is that the company's sole customer - Volvo Car Corporation - refuses to pay for the cars, despite great demand in the market.

AutoNova and Volvo Car Corporation have during a long period of time quarrelled concerning the correct cost of building the cars in the Uddevalla factory. AutoNova demands that Volvo Car Corporation stand by the commitments that the company and its auditors have given according to costs AutoNova had during 1998.

1999 Volvo Car Corporation referred the controversy to arbitration in line with what had been prescribed in the partner's original agreement. It was obvious that a solution of the arbitration was going to take time and therefore it was determined that Volvo Car Corporation should pay an interim price for the cars.

Volvo Car Corporation have now changed their mind and refuse to pay the price agreed for the cars.

Under these circumstances there is no other solution for AutoNova than to stop the production. No cars will be produced before an agreement with Volvo Car

Corporation is reached.

In attempts to find a solution AutoNova has repeated its offer to Volvo Car Corporation, to produce cars to a covering of cost in order not to jeopardise the employment and hurt C70's market image. Since Volvo Car Corporation has not accepted this there is no other alternative for AutoNova than to stop the production.

AutoNova

15 March 2000

TWR LEAVES THE OWNERSHIP QUESTION – CONCENTRATES ALL EFFORTS ON STARTING THE MANUFACTURING

TWR, main owner in AutoNova, has decided to leave the ownership question at that at the moment. Since none of the parties can accept the bids offered, the negotiations are now calm. Therefore all efforts are now concentrated on getting AutoNova and its sole customer - Volvo Car Corporation - to agree upon the price of the cars.

- It is important that the production starts again, says Tom Walkinshaw, main owner in TWR and Chairman in AutoNova. As soon as we can agree upon a price for the cars the employees can return to their work and AutoNova can again produce Volvo cars.

Tom Walkinshaw has given Mike Flewitt, managing director at AutoNova, the task to start negotiations with Volvo Car Corporation concerning the price of the cars. The background to the controversy concerning the price originates from a dispute between both parties concerning how the costs for the cars should be calculated. 1999 Volvo Car Corporation referred the question to arbitration in line with what had been prescribed in the partner's original agreement. Since the arbitration was expected to take time it was determined that Volvo Car Corporation should pay an interim price for the cars. In December 1999 Volvo began paying a lower price and since then disagreement between the both parties has prevailed. Tom Walkinshaw's expectation now is that the price question should be solved as soon as possible and that the production should be resumed.

Volvo Car Corporation

31 March, 2000

TWR AND VOLVO CAR CORPORATION IN AGREEMENT OVER THE FUTURE OF AUTONOVA

PRODUCTION AND DELIVERIES RESUME

Volvo Cars and TWR (Tom Walkinshaw Racing) have today reached an agreement in principle regarding AutoNova, which paves the way for the company to immediately start production and resume deliveries of cars following the halt in operations on 7 March this year.

Volvo Car Corporation is acquiring 26% of the share stock in AutoNova from TWR, with immediate effect. The remaining 25% will be purchased in 2003. The TWR Group will not have a place on the board of AutoNova. Volvo Car Corporation is hereby now responsible for AutoNova's operations following normal EU approval procedures.

VCC and TWR do not intend to publicise the contents of the agreement, as some details and formalities still remain to be resolved.

- We have today reached a framework agreement, which takes due account of the interests of both parties. Based on this understanding, the executive management of AutoNova has undertaken to resume production and deliveries and this can be done already on Monday April 3, says Tuve Johannesson, managing director of Volvo Car Corporation.

Chapter 4 Ownership versus control

The relationship between the ownership and control of firms has received attention for many years. Ownership is a combination of rights and responsibilities with respect to a specific asset. Scott (1979) states that ownership has a dual character, both a legal relation and a social one. The legal relation of ownership comprises an owner's legal power over a social object. The social relation of ownership refers to the actually effective power of possession, which may diverge from the legal relation of ownership. The effective possession can be structured in a way that does not correspond to prevailing legal forms.

Berle and Means argue that the traditional logic of property involves two aspects: the right to determine the use of the assets and the right to benefit from its use. When the two aspects of property are dissociated, it is possible to distinguish "nominal ownership", which is the right to receive revenue as a return for risking one's wealth by investing in a company, from "effective ownership", which is the ability to control the corporate assets. (Yan, 2000)

The argument can be extended to the study of joint ventures. The parent companies are legal owners of a joint venture, but the actual power is derived from the joint venture board, which may act with some degree of independence. The social relations of the joint venture are established by the partners' contribution of resources and competencies, but these can become dissociated from the partners' ownership rights to protect their respective interests. In a joint venture, parent companies provide resources, skills and knowledge in addition to their equity contributions. They face the problems of protecting the use of these resources when collaborating with each other. Therefore there is a strategic motive for them seeking a certain level of control through legal rights and social relations. The range of ownership resources conveys control and influence over a joint venture, both through the formal terms of any contracts and through the less formal influence that derives from the partner's possession of resources and capabilities. The partner's objectives are more or less reflected in the management of the joint venture. The partner's capital, technological and management resources may be used by the management of the joint venture as a power base to support the pursuit of its objectives.

The separation of the legal ownership and the effective control in joint ventures has been recognised by many researchers. Bivens and Lovell (1966) argue that it is wise to divide the management responsibility for the major functional areas in a joint venture according to abilities and not on the basis of the shareholding. Killing (1983) also points out that even in the equally owned joint venture, the management does not necessarily need to be equally shared.

4.1 The concept of ownership

In formal terms, ownership is the legal possession of assets. It is normally defined in terms of three fundamental rights which are, the right to possess an asset and/or its financial value, the right to exercise the influence over the use of the asset, and the right to information about the status of what is owned (Pierce, 1991). Other rights are to transfer assets and to receive an income or return from them. In a joint venture, the parent companies contribute not only the capital, but also the non-capital resources such as the materials, management, and technologies. These are normally stipulated in the formal contracts and agreements among the partners. In addition, there are also some other resources provided by the partners without contracts, such as the knowledge and skills embodied in the managers, expertise or staffs employed by the partners. Thus the ownership rights in the context of joint ventures are constituted in three dimensions of the ownership resources, namely, equity capital, contractual resources, and non-contractual resources.

4.1.1 Equity capital

Yan and Gray (1996) regard equity as the provision of a capital resource to a joint venture by its partner companies, typically finance and sometimes land and buildings. Equity ownership is seen as an outcome of negotiation, which represents the relative bargaining power of participating interests (Harrigan, 1986). It is associated with formal control (Hyder, 1988). The parent companies rely on the equity share to gain voting rights, to represent on the board of directors, to occupy the key managerial positions, and to obtain profits (though sometimes the profit allocation is not in accordance with the equity shares but agreed between the partners). A firm that commits the greater amount of capital resources gains an advantage in strategic control in joint venture (Yan and Gray, 1996). However, equity ownership is not equivalent to management control, in other words, a majority equity share does not represent an effective control of the whole joint ventures activities (Harrigan, 1986, Killing, 1983). The distribution of equity control, profit splits, board representatives, and other forms of managerial control will not necessarily be symmetrical because some partners will take a slight minority equity position so long as they can obtain clear majority position in managerial authority and operational control.

4.1.2 Contractual resources

Contractual resources are those resources other than equity capital provided to a joint venture by its owners on the basis of formal contracts including technology, management expertise, local knowledge, raw material procurement channels, product distribution and marketing channels. Yan and Gray (1996) distinguish this type of resources from capital resources, arguing that these non-capital resources may constitute more important complementary assets than purely financial contributions and therefore tend to contribute to the operational control. Control may be, for example, over specific areas of product and process technology. A parent company might be able to rely on its technical superiority and other areas of competence as a means of guaranteeing participation in the management of joint venture operations (Glaister, 1995). Killing (1983) considers technology as a vital resource, finding that most firms with valuable technology would not enter joint ventures in which they own less than 50 percent of the equity, and demand a managerial role. Harrigan (1986) argues that market access is the most attractive resource to control because it provides a competitive advantage that is more durable than most technological resources, especially where product and process technology changes rapidly.

4.1.3 Non-contractual resources

With the globalisation in general and the development of joint ventures in particular, non-contractual resources have assumed increasing importance as a key to success, which lies in the knowledge and skill of managing complex interdependencies within and across joint venture boundaries and in the ability to manage multicultural units (Nonaka and Takeuchi, 1995). The provision of non-contractual resourcing normally reflects the level of commitment by the owning companies to their joint venture (Beamish, 1988). They therefore represent a basis for a more ongoing relationship between the partner companies and the joint venture. A partner's possession of 'soft technologies', advanced management systems, training and HRM expertise, and strong organisational cultures provides a further basis for exercising control, through the shaping of employees' activities and values. Trust placed in one partner by another, and/or by joint venture staff, may also lead them to accept control by the partner. Yan (2000) indicates that these resources are likely to give rise to effective ownership rights, through claims to expertise and also through the goodwill and cultural capital they generate, since the partner that is able to accumulate goodwill, trust and the loyalty of joint venture personnel adds significant value to its original equity.

4.1.4 Summary

In summary, equity share, especially a majority share, confers certain legal rights to determine the overall direction of a joint venture. When non-capital resources are provided through contracts, these can specify rights as to the use and possibly the management of such resources. When resources are provided on a non-contractual basis, they may still confer powers to the providing company, because intrinsically they create a dependency on its expertise and they generate the moral authority that derives from the way they evidence commitment. The distinction between these categories is likely to be a significant one for the understanding of the joint venture control, because of the different nature and scope of the power that stems from each of them.

4.2 Control mechanisms

The mechanisms of control are those formal and informal organisational processes through which control over a joint venture is exercised by one or more of its parent companies as a means to achieve their respective objectives. As the joint venture is a cooperative organisation, the ability of an owner to exercise control involves the power and influence not only over its joint venture managers, but also over its partners (Yan, 2000).

Friedman (1971) suggests that control is not a strict and automatic consequence of ownership, but a variety of mechanisms that are available to firms for exercising effective control. Control can be exercised by legal forms or influenced through the wide range of resources. As many scholars have indicated (Friedman, 1971, Killing, 1983, Harrigan, 1986, Schaan, 1983), there are more or less similar types of control mechanisms, for instance ownership shares, representation on the joint venture board, appointment of key personnel, staffing, and particular contracts that are related to either technology or management. Other mechanisms used to control the venture work through the design of the venture's organisation structure and management systems. In addition, there are designated management instruments including performance measures, reporting systems, review procedures, reward systems, and so on (Hoon-Halbauer, 1994). Organisational culture can be used as an indirect control mechanism for joint ventures, as it encourages employees to share the values and behavioural norms advanced by one or more of the owning companies. Such control relies on informal communication, extensive training, socialisation and frequent personal visits between parent companies and the joint ventures (Milliman 1991).

Schaan (1983) identifies two broad forms of control. Positive controls are mechanisms for parent companies to encourage certain joint venture behaviour. Negative control mechanisms tend to be imposed by parent companies to stop or to prevent the joint venture from implementing certain activities or decisions. According to him, the positive control is most often exercised through informal mechanisms such as staffing, participation in the planning process and reporting relationships. Negative control relies mainly on formal procedures, approval by parent companies and the use of the joint venture board of directors. Positive control appears to be an ongoing process of influence, whereas negative control is more an exercise of raw power, which should not have to be employed if positive control mechanisms are in place and used properly (Killing, 1983).

4.2.1 Formal agreements

There are a variety of legal documents which invariably accompany the creation of a joint venture. These are nearly always closely connected to the issue of control. The articles of incorporation, by-laws and shareholders' agreements, which are in a legal sense the cornerstone of any venture, clarify things such as the scope of the venture, the composition of the board, the type of decisions which need to come to the board for approval, and the percentage of votes needed to approve various types of decision. These documents deal directly with control in its most direct form: who can veto what? (Killing, 1983) In addition to these basic agreements between the partners, there is also a series of agreements between the joint venture and their parents in many areas, e.g. the supply of components, the product distribution and marketing channels, the supply of product design and production process, and etc. (Nightingale, 1990). As Killing (1983) points out, each of these agreements confers some degree of control to the partners, and the more the parent is involved in such agreement, the greater its influence (e.g. a marketing agreement will obviously give control over export volumes and involve the parent in discussions of pricing, advertising, distribution and product features).

The formal agreements provide ways of maintaining the stability of the joint venture, and provide the owners a guide for assessing whether the venture has deviated from their purpose in an unacceptable way (Harrigan, 1986). However, negotiating and setting up a clear legal document is a major task, and managing a venture which has many such agreements is very difficult, because a change in the venture's operation will have an impact on many of these areas (Killing, 1983). As Harrigan (1986) points out, the actual stability of cooperation between partners will be established by their subsequent behaviour patterns, not by what is written in their agreement. Alliances fail because operating managers do not make them work, not because contracts are poorly written. Therefore, joint venture agreements are of limited value because if partners need to use legal agreements to resolve issues and conflicts as they arise, then the joint venture is not likely to survive the rest of time (Triantis, 1999).

4.2.2 Board of directors

The board of directors represents an important source of control (Lorange & Roos, 1993). The main responsibilities for the joint venture's board of directors are to provide the venture linkage to the owners and at the same time create the mission, vision, and the strategy of the venture (Triantis, 1999). It is made up of representatives from each parent company and occasionally one or two outsiders recognised for their contributions in bringing the firms together (Ibid.). Obviously, the attitude, behaviour, and decision making of these representatives are presumed to achieve certain strategic intents and objectives of their own parents, which therefore provides the owners with a unique opportunity to guide the activities of their venture (Harrigan, 1986). However, as Killing (1983) points out, it is also here that differences in priorities, directions and perhaps values will emerge. If a parent who has a majority position on the board always forces issues by taking them to a vote, instead of by goodwill and cooperation, it will lose its joint venture.

4.2.3 Staffing

Staffing has been recognised by many researchers (Harrigan, 1986, Killing, 1983, Schaan, 1983) as an important control mechanism influenced by the parent companies. According to their studies, the parent company tends to use its own personnel in the venture especially occupying the key positions such as the general manager and function manager. The stronger the people they can assign, the better from a control viewpoint (Lorange & Roos, 1993). There are several immediate advantages, as Killing (1983) points out, communications between the venture and the parent company are likely to be improved. More complete information offers the prospect of more complete control. Secondly, such an employee is likely to act in ways that his parent would find acceptable, even when his actions are not being overtly controlled. His values and attitudes will most probably have been shaped by the parent company and his loyalty and faithfulness towards his parent will guide him even in the joint venture. However, staffing is also one of the characteristics that differentiates joint ventures from other forms of organisation and therefore may cause the problems such as the "mistrust", or "allegiance". This aspect will be discussed in chapter 4.6.

4.2.4 Cost of control

Control incurs costs, both direct and indirect. In addition to the direct administrative costs that any control mechanism causes, indirect costs arise from the detrimental effects that inappropriate control can have on motivation and the ability of a venture to behave flexibly. Over-control by parent companies may inhibit the flexibility and autonomy that their joint venture needs in order to develop within its own competitive environment (Harrigan, 1986). A power-based attitude towards control does not induce a cooperative spirit, which conversely may damage the trust among the partners and between the partner and the venture (Lorange and Roos, 1993). A good management control system relies on the good relationships among the partners and their willingness to cooperate and solve any conflicts.

4.3 Ownership structure design

Ownership structure is a means to realise partners' objectives through the performance of their venture. Therefore, the range of the resources provided and the level of control generated through those resources are influenced by the partner's objectives and also have an impact on the venture's performance. There are many theories about the relationships among the objectives and the ownership and control and their impacts on the joint venture performance. Researcher Yan (2000) summarises these theories and concludes three models according to these theories.

4.3.1 A formation model

A formation model is concerned with the link between objectives and ownership (see Figure 4.1). It explores that, at a joint venture formation, the strategic and financial objectives of the investing companies are reflected in the preferred equity level and range of ownership resourcing that they have committed to the joint venture. It is recognised that a wide variety of objectives are likely to be present at joint venture formation and be translated into the relative ownership configuration (Yan, 2000). Firms' strategic mission will determine how they will use their resources and competence and to what extent they will assume control while at the same time have to give up some control (Harrigan, 1986). On the other hand, the structure of the ownership resources also reflects the relative bargaining position of the partners (Harrigan, 1986).

Objective ⟶ Ownership ⟶ Control

Figure 4.1 Formation model (Yan, 2000)

A joint venture is normally formed between a foreign partner with specific technology and a local partner with the local knowledge, distribution ties, marketing access, management expertise and so on (Killing, 1983, Harrigan, 1986, Hyder, 1988). Many firms with valuable technology will only supply it to a joint venture in which they own more than 50 percent and/or have a significant voice in its management (Killing, 1983). As a result of the negotiation, the local partner who is urgent to find this technology to create value for their own companies may have to accept a minority position at least in the equity shares but at the same time achieve more effective control on operational levels. Contractor (1989) suggests that the use of limited investment is needed to absorb the high costs of marketing, for enforcing patents and contracts and for achieving economies of scale. Therefore, a firm with these objectives will tend to favour a lower-scale investment, and minority equity shares may be more efficient.

4.3.2 A universalistic model

A universalistic model is relevant to the links between ownership resourcing, control and performance (see Figure 4.2). It regards the level and range of ownership resourcing brought by each investing company to the partnership as enabling them to exercise the control they desire. The range of ownership resourcing influences the joint venture's control over strategic and operational levels. Control is a function of equity capital, ownership non-capital resources and ownership non-contractual resources. Equity structure is not equivalent to management control, but it delineates the relative positions of the partners and sets a tone for the successive negotiations over management structure and control (Harrigan, 1986).

With regards to the impact of ownership resources on joint venture performance, some researchers conclude that dominant parent joint ventures are more likely to be successful compared to shared management ventures (Killing, 1983, Buckley and Casson, 1988). Killing (1983) groups the ventures under the pattern of control exercised. In a dominant parent joint venture one of the partners plays an active managerial role, and the venture is managed as if it is a wholly owned subsidiary. In this case, the board of directors is just a formality and all the functional managers are appointed by and report to that active parent. In a shared management venture both parents play a meaningful managerial role and all significant decisions are shared. In an independent venture neither parent plays an important role. The general manager of the venture enjoys a great level of operating autonomy. The point here is that a firm can dominate a venture without having a dominant ownership position, and similarly, a venture does not need to be equally owned by its parents to have shared management. According to his study, independent joint ventures outperform dominant parent and shared management joint ventures, whereas a comparison of dominant and shared management joint ventures suggests that the former stand a better chance of success. Buckley and Casson (1988) note that dominant control is a mechanism for reducing the risks associated with coordination, potential conflicts and disclosures. Consequently it can minimise transaction costs and stabilise the venture. This argument appears to support Killing's (1983) view that shared control constitutes the major source of management difficulties in joint ventures, while dominant parent joint ventures are easier to manage and consequently have more chance of success.

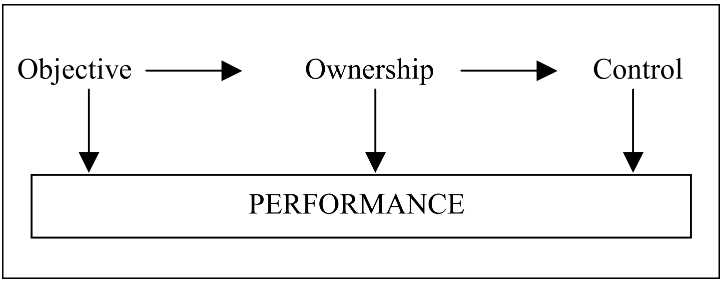

Figure 4.2 Universalistic model (Yan, 2000)

In contrast to Killing's study, Beamish (1988) finds that shared rather than dominant control would bring a joint venture success. Janger (1980) reports that neither a dominant parent nor a shared management venture shows superior performance. It is not surprising that they have different answers, since success of joint venture lies in, among other things how well the joint venture is managed afterward and the continuity of their willingness that the partners would like to cooperate from the beginning. In addition, the performance achieved by the venture seems to vary over time, Lee and Beamish (1995) argue that the partner's contributions are the most important factor to guarantee high-performance. Harrigan (1987) finds that a joint venture of longer standing tends to achieve a more successful performance.

4.3.3 A contingency model

A contingency model (see Figure 4.3) is concerned with the match among objectives, ownership and control, and the implications of this match for joint venture performance. In particular, it argues that it is the goodness of fit between the distinctive resources brought by partners and the control leveraged from those resources and competencies that determines the level of performance of the joint venture. The more consistent the configuration of parent ownership and control, the better the performance of the joint venture (Yan, 2000).

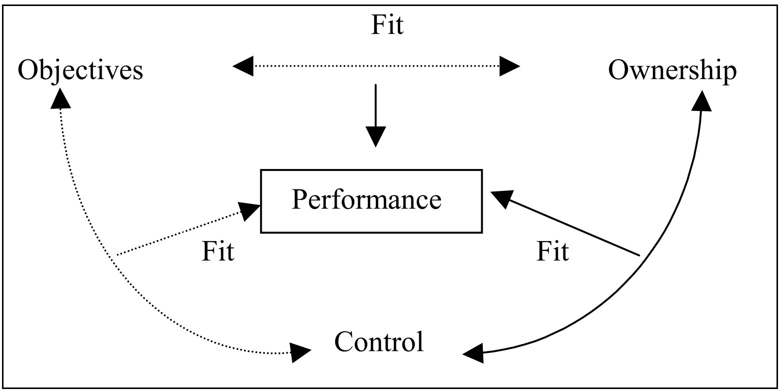

Figure 4.3 Contingency model (Yan, 2000)

Schaan (1983) states that joint venture success, or the extent to which parent expectations for the joint venture are met, is a function of the fit with three variables: the parent's criteria for success, the activities or decisions it controls and the control mechanisms that are utilised. He concludes that joint ventures in which a parent achieves this fit will show better performance. Janger (1980) suggests that joint venture success should be enhanced when the joint venture's structure fits the owning company's strategy.

The performance of a joint venture will be satisfactory to the partners only if the contributions of the partners, and the expected benefits to them, are kept in balance. The joint venture relationships cannot be a zero-sum game where what one partner gains, the other loses, but rather one in which there are solutions benefiting both partners (Triantis, 1999). In a joint venture neither partner is passive, each partner contributes and must expect to gain from the partnership (Harrigan, 1986). The performance of a joint venture was dependent, to a certain degree, on the balance of the benefits the partners achieve from the performance (Robinson, 1969). If the joint venture is in a win-lose situation, then the likelihood of low performance is high.

4.3.4 Subject to difficulties and changes

The models give a deep insight to the study of joint ventures, especially the contingency model which identifies the fits among objectives, ownership and control and the balance between the partners contribution and expectations. It is wise to divide the management responsibility for the major functional areas in a joint venture according to abilities and contributions and not on the basis of shareholding (Bivens and Lovell, 1966). However, it is not always easy to determine and evaluate the relative contributions of the partners. Some assets are visible and measurable such as the financial investments and even the technological contribution while other assets, such as a specialised type of management ability, local business ties, and knowledge of local conditions, are very ill defined (Ibid.). Berg and Friedman (1980) argue that dissimilar expectation about the contributions and gains would lead to trouble for a joint venture. They maintain that additional contributions would be necessary to run the venture, when the contributions were unequal.

Hyder (1988) points out that a joint venture is not a one-time thing; it is concerned with dynamic consequence. Both resources and partners' desire concerning the allocation of those resources may change. Killing (1983) considers the change in the need for resources from one another due to the presence of continuous learning. He argues that this change would eventually make the partners less important to each other, as their needs decreased. Harrigan (1986) observes the divergence of business interests among the partners over time. It is fine to start the joint venture with technical know-how but if the market changes or competitive strengths develop, the partners will constantly reassess the other partners ongoing contribution.

Joint venture is a kind of long-term contract among the partners. Like all contracts it is subject to many difficulties. As circumstances change in the future, the contract may be too inflexible to permit the required adjustment to be made. The change may be the result of both internal and external factors. To achieve the fitness in all dimensions, not only requires the knowledge, the skills and the willingness of the partners to cooperate, but also needs the partners' perception and a positive attitude towards the potential changes so as to adapt to the dynamic changing needs. In next section, we will further describe the details of these changes that may occur based on Harrigan's bargaining power theory (1986).

4.4 Changing forces

Harrigan (1986) sees the form of a joint venture as a bargaining power between the owners. This bargaining power arises out of the relative urgency (strategic needs), the resources available and other commitments, possible alternatives, and similar strengths and weaknesses of each owner. The bargaining agreement, which sets forth the venture's objectives, scope, degree of freedom, and constrains, represents the compromise that has been established by the partners on the basis of their willingness to cooperate and their relative bargaining position. The agreement also specifies the input provided by the owner, the output produced by the venture and possibly its customer as well, and the control mechanisms used by the owners to ensure their respective interest. It provides owners with a guide for assessing whether the venture has deviated from their purpose in an unacceptable way.

However, the needs and strengths of each partner's major business activities are subject to continual changes, and these changes often enhance or diminish that partner's interest in the joint venture's activities. The venture also faces dynamic competitive forces in its environment, which will affect the venture's ability to satisfy the desires of its owners. As a result of the many forces, the original terms of the bargaining agreement become less satisfactory for at least one party and it may be necessary to renegotiate the original agreement or an end to the joint venture (See Figure 4.4).

4.4.1 Owner change forces

The timing of changes surround either owner. Changes in owners' strategic mission, changes in importance of the joint venture to owners, and changes in owners' bargaining power with respect to its partners will influence how the venture is going to be.

Changes in owners' strategy and venture's strategic importance

When the joint venture is formed, each owner receives benefit from the venture that aids the owner's respective strategic missions. However their missions may change due to the environmental changes, competitive pressures, or other demands, which accordingly may make the venture's activities more or less important to their new strategic missions. As Harrigan (1986) argues, it is important to recognise when the terms of a joint venture should be changed and when the venture should be terminated. If the venture no longer fits well with its owner's original plans, if the owners cannot agree upon important points of cooperation, if firms diverge from their original vision for the venture, or if their strategies evolve in a manner that lessens the venture's usefulness, it might be necessary to negotiate a "fade out" for one of the owners.

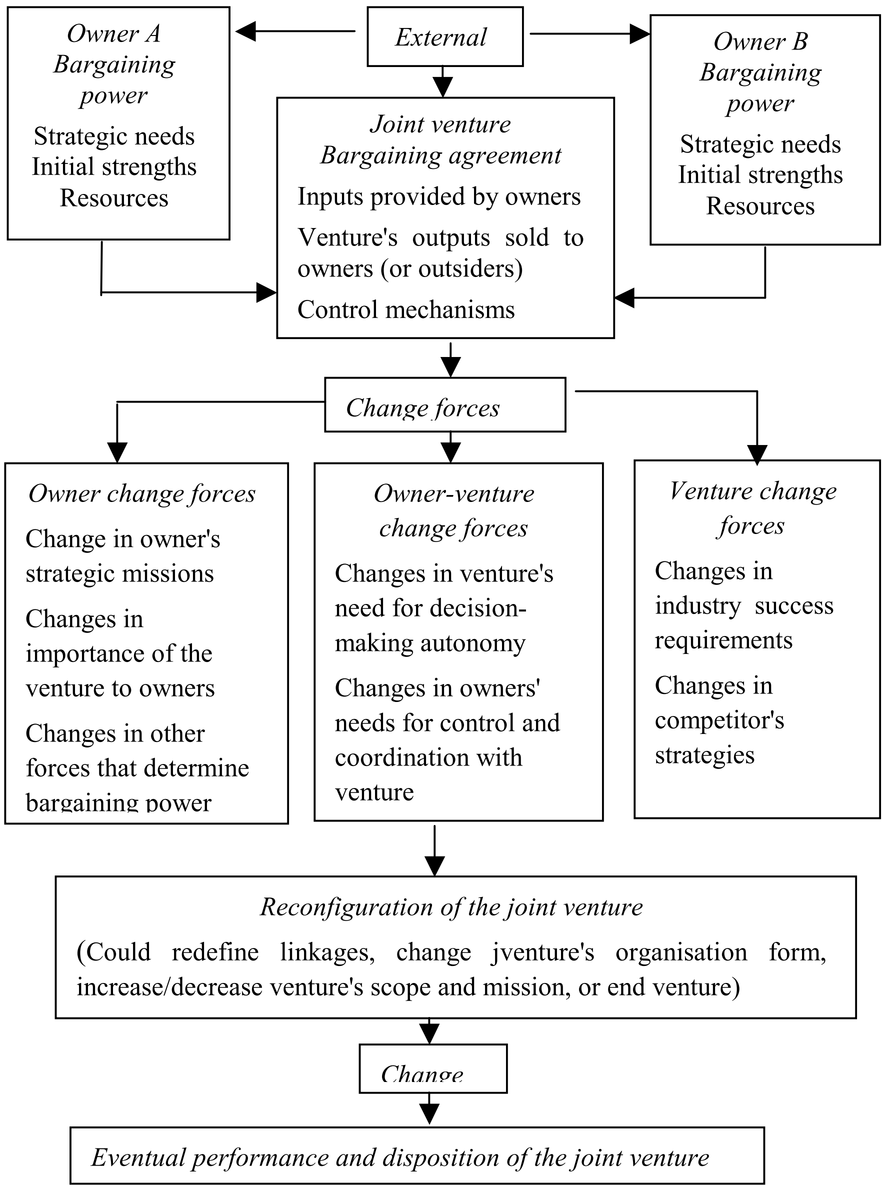

Figure 4.4 A dynamic model of joint venture activity (Based on Harrigan, 1986)

Changes in owners' relative bargaining power

Harrigan (1986) describes the relationship among the owners of a venture as a bargaining power. This bargaining power is based on the *fit* or interplay between the resources and needs of the owners. Each partner gives and takes and is continually reassessing the trade-offs of its investment. However, if the resources that one partner contributes to the joint venture become more or less valuable than those contributed by other partners, or if one of the partners believes that it has made a one-sided bargain that unreasonably favours the other partner, the balance of relative bargaining power among partners will shift, and their original cooperative relationship will be struck. Harrigan (1986) concludes that joint ventures are more frequently terminated as the value of each partner's resources evolves asymmetrically and partners are unwilling (or unable) to work out a new agreement that is mutually satisfactory. Lorange and Roos (1993) consider it as a natural and pragmatic evolution that the partner who provides, e.g. the marketing input becomes increasingly dominant in the role of executing the joint venture activities, while the other partner who is providing the technology may become less and less active after the initial technological learning has been completed and the know-how transferred. They argue that partners without this perception will be in trouble and their ongoing relationship will face difficulties.

4.4.2 Owner-venture change forces

There are also changes in owner-venture relationships. The venture may need more decision-making autonomy; the owner may need more coordination with or control over its venture's activity. Harrigan (1986) emphasises that the tensions between the venture's need for operating autonomy and the owners' need for parent control must be identified, particularly as these opposing pressures will affect owners' abilities to satisfy the strategy needs of their venture. Harrigan argues that an appropriate mix of autonomy from and coordination with its owners' activities will depend on the venture's strategic mission and how its activities will be integrated with its owners. According to her, owners' need to intervene in the joint venture's decisions increases (1) as the venture's strategic importance to the owner increases; (2) as the value and scope of resources that the venture shared with the owner increase; (3) as the degree of resource transfers between the owner and venture increases. The venture's need for autonomy increases as the speed of the competitive response needed increases, but will decrease as similarities between owners' and venture's strategic missions increase or as the value and scope of resources shared among them increase.

By way of summarising Harrigan's reasoning on trade-off between autonomy and coordination, Figure 4.5 shows that an uneasy relationship is the outcome of a high degree of owners' need to control and coordinate venture's activities as opposed to a high degree of venture's need for autonomy.

		Venture's need for autonomy: High	Venture's need for autonomy: Low
Owners' need to control and coordinate venture's activities	High	Very unstable	Owners can Intervene heavily High coordination with owners
	Low	Venture operates like autonomous SBU Financial control primary	Joint venture is less likely to offer owner strategic impact

Figure 4.5 Owner coordination and venture autonomy needs (Harrigan, 1986)

Managing this trade-off is easier said than done. Sustaining good relationships between the partners is an important factor to coordinate owner-venture relationships. As Harrigan (1986) points out, without this chemistry owners will not realise the full benefits of their venture and synergies will not accrue between them. If differences in strength, performance, commitment, and other factors lead owners to use negative control mechanisms that prevent their partners from enjoying desired synergies, their participation in the venture will not continue (Ibid.).

4.4.3 Venture change forces

The changes also surround the venture itself. The venture faces volatile competitive conditions and risks in its target market. If its industry structure and success requirements change, the venture's strategy may no longer be suitable for serving its customers, or the venture may be less effective in implementing its chosen strategy (Harrigan, 1986). It may be terminated if it does not function well enough to document competitive success in its business area or yield the necessary return to its parents (Lorange and Roos, 1993), or it may be reconstituted or changed in response to threats and opportunities of its industry (Harrigan, 1986). The more volatile the competition and the more uncertain the environment surrounding the joint venture, the more decision making autonomy the venture needs to be able to respond quickly and smoothly to the changes (Kumar and Seth, 1998). The change is inevitable, as Harrigan (1986) explains, because few industry structures are likely to remain unchanged in the future and few ongoing relationships between owner and venture or between partners are likely to match competitive realities for long.

4.4.4 Summary

Joint venture is inherently unstable since many factors have been identified as causes of the potential changes of the original conditions in the agreements. These factors include changes in partners' strategic mission, changes in importance of the venture to the partners, changes in the trade-off between parents' need for control and venture's need for autonomy, and changes in the venture's competitive environment. All these changes could precipitate renegotiations of the terms of the bargaining agreement. If partners can no longer cooperate by renegotiating on the points of their agreements, the venture may be liquidated, spunoff, taken over by one partner, or sold to an outside firm. However, the termination of the venture or the power shift between partners does not necessarily mean the failure of the joint venture. Many firms view the joint ventures as intentionally temporary and recognise that their ventures will not last indefinitely. As Inkpen and Beamish (1997) conclude, if a joint venture termination is an orderly and mutually planned event, the joint venture may well be evaluated as extremely successful. In fact, a joint venture that is prematurely terminated also may be evaluated as successful, depending on the criteria used to evaluate its performance.

4.5 Vertical relationships

Vertical (buyer-seller) relationships that once may have existed between owner and venture may be terminated later as they become uneconomic (Harrigan, 1986). Careful management is needed in order for the benefits of vertical synergies to offset the dangers created by strategic inflexibility.

4.5.1 Strategic inflexibility

Harrigan's (1986) opinion is that though they offer synergies, vertically related ventures pose unique problems if the joint venture is restricted from dealing with outsiders. If a partner is not willing to eventually let the venture establish its own market contacts, the life cycle of the venture is likely to be aborted (Lorange and Roos, 1993). Such ventures are more likely to make products that the market does not want and its owners are more likely to be subsequently locked into purchases that are out of fashion with what end users desire. Therefore overreliance by the venture on its owners as customers can injure sponsoring firms' strategic flexibility as well as their venture's longevity (Harrigan, 1986). Conflicts may occur if either party (owners, venture or other partners) wants to change this supplier-buyer relationship while others may be content with their old allocations of the venture's output (Ibid.).

4.5.2 Jealousy

Another particular problem, according to Harrigan (1986), is that cooperative memories are short in supplier-buyer relationships especially when they know each other's costs. Partners that believe they are on the short end of a joint venture, or perceive that other partners' profit margins are too wide, or believe that other perceived inequities exist, will want to renegotiate their agreements even if the venture is making a fortune for them. Harrigan (Ibid.) concludes that with at least three separate enterprises involved (two owners and their venture) there naturally will be some jockeying for priorities, protecting of turf, and jealousies at the success of the other parties.

When several partners have buyer-supplier relationships with their venture, it is important that all partners be treated equitably, and the venture's future viability be protected in managing those synergies (Harrigan, 1986). Transfer price may often be of most concern to the parties (Killing, 1983), which therefore should be designed to ensure that no party benefits to the detriment of the others (Harrigan, 1986). Ventures need autonomy to purchase inputs from outside suppliers or to sell to outside customers when they are willing to offer better prices than their owners. When ventures are only development-and-manufacturing companies for their owners, it is more difficult to determine whether their outputs are cost-competitive with those of outsiders (since owners are their only customers). From the point of view that joint venture is a third independent entity with its own vision, mission and strategy, vertical relationship is not good for venture's own development and full evolution in the long run (Lorange and Roos, 1993).

4.6 Managing ambiguous relationships

The collaborations in joint ventures are plagued by ambiguities in relationships (see Figure 4.6). Joint venture partners are independent firms with their own agendas. Often they are rivals to boot. They enter into a venture with different motives, and one can never be entirely certain of another's true incentives for collaborating. They may have divergent objectives for and demands from the venture, which will influence the way they cooperate, control, manage, and evaluate the venture. Harrigan (1986) sees it as a bargaining power embodied in the cooperative agreement prior to the formation of a joint venture, though this bargaining power will be changing all the time. The relationship between the parents and the venture embodies the issues of parental control and the venture's need for operating autonomy. The ambiguous nature of venture relationships is further complicated by the fact that different managers within the venture may bring different value, expectations and commitments to their tasks. For example, the joint venture general managers (JVGMs) often face a great deal of ambiguity in terms of meeting both parents' minds and assuring the viability of the venture. The staffing of the venture on the one hand promotes the information transfer between the venture and the parents. On the other hand the assumed loyalty of these managers to their respective parents may damage the benefit of the venture or other partners and create the mistrust problem throughout the venture.

According to Killing (1983), the relationships that prevail within a dominant parent joint venture are not as complicated as those that exist in a shared management joint venture, mainly because the functional staff principally come from one single parent. The basic reason why problems emerge in a shared management joint venture is that parents have different objectives, which becomes the more apparent the more joint decision-making is called for in the venture, leading to “mistrust” between parents.

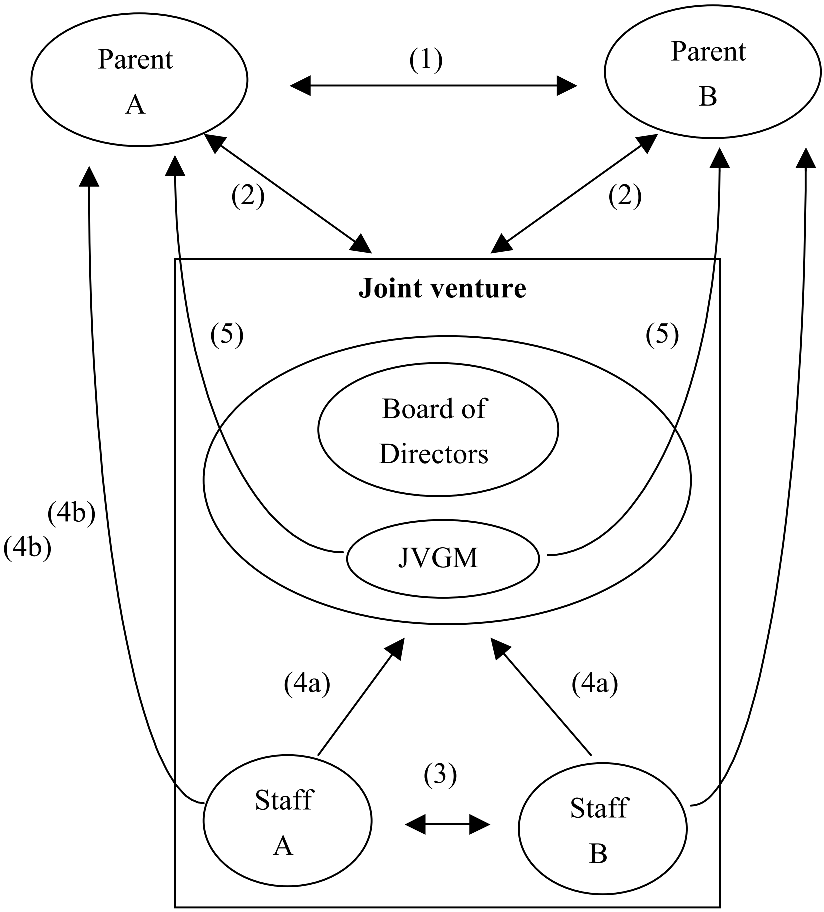

Figure 4.6 Prevalent relationships within a joint venture (Hoon-Halbauer, 1994)

(1) Bargaining power

(2) Parental control and venture's need for operating autonomy

(3) Mistrust

(4) and (5) Allegiance

4.6.1 Mistrust

Killing (1983) argues that the mistrust problem is manifested at the board and operational staff level. In a joint venture where the general manager has to refer many decisions to a board, whose members have different objectives, priorities and values, decision-making is likely to slow down, making it more difficult for the general manager to manage the joint venture. There could also be a collaboration problem between the two groups of staff due to the problem of mistrust between the two partners (Killing, 1983).

A consequence of mistrust is that many joint ventures have both general and functional managers drawn from their parents; some use two general managers, one taken from each parent; several hire an outsider as general manager, but have functional managers from the parents. Not surprisingly, the working relationship between two managers in this situation tends to be strained, cumbersome and inefficient. Another consequence of the problem of mistrust is that it is hard to establish a well working team at the operational level, especially at the functional management level since a venture is formed in order to utilise both partner's skills and resources. Two additional factors that aggravate the collaboration problem between the two groups of staff are different working styles and professionality, together with different values, attitudes and beliefs. (Killing, 1983)

4.6.2 Allegiance

Another important challenge in managing the staff is the issue of what Killing (1983) terms allegiance. We describe this issue mainly from the JVGMs' perspective, since JVGMs are the linkages of many relationships, and they are always exposed to the centre of the problems.

The lack of clarity which typically surrounds a joint venture's objectives and the fact that there is often a degree of conflict between the objectives of the venture's parents mean that the allegiance of the venture's general manager plays an important role in determining how the venture is run. A problem that can occur in a joint venture is what role the general manager plays. In a joint venture the general manager has to play a different role from that of a general manager in a wholly owned subsidiary: he must accommodate the interests of two parents, each with different expectations; and he has to face an ambiguity in terms of defining both parent’s criteria of success and must deal with commitment and communication between the two parents (Beamish, 1988).

Managing a joint venture so as to meet two or more sets of expectations is a difficult task. It is also unreasonable for a JVGM to meet simultaneously all criteria for one parent, let alone for others. If he tries to do so or is perceived as trying to do so, sooner or later he will erode his credibility and jeopardise his working relationship with the partner who feels discriminated. Beamish (1988) argues that JVGMs should see their allegiance to the venture first and to the parents second especially when the parents come to a situation where one is perceived to win and the other to lose. As killing (1983) indicates, a successful JVGM has to have a very high tolerance for ambiguity, excellent negotiating skills and a good feel for what matters to each parent, because he may not be told explicitly. According to Shaan 's (1983) study, most venture managers' first goal is to avoid conflict and tension between their parents, only secondly do they try to achieve specific performance goals.

The relationship between the JVGM and the functional managers is also ambiguous (Killing, 1983), since these functional managers are in most cases provided by the parent companies. They very often considers their loyalty to their parents more than to the JVGM if they believe their rewards, punishments or promotions are not controlled by the JVGM but by their parents. The issue can become particularly intense, as Killing describes, if the general manager is proposing actions which the functional manager feels not in his parent's best interest.

A joint venture will not last long and partners' desired synergies will not be realised if the managers/employees in the venture always block their ideas by misplaced loyalty to the respective parents. Therefore, it is important to understand that a means must be provided to sustain a good relationship between the partners as well as a climate of mutual respect and trust throughout the organisation.

4.6.3 Trust

Chemistry and organisational trust

Establishing the right atmosphere is the most important task in joint venture management, as Yoshino (1999) points out, unless the managers have the right chemistry with their counterparts in the partner firm, the venture will not go anywhere. The "right chemistry" is defined as organisational trust, that is, trust within a firm and trust between a firm and its partner. Yoshino sees the ambiguity as an inherent relationship existing in the venture. It is not surprising that every alliance is plagued by strong suspicions right from the start. However, in the absence of trust, venture partner's expectations are likely to go unfulfilled, exacerbating suspicion and disappointment and leading to a vicious cycle.

Figure 4.7 Route to organisational trust (Based on Yoshino, 1999)

The author provides three ways to establish organisational trust (see Figure 4.7). One way is to build direct, mostly one-to-one personal relationships, since close personal ties with the partners and among the managers can promote prompt information transfer, lead to open communications, solve difficult conflicts, and avert potential disasters. Another route to interorganisational trust is through familiarity with a partner's strategy, organisation, and culture, since once differences are understood and accepted for what they are, barriers come down. Furthermore, the author argues that a tangible result of mutually beneficial accomplishments, the earlier the better, can also foster organisational trust.

Trust, communication and commitment

Schann and Beamish (1988) have the same opinion that trust between partners is a critical ingredient in the successful resolution of conflicts. They argue that JVGMs need to help the parents build a relationship where trust is an important component. They suggest JVGMs to avoid situations that may jeopardise trust because once lost it is extremely hard to rebuild.

As for how to build trust, they advocate that an open communication system is important. By developing and maintaining an open communication system with the joint venture and with the partner, the parent is able to (1) better understand the joint venture's problems and offer better solutions; (2) become aware of changes occurring in the joint venture business or in its partner's expectations; and (3) keep in touch with its partner, hence showing commitment to the joint venture and contributing to a trust relationship. In fact, as the authors further supplement, the trust-communication-commitment characteristics are truly integrated. Making efforts to either factor can have a positive effect on another (see Figure 4.8).

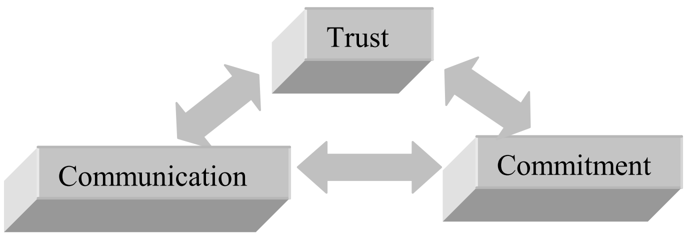

Figure 4.8 Trust, communication, and commitment (Based on Schann and Beamish, 1988)

Trust, autonomy and success

Killing (1983) argues that trust is more likely to be the cause of joint venture success than its result. He finds a link between the autonomy of a general manger and the level of trust between the parents, and identifies a failure cycle (see Figure 4.9) of joint ventures, in which autonomy and trust play an important role.

Killing sees the issue of autonomy as related to the level of trust on the parents. One example is the case where parents express their lack of trust and start to interfere in the affairs of the venture as soon as there is a slight deterioration in the venture's performance. The lack of trust may be directed towards the general manager whom the parents probably consider incompetent to achieve the desired performance of the venture. When the parents start to act accordingly, the failure cycle of the joint venture will inevitably be set in motion, since the potential for fighting and confusion and political intrigue increases enormously when two parents are involved. The more they interfere, the more confusion will result, and the slower the decision-making process will be. Consequently, performance suffers further, encouraging the parents to become even more closely involved, which causes the downward cycle to continue.

Killing argues that this cycle may not return to equilibrium, with the end result that what was initially a minor decline in performance can trigger a series of events leading to a major crisis. Bearing this in mind, Killing suggests that the JVGM must establish a feeling of trust in the parents by way of early good performance. Only when he has secured the confidence of parents will he be given a high degree of autonomy in managing the venture, which leads to improved performance.

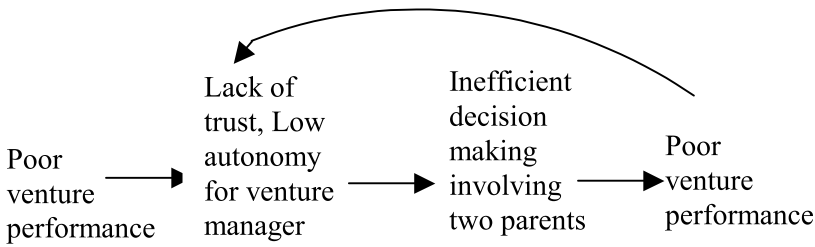

Figure 4.9 The failure cycle (Killing, 1983)

4.6.4 Summary

Managing a joint venture is a difficult task where ambiguous relationships exist. Problems of mistrust and allegiance are inherent, since the managers and staff are often provided by more than two partners who have different objectives, expectations and demands from the venture. JVGM's role is very special since he is central to the interaction of all parties. It is not wise to try and ensure that the general manager has a special allegiance to either partner, since by doing so one will only earn the mistrust of another and make the general manager's job more difficult. Trust is a key factor in solving the conflict and leading to joint venture success. Efforts should be made continuously to sustain a good relationship and build an atmosphere of chemistry and mutual trust. Parent companies should not jump heavily into affairs of a joint venture if it begins to perform poorly. If both parents do get more heavily involved in the venture's decision-making process it is likely to decrease, not increase the venture's prospects for survival. Giving a venture manager autonomy certainly does not guarantee success, but if both parents decide not to give him any freedom, chances of failure are greatly increased.

Chapter 5 Analysis and Discussion of the case

5.1 Investigating the conflicts

The conflicts that occurred in AN early this year contain three parts. One conflict about AN's1998 account had been going on for a long period of time and until it was finally presented in the beginning of 2000 by the final deadline set by PRV, the two owners, TWR and VCC, still disagreed upon how to divide the loss. Another conflict came when VCC started to pay a lower price for the cars delivered from AN some time after the 1998 account has been presented. The third one is actually the ownership fight between the two partners, shortly before and after the production was stopped at AN on March 7, 2000, that is, both VCC and TWR fought to buy out each other at what they thought the most reasonable price.

It should be noted that these conflicts are interconnected with each other, however, the root cause is that VCC is a slightly minority owner and also the only customer of AN. This double role of VCC also makes it ambiguous and controversial as to which role VCC should play to solve the problems.

AN produced cars upon the orders from its sole customer VCC, and the price of every delivered car was fixed in the agreement which would be renegotiated every October. From this point, whether AN is profitable or not largely depends on how many cars VCC needed and which price VCC as a buyer agreed to pay for the cars. That is the basic reason why AN's 1998 account showed a profit but at the same time had a controversial claim on VCC with the result of a big loss of 310 MSEK which AN/TWR demanded be borne by the customer, VCC.

During the first conflicts, VCC chose to behave as an owner, insisting that the 1998 loss should be divided between the partners according to proportion of shareholding. During the second conflict, VCC chose to stand as a buyer, arguing that they did not lower the price but come back to the price which was originally agreed upon in the agreement. It is obvious that if VCC were not the sole customer, these two conflicts would not have occurred, at least not between VCC and TWR/AN but maybe to a third party.

Thus the main problems come from the ownership structure, and their inability to effectively handle the conflicts push the ownership question to the extreme point that would be the only way to solve the tensions.

5.2 The potential problems with the original ownership

AN is a typical form of joint venture, with the foreign partner, TWR bringing specific technology, and the local partner, VCC contributing among other things the plant, local knowledge, distribution ties, marketing access and so on. In 1993, after an unsuccessful attempt to merge with France's Renault, VCC was urgent to find another partner to work with to ensure its long term strength and development, since they realised that due to their limited size in the auto industry they would be unable to accomplish objectives from internal development alone. Thus TWR was a good candidate at that time that could give VCC a racing image it its car. From VCC's perspective, the cars produced in AN would never be decisive for their financial future, but broaden its production line and attract more customers, which would strengthen VCC's competitive and strategic position in the market. From TWR's perspective, working with a company like VCC who has a good reputation in auto market is acceptable since it would earn moderate profit while letting the risk be someone else's.

Thus the bargaining power arose between the TWR and VCC. Harrigan (1986) addresses that bargaining power arises out of relative urgency, available resources, possible alternatives, and similar strengths and weaknesses of each owner. Evaluating these factors could be a good answer for why the equity ownership was split by 51 percent to TWR and 49 percent to VCC. It is a product of the relative bargaining power and compromise between the two partners. Though there is just a slight difference, equity ownership is often viewed as a key dimension because it usually reflects the extent of strategic control over important decisions and sets a tone for the successive negotiations over the management structure and control. Already said in Chapter 3.3, most foreign partners with specific technology will not supply it to its partner unless they can have more than 50 percent control. This may be the case for TWR. As a compromise and its urgent need for cooperation, VCC had no choice but to seek more operational and effective control over AN.

The universalistic model identifies that equity structure is not equivalent to management control; control is a function of equity capital, ownership contractual resources and ownership non-contractual resources, and the range of ownership resourcing influences the joint venture's control over strategic and operational levels. Applied to our case, VCC's full control over the marketing would help VCC realise maximum effective control over the venture. Like Harrigan (1986) argues, market access is the most attractive resource to control because it provides a competitive advantage that is more durable than most technological resources, especially where product and process technology changes rapidly. More than the market access, VCC actually is the sole customer, which therefore would give it strong enough power to balance its slightly minority position in equity shares. Besides, VCC signed the contracts with all AN's suppliers, which on the one hand could allow AN to get advantages with VCC's discount, on the other hand enhanced AN's dependence on VCC and at the same time strengthened another dimension of VCC's effective control over the venture.

The Contingency Model suggests that a fit among objectives, ownership, and control would lead to a joint venture success. However, we argue that it is difficult to define and know whether the three factors really fit each other at the joint venture formation especially when there are at least three parties (two partners and the venture) involved. This goodness of fit needs a long time to test and retest. In the case of AN, we can at least say that this venture's structure with VCC as a minority owner but also a sole customer is potentially unstable, especially because this customer has the power to decide the price of the manufactured cars. Therefore the financial success of AN not only depends on its cost effectiveness, but also depends on how willingly VCC would support its venture as both owner and customer. It is said that the price was fixed in the supplier-buyer agreement and the agreement would be renegotiated every October. Here a big uncertainty exists: How comprehensive, detailed and flexible was the original agreement? What accounting method did they use to fix the price? What if the fixed price turned out to be unreasonable? On what basis would the renegotiation process go on? What if the renegotiations failed? These questions now turn out to be true in AN and have already caused the conflicts, however, we argue that at the joint venture's beginning, all parties should have seen the potential problems with this ownership structure. If this was the necessary compromise and the only means for VCC and TWR to cooperate, more efforts and caution should have been put on the successive management and on building a good relationship between the owners and the owner-venture so as to provide a harmonious climate to solve the problems if they occurred. The actual stability of cooperation between partners will be established by their subsequent behaviour patterns, not by what is written in their agreement.

A tight control over AN is needed for VCC. Harrigan (1986) proposes a trade off between the venture's need for autonomy and owner's need for coordination and control. If both needs are high, the venture will be very unstable. However, if the venture is of strategic importance to the owner, and the sharing and transfers of the input and output between them are high, the owner will feel a particularly urgent need to assert its control over the operations of the venture. AN was of course of strategic importance to VCC, which we have already mentioned earlier in this chapter, therefore it is unlikely that VCC would give AN more operating autonomy especially when there were such buyer-supplier relationships. The 'trade-off' would only be reached and sustained if AN's need for autonomy was low and would not increase and the other owner TWR would not interfere too much. However, it is a big uncertainty. Building and sustaining good relationships among all the parties is an important factor in managing that uncertainty to avoid the potential conflicts.

Harrigan (1986) mentions that once vertical (supplier-buyer) relationship exists, it may be terminated later since it becomes uneconomic. Her opinion is that vertical relationship between the owner and the venture could impede the venture's healthy evolution to a stand-alone entity, damage the strategic flexibility of either firm, and cause the tension between venture's need for autonomy and parent's need for control to be even worse if one of them wants to change this relationship. It can also make another partner uncomfortable if that partner finds his counterpart benefits more from this vertical connection. This has been proven in our case. When VCC demanded that 1998 account loss be divided between the owners, as a customer it actually profited a lot from AN though how big this profit margin was is unknown, but at least VCC would not sell those cars to its end-customer below the price it bought from AN. That is for sure! Our mission is not to find out who should be responsible for the loss, which was so complex a question that it confused the auditors as well and already turned to the arbitration. Our concern is that if a vertical relationship exists between the owner and the venture, it should be carefully managed to ensure a win-win position among all parties. Maybe the best way is to think from the other side and always remember the venture is to bring benefits for all partners, which is the basic motivation for them to cooperate in the beginning. Partners, like human beings, are naturally jealous of each other especially when one feels unbalanced with the give-and-take. If a vertical relationship creates a win-lose position between the owners or between the owner and the venture, as happened in AN, this relationship will be in great danger and the venture will not last long.

So far, we have analysed the potential problems within the original ownership structure of AN. It is important that these potential problems should be perceived by the partners, and a good relationship should be established, so that they could thereafter be managed effectively if they led to violent conflicts. Now we will move on to other factors or changes happening in AN that lead to the need to reconsider the original ownership structure.

5.3 Factors leading to reconsideration of the structure

In chapter 4.4, we described the changing forces in three dimensions. One from the owners' perspective, including the changes in the owner's strategy, changes in importance of the venture to the owner, and changes in the relative bargaining power between the owners. One from the owner-venture perspective, including the changes in the venture's need for autonomy and owner's need for control. Another one from the venture's perspective, including the changes in the environments and changes of the success requirement for the venture. All these changes may have positive or negative impact on the change of the original bargaining agreement and ownership structure. Applied to the case of AN, we found that the following changes could be the factors that led to the conflicts and the reconsideration of the ownership structure.

Changes in VCC's structure

In the beginning of 1999,VCC was bought by Ford, one of the world's largest and most profitable automotive companies. The deal would allow VCC to have full access to Ford's engineering, distribution, purchasing, marketing, and financial resources (Ford annual report 1999). This meant that VCC would have a more secure future through increased financial resources, greater economies of scale, and the chance for a broader product range. In particular these would apply to the significant investments required in both the development of the new car generations and in distribution. For Ford, among other things, it would equally share the 49 percent ownership of AN. This big change in VCC's structure may have a strong impact on its attitude and strategy towards AN. On the one hand, VCC may expect more, even full, control over AN in order to freely realise its or its new owner- Ford's new strategy and demands for the venture. The shared decision making with TWR would tie up its hands. On the other hand, the product manufactured in AN may not be as strategically important to VCC as before since it already secured and strengthened its position through being part of Ford. But this reduced "urgent need" for AN/TWR together with its increased internal strength could only give VCC more bargaining power on the following renegotiation process with TWR. However, if not used properly, it would cause a disaster as happened later that the production had been stopped and the employees had been dismissed for almost three weeks.

Bargaining power shift

Another factor that causes a bargaining power shift between partners is when the resources that one partner contributes to the joint venture become more or less valuable than those contributed by other partners. Lorange and Roos (1993) consider it as a natural and pragmatic evolution that the partner who provides, e.g. the marketing input becomes increasingly dominant in the role of executing the joint venture activities, while the other partner who is providing the technology may become less and less active after the initial technological learning has been completed and the know-how transferred. In our case, we do not know how TWR protected its core competence when providing AN with the racing image, nor are we sure whether this technology transfer had been completed or not. However, considering several years cooperation between VCC and TWR in AN, and considering the production of 10 000-15 000 cars in 1998 and 1999, we assume that VCC (or AN) has learnt more than enough to produce C70 cars without the support of TWR, at least TWR's contribution would become less and less valuable in the eyes of VCC. At the same time, VCC may view their contributions to the venture more valuable and crucial, since from 1999 they started to pay what they called "a temporary high transferring price" to AN. This means they didn't think it was their responsibility or compulsory to do so by agreement, but implied it was their kindness and additional contribution to the venture.

If this is the case, it is wise to let VCC be more active in charge of the ventures' activities to balance VCC's perception of "inequity" of give-and-take, or it is time to negotiate a friendly buy out of TWR if their needs for cooperation in AN diminish. At this time, As Lorange and

Roos (1993) point out, if both partners want to exert tight control over the venture, the relationships between the partners will face difficulties and the venture may be terminated later.

Conflicts over "Clio"-TWR wants more power

However, TWR appeared reluctant to become a passive owner. In order to reinforce its control over AN and weaken the increasing power of VCC as a sole customer, sometime in 1999 TWR negotiated a cooperation with Renault to build a special variant of the "Clio" model, intending to let AN take the responsibility. After being rejected by VCC, TWR instead delegated this task to its subsidiary TWR Sweden located in the same area as AN. Obviously, VCC would not be happy with this action, since TWR's cooperation with other carmakers may to some extent threaten VCC's competitive advantages and cause competitors. Consequently conflicts occurred between the two owners.

Here we argue that a good trusting relationship between the partners is very important, which will encourage the partners to solve the conflicts in a good way. Conflicts are not necessarily bad things, since very often they are inevitable in managing a joint venture with several independent partner companies involved. Mockler (1999) addresses that conflicts provide opportunities for partners to get to know one another better and build a base for synergistic creativity by using diversity to build new directions, communicate and reinforce policies and create new opportunities. Therefore, it is a matter of how to treat and handle the conflicts.

5.4 Theoretical reflection on how the conflicts were handled

Based on the theoretical framework and our investigation on this AutoNova case, we feel that, in general, two mechanisms are usually involved when handling the conflicts, one is power-based and the other is negotiation-based. In other words, there are two ways when dealing with conflicts, one is the negative way and the other is the positive way.

5.4.1 Power-based

The power-based means that the partners may rely on those control mechanisms such as the legal documents, formal agreements, equity shares, voting rights, and/or the composition of the board to solve the conflicts. These powers are basically generated from those equity capital resources and other contractual resources provided by the partners. We consider it a negative way because those mechanisms are often used to stop or to prevent the venture or their partner from implementing certain activities or decisions in a way that does not induce a cooperative spirit, which conversely may damage the trust among the partners and between the partner and the venture. In addition, it is nearly impossible to have the contracts/agreements that are so detailed and comprehensive that they cover everything, and are so clearly written that everybody would have the same interpretation and understanding. Thus referring to the contract might make the conflicts even more controversial and unsolvable.

Unfortunately, this was the way that TWR and VCC chose while handling their conflicts - both of them had maximally exerted their respective power, which turned out to be an even worse situation.

Both of them refer to the contracts/agreements

When the two owners had the different opinions of AN's 1998 account and the transferring price that should be paid between VCC and AN, both owners referred to the contracts/or agreements, however, they got different answers. Though we argue that using contracts to solve disputes is not a good way and may damage trust and ongoing relationships, we suggest that a good, clear, understandable contract is necessary since the only time partners need to refer to the contract is when there are conflicts. Contracts are not expected to cover everything, but they are expected not to be confusing.

Go to arbitration

Regarding AN's 1998 account, finding no way to go, in September 1999 VCC and TWR turned to arbitration to solve their conflicts. Here one can ask a question, how could the partners keep a good relationship with the arbitration going on? Without a good relationship between the two owners how could the venture continue and last?

VCC exerts its power

VCC started to use its power as both owner and sole customer. First it withdrew its two board members from AN, then it offered a price for buying out TWR. Considered as a disgraceful offer and rejected by TWR, VCC finally held its most powerful weapon - terminated the "temporary higher transferring price". Leaving alone the validity and reasonability of this "temporary higher transferring price", here we argue that this sudden action would do nothing good but create even more tension in the relationships and deteriorate the situation, causing an ownership war which finally befell between the two owners. Probably VCC thought that TWR had no choice but to sell its shares cheaply. But did VCC foresee the following reaction of TWR? Had VCC foreseen it, would it still have done so?

TWR exerts its power as the reaction

As a majority owner, TWR immediately responded by ordering AN to stop the car delivery. Followed by another round of the unsolved ownership fight, TWR thereafter stopped the production of AN. Then in the following three weeks, nothing was settled but the increased number of dismissed employees and finished cars waiting for their end-customers. Obviously TWR would not care about these. If there were one between VCC and TWR who was more responsible, that should be VCC, since the employees are Swedish, the cars are Volvos, and the suppliers and customers are also VCC's. Who loses more?

Stalemate

The whole situation fell into a stalemate. The owners used up their power, and there was no way to go anymore except solving the ownership question. However, the only way to solve the ownership question was by negotiation. Owners had to calm down, sit together, review the conflicts, and find out a solution, not by raw power they had exercised before which proved to be not effective, but by a win-win negotiation that could satisfy both.

5.4.2 Negotiation-based

Unlike using the raw power, which is a means of winding up the other partner's behaviour or forcing the other one to 'surrender', the purpose of negotiation is to find a way both partners are able to agree, which involves both partners' enthusiasm of cooperation and their willingness to compromise. Negotiation is a positive and effective way to handle the conflicts, but it needs a win-win attitude based on open communications, good relationship, and trust between partners which are mainly derived from and developed by those non-contractual resources contributed by the partners. A win-win position and win-win attitude is necessary since joint venture is not a zero-sum game where one partner gains what the other loses, but rather one in which there are solutions benefiting both partners. This means that the direction of negotiation is not to maximise partner concessions but to move both parties to the positions where benefits to both are enhanced. Building trust is the most important task for the parties since it is the best way to solve the conflicts that have occurred and also it is a crucial factor for the negotiation success. Trust can prompt partners freely to communicate with each other and better understand each other, therefore handling the conflicts and negotiations easily, friendlily and effectively.

In the absence of trust, venture partners' expectations are likely to go unfulfilled, exacerbating suspicion and disappointment and leading to a vicious cycle. This is what happened in this case. From the time both parties started referring to the contract and arbitration to solve their conflicts, trust had already disappeared (if ever existed before).

The bad relationship impeded their further communication and negotiation to solve the conflicts, and negatively encouraged them to use the raw power inappropriately, making their relationship even worse and the conflicts even more intensified.

However, they had to come back to the negotiations, as said before, they had no more raw power to exert. One can imagine that with such a bad relationship how could a negotiation produce a win-win solution? Trust is easy to damage but extremely hard to rebuild. A negotiation will not efficiently and effectively solve the conflicts if there is a climate without trust, but full of anger and complaint. That is why during the three weeks after the halt of production, the owners VCC and TWR still could not work out a solution through their trial negotiations, until Ford's director arrived, as a moderator but the owner of VCC as well. How he has influenced is unknown and out of the scope of our thesis, but the final solution is that VCC becomes an absolute majority owner who takes 75 percent of AN with the rest being purchased in 2003.

Had they spent more time building a trusting relationship, had they be more cooperative when conflicts occurred, had they be not so 'selfish' but feeling the positions from the other's side, had they be more cautious and patient while handling the conflicts, the ownership question would not have been solved in such a unpleasant and painful way. Joint venture is a means to an end, circumstances change, when the original ownership structure does not facilitate the realisation of a firm's strategic objectives or is not operationally feasible, it is time to negotiate a necessary reconfiguration, buy out, or even termination of the venture. But it should be carried in a friendly and peaceful way with the possibility of future cooperation preserved. A manner of acrimony departure not only sends powerful signals about the partner firms to others, but also affects the reputations of the firms. The ownership solution in AN means that the current conflicts between TWR and VCC were temporarily solved but TWR is still a partner with 25 percent shares. Can this solution guarantee that no new conflicts will occur during the following period before VCC takes full control of AN in 2003? The answer lies in, among other things, how much power has been authorised to TWR, how the venture AN is going to be managed, and whether both parties have learnt something from this experience and will rebuild their relationships in the future.

5.4.3 Other factors - general manager/union/staff

During the conflicts, AN's general manager Mike Flweitt apparently took his majority owner, TWR's side. He is a "pity guy" since he had to face a great deal of ambiguity meeting both parents' mind and assuring the interest of the venture. It is really a difficult task. As killing (1983) indicates, a successful JVGM has to have a very high tolerance for ambiguity and excellent negotiating skills to avoid or alleviate conflicts and tensions between his parents. It is not wise that he put his loyalty to either owner taking any side during the conflicts. Since this could only damage his credibility with the other partner and the working relationship with venture's functional managers and employees who may come from both parents. Therefore the chance he could communicate and negotiate with both owners to solve the conflicts diminished. Conversely, the tension was more strained.

We see a “good thing” during the conflicts, that is the attitude of AN's employees and the union. At the beginning, they did not take any sides. They gave their loyalty to the venture itself, and expected the owners to find a solution for the best interest of AN. Disappointed by the way the owners had handled the conflicts, they broke their silence and demanded that VCC to take over the venture, since they thought, considering the strength and competence, the venture would have a better future if owned by VCC rather than by TWR. There is a healthy corporate culture here within the venture at the employees' level - they were not misled by those conflicts; they did not block their ideas by misplaced allegiance to the respective parents; they did see their allegiance to the venture first and consider the venture's interest first. It is difficult to say whether their voice had been weighted by the involved owners or had any influence that could prompt the owners to resolve their ownership question more rationally. However, the final solution was what the employees had expected and this could be good for AN's future.

Chapter 6 Conclusion

6.1 A brief recapitulation over the case

Over the investigated time period (approximately from the beginning of 2000 to the end of March, 2000) the three large conflicts namely, the 1998 account, the price, and the ownership question, were interconnected with each other. The basic problems lay in their original ownership structure where VCC was a minority owner but also a sole customer. The two owners' long time inability to solve the conflicts over 1998 account damaged the relationships between the partners and caused difficulties for their further cooperation, leading them to want to buyout each other.

The original ownership structure was a product of the relative bargaining power between the two partners, which resulted that one owner TWR had more formal control over the venture through its 51 percent majority equity shares and the other owner VCC gained more effective control over the venture through among other things their absolute supplier-buyer relationships. Many uncertainties have been identified in our analysis (chapter 5.2) as the potential problems, and a good relationship and careful management have been argued to reduce these uncertainties.

The factors (chapter 5.3) that caused the potential problems to the intense conflicts and led the partners to reconsider their original ownership structure are found to be the decreased needs between the partners, the strategic change in VCC's structure, the potential cooperation between TWR and other carmakers, and finally the bad relationships between the partners. We argued that conflicts were not necessarily ‘bad things’. If partners could treat them positively, conflicts could provide opportunities for partners to better understand each other and create new opportunities for their ongoing cooperation.

How the partners handled their conflicts have been presented and analysed (chapter 5.4). It is found that a power-based attitude towards the conflicts is harmful and produces a stalemate situation. A negotiation based on the mutual benefit and win-win attitude is advocated to be a positive way to handle the conflicts. When it was necessary to negotiate a reconfiguration of the venture or buy out another partner, the manner, whether it was in a friendly way or a bitter way, has been argued to be the most important, since it may affect involved parties' reputations and the possibilities for them to cooperate in the future.

So far, we have fulfilled our main purpose that is declared in chapter 1.3. Our second purpose is to give some considerations when forming or managing a joint venture, which will be presented below in chapter 6.2. These considerations are based on the connections between the theoretical framework and the empirical findings of AutoNova's case. Therefore we are not intending to give a complete picture when managing a joint venture, but to give the considerations based on what have happened in AutoNova.

6.2 Considerations

6.2.1 The concept of ownership

Our case study shows that ownership is a broad concept with the combination of different dimensions of resources contributed by the partners, namely, equity capital, contractual resources, and non-contractual resources, which therefore influence the partners' control over different levels.

Equity shares confer certain legal rights to determine the overall direction of a joint venture. It is seen as a product of the relative bargaining power between the partners and associated with the formal control. However, a majority equity ownership does not always equal effective control over the venture.

Partners may realise their effective control over the venture through those critical resources they provide to the venture, such as the technology, the supplier chain, and the market access. Market access is seen to be more durable than the technological know-how especially where the product and process technology changes rapidly and where the technology transfer is likely to be accomplished by the subsequent organisational learning.

The quality of those non-contractual resources which among other things lies in the attitude, knowledge and skills of the managers and employees is very important, since it reflects the level of commitment of partners and generates moral authorities through goodwill, trust, and cooperative spirit among the parties involved.

6.2.2 Control mechanism

Our case study indicates that partners that over-rely on those formal agreements, voting rights on the board, and/or the resource-related power to control the venture's or its partners' activities or to solve the conflicts is not an effective and positive way. It may damage the relationships and cause difficulties for the partners' ongoing cooperation. It may also result in a stalemate situation if neither party has the absolute power to break the impasse.

It implies that a good management control system should rely on a unanimous agreement in their minds based on good relationships, trust, and a cooperative attitude among the partners to coordinate the venture's activities and to solve the conflicts occurring.

Though we do not advocate partners to rely on the contract or agreement, for the reasons explained above, however, we still suggest that a clearly written contract or agreement is necessary. It could not cover everything, but it should not be confusing especially over the crucial and sensitive issues.

6.2.3 Ownership structure design

Our case study shows that when one partner has the formal control but lacks corresponding resources while the other partner has the effective control through the crucial resources but lacks formal control, it easily leads to conflicts. Building a good relationship and an open communication climate are suggested as improving the understanding between the partners, to avoid the conflicts, and to solve the conflicts easily and effectively.

Though it is often a product of the original bargaining power between the partners, an appropriate structure should facilitate the realisation of partners' strategic objectives and be operationally feasible. Whatever it is, a so-called dominant parent venture or a shared management venture, without the partners' willingness to cooperate, neither will succeed. The 'goodness' of fit among the objectives, ownership resources, and control needs a long time to test and retest. It is important that the partners do not lose sight of their motivations for cooperating and establish a positive attitude to allow the subsequent changes to adapt to the dynamic changing needs.

6.2.4 Changing forces

Our case study shows that the circumstances change over time, partners' strategic objectives over the venture, their attitude and the need of control over the venture, and the relative bargaining power and the needs between the partners will also change. All these changes will have an impact on the original agreements and lead to a reconsideration of the structure. The changes may be inevitable but could be a healthy evolution for the venture and both parties. Partners should be prepared for the possible changes, and negotiate a better solution based on a continuously cooperative spirit and a win-win attitude.

The end of the cooperation or the reconfiguration of the ownership structure does not mean the failure of the venture. However, whether it ends in a painful and bitter way or in a peaceful parting of ways with the possibility of future cooperations preserved is critical. The manner in which a venture ends sends powerful signals about the partner firms to others, affecting the reputations of the firms. Therefore, top managers have to be aware of their responsibility in ensuring that the windup of cooperation is accomplished without impairment of the firm's ability to form future ones.

6.2.5 Vertical relationships

Our case study emphasises that when vertical relationships exist in the venture structure, it should be carefully designed and managed to ensure the equal benefits of all involved parties. If a vertical relationship creates a win-lose position between the owners or between the owner and the venture, this relationship will be in great danger and the venture will not last long.

The study also implies that if the venture is restricted from dealing with outsiders, in the long run it is not good for venture's own development and full evolution as a third independent entity with its own vision, mission and strategy. Without the competition and operational flexibility, ventures are unlikely to be cost effective and be motivated.

6.2.6 Relationships

Our study witnesses that without a good relationship built on trust between the partners and between the partners and the venture, their ongoing cooperation and any necessary negotiations will face difficulties and the conflicts occurred will not be effectively solved. We suggest that partners should put more efforts on building trust within the venture, since in the long term it may produce more ‘dividends’ than those financial and contractual resources and generate indefinite moral authority which is more effective than those formal control mechanisms.

6.3 Shortcomings of our study

The conflicts that we identified in AutoNova are limited to what was mentioned in the press during the time period from the beginning of 2000 to the end of March 2000, therefore there might be other conflicts that had ever happened between the partners (VCC and TWR) but might not be mentioned in the press, and there might be other factors that led the two partners (VCC and TWR) to reconsider their original ownership structure. This leads to the "story" of AutoNova and hence our analysis of the conflicts possibly not being a complete picture.

However, we believe it will not affect the overall direction of our study since our main aim is not to provide a solution to any specific conflicts, but rather to advocate a perception and an attitude toward the potential conflicts or problems within the ownership structure. Another reason is that we think conflicts are inevitable when managing a joint venture where two or more partners are involved. Therefore whether the conflicts that have been presented in our thesis are complete or not is not that important. What is important is how to handle the conflicts and whether there is a good attitude of partners towards the conflicts.

6.4 Suggestions for future research

Joint venture is an interesting topic since many problems will arise when managing such a company with more than two parent companies involved. In our study, we focus on the ownership and control. Future research could focus on how venture and partners' contributions should be valued when partners are going to buyout each other's shares.

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