Joint Ventures in the Russian Federation: Does Size Matter?

2.4 Strategic Issues for FDI into Central and Eastern Europe

Workshop Paper

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This paper examines the experiences of two Scottish companies in successfully establishing but then pulling out of international joint ventures in the Russian Federation. Both cases involve small family-owned companies, one an engineering design consultancy, the other a bakery. The cases demonstrate that market entry in to the Russian Federation by means of an international joint venture are well within the means of small, family-owned businesses. The cases highlight some of the key success factors for setting-up joint ventures in the Russian Federation. However, while entering the Russian market by means of an international joint venture is found to be within the means of family-owned businesses, developing a business there for the long-term by this type of firm is another matter.

Introduction

This paper examines the experiences of two Scottish companies in successfully establishing but then pulling out of joint ventures in the Russian Federation. Both cases involve small family-owned companies, one an engineering design consultancy, the other a bakery. The cases highlight some of the key success factors in setting-up joint ventures in the Russian Federation, but also bring to light factors leading to closure of joint ventures involving family-owned businesses in Russia.

The key to successful joint venture negotiations is sensitivity to the business development needs of the host organisation (e.g. technology transfer; modernisation; securing export markets; training etc.) without compromising the operating efficiency and profitability of the venture itself. Successful joint ventures can lead to a mutually beneficial business relationship. In cases where the partners have already been doing business with each other and have established personal ties, the negotiation process and development of joint venture operations is seen to progress much easier than if the JV represents the first business contact. Establishment of an international joint venture in the Russian Federation is found not to be problematic; however long-term joint venture development is perhaps beyond the means of small family-owned businesses.

The paper comprises four main sections. Section 1 presents a brief review of the relevant literature covering both joint venture strategies and joint venture management. This provides the conceptual framework around which the two case studies have been written. Section 2 contains a brief summary of the economic and political reform process in Russia, focusing mainly on how this has affected foreign direct investment in the country in the last few years. The two case studies are presented in Section 3; the final section establishes a number of guidelines on negotiating and establishing joint ventures in the Russian Federation, and discusses the challenges facing family-owned businesses in staying in Russia for the long term.

Literature Review

There is an extensive literature on the role of joint ventures in international business covering both a) the strategic dimension i.e. the use of joint ventures as a foreign market entry and development strategy; their advantages and disadvantages compared to the alternatives available such as exporting, licensing, wholly owned subsidiaries etc. and b) the managerial dimension, covering the problems involved in planning, negotiating, implementing and controlling joint venture agreements (see Young and Hamill et al, 1989).

a) *Joint Ventures as a Foreign Market Entry and Development Strategy.*

Joint ventures are sometimes viewed as a second (or even third) best option for supplying foreign markets; being used only when government regulations (e.g. ownership and import controls, restrictions on royalty payments etc.) prevent the establishment of wholly owned subsidiaries, exports or licensing. Indeed, as will be shown later, there are major problems which arise in the planning, negotiation and management of international joint ventures which often result in a high failure rate.

Despite such difficulties, it is widely recognised in the literature that there are important strategic and competitive advantages which may be derived from successful joint venture agreements and that such collaboration may be a first best option in certain circumstances (Beamish and Banks, 1987; Beamish, 1985: Connolly, 1984; Contractor, 1984; Contractor and Lorange, 1988; Friedman and Kalmanoff, 1961; Harrigan, 1984; Harrigan, 1985; Holton, 1981; Janger, 1980; Killing, 1982; UNCTC, 1987; and Walmsley, 1984) (see Figure 1). A particularly important source of advantage is the potential synergistic effects of combining the complementary assets of the foreign and local partners. Thus, the foreign partner will provide firm-specific knowledge regarding technology, management and capital markets; the local partner provides location-specific knowledge regarding host country markets, infrastructure and political trends (see Figure 2). The pooling and sharing of firm and location-specific knowledge creates the potential for mutual benefit.

Figure 1: Advantages of Joint Ventures as a Foreign Market Entry and Development Strategy

- foreign market expansion with reduced financial commitment
- potential for synergy in the value chain activities of partners leading to cost savings, greater efficiency and enhanced international competitiveness
- foreign market expansion with reduced management commitment due to the contribution of local partners
- reduced political risk through involvement of local partners
- joint ventures allow a greater degree of parent company control compared to other forms of foreign market entry such as licensing and non-equity contractual agreements
- joint ventures may result in greater long-term penetration of foreign markets e.g. promotion of local image, proximity to markets etc.

Source: derived from Young and Hamill, 1989

Figure 2: Contributions of Foreign and Local Partners to a Joint Venture

Contribution of:

Foreign MNE	**Local Partner**
• Technology • Product know-how • Patents • Business & marketing expertise • Technical training • Management development • Finance • Access to international distribution channels • Increased exports • Increased employment • Improved competitiveness	• Knowledge of local political situation, economy and customs of the country • General management • Access to markets • Marketing personnel and expertise • Local capital • Contacts and relationships with host country governments • Plants, facilities and land of local partners • Recruitment of local labour and trade union relationships • Access to local financial institutions

Source: derived from UNCTC (1987)

b) *Planning, Negotiating and Managing International Joint Ventures*

Although there may be mutual advantages to be derived from international joint ventures, inevitable tensions will arise in the operation of such agreements which often result in failure. The estimated failure rate in joint ventures is extremely high - 30 to 61% - with the incidence of failure being highest in joint ventures with developing countries and those involving government partners (Young & Hamill et al 1989).

The causes of joint venture failure have been extensively discussed in the literature (Holton, 1981; Janger, 1980; Killing, 1982; Kogut, 1988; Lorange, 1988; Beamish & Delios, 1997). Tensions arise from the simple fact that there is more than one parent company, culture and organizational climate. This may lead to disagreement and conflict with respect to issues such as the setting of strategic objectives; the distribution of decision-making power; and day-to-day operational control. The two main reasons for joint venture failure identified in the literature are attempts by one of the partners to retain centralised control and disagreements over operating strategies, policies and methods. As regards the former, the retention of centralised control may be necessary to integrate the joint venture into the international strategy of the firm. The failure to delegate decision-making power, however, will be resented at local level and will create pressures for decentralisation. The multinational will be reluctant to delegate such power because of the interdependencies which exist between operating units in different countries. As regards operational issues, disagreements may arise in many areas including joint venture strategy; management style; financial management; accounting and control methods; marketing policies and practices; production policies and technology transfers; personnel and industrial relations policies; R & D; and government and trade relations. In addition, there may be other differences of opinion over the contributions of each party; the distribution of rewards and their composition (e.g. profits, royalty fees, etc.); and the time scale of the venture.

The problems associated with joint ventures and their high failure rate implies that great attention needs to be paid to the effective planning, negotiation and management of such deals. While effective management of the joint venture process will never guarantee success, it will considerably reduce the likelihood of failure. As stated by Holton (1987), "the rather dismal history of international joint ventures could be improved by more efficient planning, negotiation and management".

Planning and managing successful international joint ventures will require attention to be paid to at least seven broad areas including;

- a clear statement of joint venture objectives and the time period over which they will be achieved
- a cost/benefit analysis of the advantages and disadvantages of the joint venture compared to the alternative strategies for achieving the firm's objectives (e.g. licensing). These can be assessed against the financial commitment involved; management commitment; risk and control; synergy; long-run market penetration etc.

- partner screening and evaluation to select the most efficient partner which best complements the firm's objectives. Partner selection is one of the most important criteria distinguishing successful and unsuccessful joint ventures

- achieving broad agreement between the partners on the business plan. This should not be a legal document, but rather is the basis for open and frank discussions. The UNCTC (1987) has developed a comprehensive checklist of issues which should be discussed at this stage (see Figure 3)

- negotiating the final joint venture agreement based on the business plan

- incorporation of this agreement into a formally written and legally binding contract which should clearly specify the relationship between the two partners. The contract should be flexible enough to allow changes over time in the operation of the venture and should also specify the conditions under which the joint venture can be dissolved

- ongoing performance evaluation of the venture to act as an early warning system

Figure 3: Outline of Major Aspects of a Joint Venture Agreement

The following presents a comprehensive list of factors that could be included in joint venture agreements. It should be pointed out, however, that all of these aspects do not necessarily apply to every joint venture agreement.

1. Purpose and character of a joint venture:

    (a) major goals/strategy of foreign partner;
    (b) major goals/strategy of local partner;
    (c) products/industries/markets/customers served.

2. Contributions of each partner:

    (a) capital;
    (b) existing land, plant, warehouse, offices, other facilities;
    (c) manufacturing design, processes, technical know-how;
    (d) product know-how;
    (e) patents and trade marks;
    (f) managerial, production, marketing, financial, organisational and other expertise;
    (g) technical assistance and training;
    (h) management development;
    (i) local relationships with government, financial institutions, customers, suppliers, etc.

3. Responsibilities and obligations of each partner:

    (a) procurement and installation of machinery and equipment;
    (b) construction, modernisation of machinery and equipment;
    (c) production operations;
    (d) recruitment and training of workers and foremen;
    (e) quality control;
    (f) relationships with labour unions;
    (g) research and development;
    (h) general, financial, marketing, personnel and other management;
    (i) continuous training of personnel.

4. Equity ownership:

    (a) equity granted to foreign partner for manufacturing and product technology and industrial property rights;
    (b) equity granted to local partner for land, plants, warehouses, facilities, etc.;
    (c) ownership share of foreign partner;
    (d) ownership share of local partner.

5. Capital structure:

    (a) equity capital;
    (b) loan capital, national and foreign;
    (c) working capital;
    (d) provisions for raising future loan funds;
    (e) loan guarantees by partners;
    (f) future increase in equity capital;
    (g) transfers of shares of stock, including limitations.

6. Management:

   (a) appointment/composition/authority of the board of directors;
   (b) appointment and authority of executive officers;
   (c) expatriate managers, technicians and staff;
   (d) right of veto of appointment of officers and key decisions;
   (e) development of local managers, including time schedule;
   (f) organisations;
   (g) strategic and operational planning;
   (h) information system ;
   (i) control procedures.

7. Supplementary agreements:

   (a) licensing and technology agreements;
   (b) management contracts;
   (c) technical service agreements;
   (d) allocation of foreign partner's corporate overhead to affiliate.

8. Managerial policies:

   (a) declaration of dividends;
   (b) reinvestment of earnings;
   (c) source of supply of materials, intermediates and components, including price, quality, assurance of delivery;
   (d) major marketing programmes, including product lines, trade marks, brand names, distribution channels, promotion, pricing, service and expenditures;
   (e) export markets and commitments;
   (f) executive compensation and bonuses.

9. Accounting and financial statements:

   (a) accounting standards;
   (b) financial statements in currencies of host and foreign countries;
   (c) reporting requirements;
   (d) audit and review of financial statements.

10. Settlement of disputes:

   (a) board of directors and executive committee;
   (b) mediation;
   (c) arbitration.

11. Legal matters:

   (a) relevant local laws, regulations and policies;
   (b) governmental approvals required;
   (c) articles and by-laws of incorporation;
   (d) anti-trust considerations;
   (e) tax laws and considerations;
   (f) selection of legal counsel;
   (g) use of courts of host country.

Source: UNCTC (1987)

The literature to date is shown to focus on joint ventures between multinational enterprises (MNE's) and developing countries. The distinctive feature of this (longitudinal) study is the small size of the two Scottish companies and the large size of the Russian partners.

The Former Soviet Union : Joint Venture Experience

The previous section highlights the considerable experience accumulated by organisations employing joint ventures as a vehicle for foreign direct investment. However none of this experience relates to the former Soviet Union as legislation enabling such a form was enacted only in the late 1980's.

The legal framework

The initial legal framework enabling joint ventures with non-CMEA members in the Soviet Union was covered in a Decree passed by the USSR Council of Ministers in January 1987. While opening the doors to foreign investors, however, restrictions in the legislation and the absence of a general framework for business led to caution on the part of foreign investors. Contributing factors were a restriction on foreign equity to a maximum 49%; management control to be firmly in the hands of Soviet nationals; barriers to repatriation of profits; application of Soviet labour law, and the need to be self-financing (UNECE, 1990). Aware that such factors deterred foreign investors, amendments were gradually introduced in 1988 and 1989 relaxing the restrictions on foreign equity to enable foreign majority interests, making tax treatment more favourable, and removing the requirement to apply Soviet labour law to the joint venture. This legal framework for fdi was consequently reinforced by changes in general business law, which while not the topic of this paper, certainly influenced the growth in joint venture formation in the Russian Federation.

Joint ventures registered in the Former Soviet Union (FSU)

This enabling legislation has led to a proliferation of joint venture activity in the former Soviet Union since 1987. Nigh et al (1990) reported 1,000 registered joint ventures by October 1989. Rosten (1991) cited 2,500 by the end of the same year. The European Commission (1993) reported an increase from 4,200 at the beginning of 1992 to over 17,000 by April 1993. While these figures related to the number of joint ventures in the FSU, Lawrence and Vlachoutsicos (1993) put the number of registered joint ventures in the Russian Federation alone at 6,000, estimating however, that only 20% were up and operating. While there is ambiguity over the correlation between numbers of joint ventures registered and the numbers actually operating, it is nevertheless clear that the joint venture mode is a popular choice of entry into this marketplace and is worthy of study.

Early studies

Nigh et al (1990) examined the first 105 US-USSR joint ventures, showing an acceleration of JV formations in 1989 as a result of the relaxation of the maximum equity share by foreigners. The authors noted the absence of well-known American multinationals, with small to medium size enterprises (SME's) predominant amongst these early entrants. Particular JV problems identified in the study stemmed from the unfavourable economic climate and political infrastructure which led to technical difficulties such as converting rouble revenues to finance imports and remit profits, and operational problems in finding local raw materials and components.

Reinforcing Nigh's conclusion that access to raw materials is a key problem when manufacturing in the FSU, Hertzfeld (1991) and Lawrence and Vlachoutsicos (1993) offer different solutions. Hertzfeld advocates integration, both forward and backward, as a means of establishing a viable joint venture in the Soviet Union. In Hertzfeld's case study of McDonald's JV in Moscow, an account is given of how the company worked persistently with Soviet suppliers to develop reliable suppliers of meat, dairy, fruit, vegetable and bakery products. Hertzfeld goes on and warns that any venture that *does* need critical components or raw materials that cannot be sourced locally is probably not viable.

Vlachoutsicos and Lawrence (1993) see a solution to the sourcing problem in a different light, noting from their study of 33 joint ventures in the FSU that a capacity for rapid, adaptive responses to problems of economic turbulence and change is a key to success. The best way to achieve this in Russia is to find good Russian managers and give them full authority to build the business. These positive views about the quality of Russian managers are not shared by Hertzfeld and Rosten (1991). Hertzfeld cites management as a potential problem area for JV's in Russia, stating "..Soviet managers, though often dedicated and competent in ministering to outdated production systems, have virtually no usable concepts of marketing, business strategy, or commercial accounting...the sad truth is that there probably aren't 300 people out of 300 million in the Soviet Union who know how to read a P & L statement".

Rosten (1991), in interviewing representatives of 16 operational US - USSR joint ventures confirms such a view, with many US respondents complaining of the Soviets' total lack of understanding of Western management style and techniques, while Russian managers considered a business plan a waste of time. The differences in attitude of managers from East and West and the potential resultant problems were the topic of a study by Liuhto (1991) who, using Hofstede's (1983) cultural analysis framework to look at Finnish-Russian joint ventures, concludes that much effort is required in order to integrate the managerial cultures present in joint ventures in Russia. The importance of culture is one developed by Frey (1995) and Beamish and Frey (2000). The latter examined joint venture conflict in 40 Russian international joint ventures, concluding that similarity between parent firms' organizational climates is a key determinant of lower levels of conflict and therefore higher chances of success, a conclusion supporting Harrigan's findings (1988) that corporate culture homogeneity among partners is more important than partner national culture homogeneity.

Case Studies

This section presents two case studies covering the initially contrasting but latterly comparable experiences of two Scottish companies in establishing joint ventures in Russia. A longitudinal perspective is introduced by tracking the case studies from inception to closure. Each case follows a similar structure covering a brief summary; the partners to the venture; joint venture objectives; the negotiation process; management structure; implementation and closure. The final section of the paper pulls the two cases together by presenting a number of management guidelines for the successful negotiation of joint ventures in the Russian Federation, derived from the case studies and related to the literature review presented earlier.

Vacua Therm Sales (VTS)

Summary : This case covers the establishment of a 50-50% joint venture between a Scottish engineering sales and design company and a Soviet scientific research institute. The Russian joint-venture initially played a key role in the international development of the Scottish company, providing not only a low-cost manufacturing base, but also contributing state-of-the-art know-how in high vacuum and high pressure technology. The initial success of the venture can be attributed to a complementarity of skills of the two partners; the Scottish company's familiarity with world markets in a highly specialised field, and some 40 years of contact with Soviet/Russian scientific establishments, including five years collaboration with its partner prior to establishing the joint venture. The collapse of the joint venture is attributed to turbulent changes in the Russian business environment that are extremely difficult for a family-based business with limited resources to manage.

The Partners: Vacua Therm Sales (VTS) is a family run engineering company specialising in the customised design and sale of furnaces employing high vacuum and high pressure technology. Following a long and successful career in the specialised field of vacuum engineering, Tom Dick established Vacua Therm Sales in 1984 when entering "retirement". Located in an industrial estate south of Glasgow, the company employs between 8-16 staff at any one time, and by the time of IJV establishment had turned over several million pounds of business, over 90% of which has historically gone to export markets; a substantial percentage to the former Soviet Union (FSU).

While subcontracting much of the assembly work, VTS considered its distinctive competence in design, exploiting over 40 years experience in the sector and combining it with state-of-the-art computer aided-design skills developed by Tom Dick's son, Callum and technical skills of the technical director, Tom Hill.

Joint Venture Objectives

For VTS the Metmachecosse joint venture was of strategic importance, with Russia being used not only as a low-cost manufacturing base, but more importantly as a partner in the research and development of high vacuum and high pressure technology on new materials such as ceramics and composites. With world demand for the use of these new materials on the increase, the joint venture was ideally placed to satisfy growing demand in world markets.

The decision to go ahead with a joint-venture was said to be "the natural way to go" by VTS Chairman Tom Dick. Having dealt with VNII metmach since 1986, designing and supplying equipment to them via contracts with foreign trade organisation (FTO) Mashinoimport, Tom Dick was well aware of the Institute's strengths and weaknesses. The strength of VNII metmach lay in the knowledge and know-how in vacuum and pressure technology. With high pressure vessels most commonly constructed with forgings, Tom Dick found to his delight that VNII metmach had a thorough command of tape-winding techniques in the construction of such vessels (previously thought to be monopolised by a Swedish company). Moreover it was found that the Institute had been manufacturing hot isostatic presses for some 30 years with no-one in the West being aware of it. Despite such advanced technology and know-how, the Soviets' were deficient in electrical and control equipment (pumps, motors, valves) and had few direct contacts through which to make sales (all sales previously went through a foreign trade organisation). The main objective of the Russian partner was therefore to acquire electrical and control gear to facilitate sales for currency in Western markets.

Negotiations

As stated previously, the Chairman of VTS had described establishment of a joint venture as "the natural way to go", having dealt successfully with VNII metmach since 1986. Having agreed a 50-50% joint venture and inputs on each side, the technical details of registration and the like were left to the JV managing director. Smoothness in negotiations was attributed by Tom Dick to the fact that "engineers speak the same language" and that accountants were not involved! VTS contributed some £17,000 cash into the venture (the commercial exchange rate at the time was £1 = Rbls 3); with VNII metmach contributing a 50m^2 space incorporating an office with workshop. The main aim of the JV was to design, manufacture and market hot isostatic presses for national and mainly international markets, where currency conversion and payment problems would be minimised. While most of the design was to be done in Scotland, manufacturing took place in Russia.

Management Structure

Both partners in the venture had a 50% stake with VTS providing cash, and VNII metmach providing premises and staff. The Board of the venture comprised three VTS staff and three from VNII metmach; the Chairmanship in the first instance going to the Russians and the deputy Chairman being Tom Dick. The Board met 4 times a year and was involved primarily with legal matters and commercial viability of the venture.

Day to day management of the venture in Moscow was in the hands of a Russian director who had five staff. These five held posts of deputy manager (foreign trade and French sales); Chief accountant; commercial director; technical director (buildings, repairs and customer relations) and manufacturing director (workshop chief). They had some 18 staff working for them (up from six in 1990). While the joint venture had its own workshop, office and staff, much of its work was subcontracted to its Russian parent with whom it has an agreement. If the parent company's staff were engaged on orders for the Institute, then the joint-venture had to pay a premium for subcontracting. However, if the parent company fulfilled its plan and quota, then staff could be used on JV work free of charge. Most raw materials were purchased through the Russian parent, a key to overcoming potential raw material shortages.

While the subcontracting arrangement kept VTS fixed costs down to a minimum, difficulties did arise for the JV management in dealing with the bureaucracy of a state-owned Institute. An example was cited of the JV needing 20 signatures and losing much time in requisitioning just two metres of wire from the Institute's stores! Regular contact by fax was maintained between the JV and VTS in Scotland, as the latter was responsible for most export sales and marketing.

Implementation

Successful initial implementation of the joint venture could be attributed to the following factors:-

- Both partners had worked with each other for five years prior to entering into a joint venture agreement. This familiarity maximised learning curve advantages and minimised conflict, up to the time the IJV ceased to trade.
- This led to minimal difficulties in drawing up the legal agreement as all points were agreed before legal documents were drafted.
- The small size of VTS led to quick decision-making and a tolerance of ambiguity and uncertainty in the Soviet/Russian market.
- Complementarity of skills, with two-way technology and know-how transfer; export marketing and design skills of the Scottish partner linked to manufacturing at low-cost advantage in Russia.
- Export sales of the JV, by providing hard currency, insulated the Joint Venture from problems of hyper-inflation, bankruptcies and non-payment.

End of the joint venture

The joint venture survived for some five years before stopping to trade. The turbulence of the Russian business environment and rapidly deteriorating economic situation made the joint venture unviable. Partners attributed the decision to cease trading to a rapid rise in costs, a contraction of target markets which the joint venture was established to serve, barterisation and dollarisation of the Russian economy.

Fords the Bakers

Summary: This case covers the establishment of a 50%-50% joint venture between a Scottish and a Russian bakery in former Leningrad. The joint venture played a major role in the development of the baking industry in St. Petersburg, transferring both technology and know-how. The initial success of the venture was attributed to meeting the development needs of bakeries in St. Petersburg; having the support of local government; and keeping tight control over day to day operations. The collapse of the joint venture is attributed to changes in the ownership of the family-based firm in Scotland, with one of the brothers deciding to leave the business and therefore severing the company's closest link with the Russian partner.

The Partners **:** Fords the Baker was founded over 70 years ago as a family business south of Scotland's capital city, Edinburgh. The firm passed through three generation changes and remained a family business until 1999 when it was taken over by a major British baker. It employs 120 people on a greenfield site opened in 1990.

The turnover of Fords had grown consistently prior to establishment of the Russian joint venture. Being a craft baker, as opposed to a manufacturer of mass bread, the firm turned out 130 fresh products daily, distributing and selling the goods through 14 of its own retail outlets in the East Lothian area.

The company was led by Peter Ford (MD) and his brother Tom (PD), who with the assistance of two non-executive directors, looked after strategic direction and control of the business.

The Russian partner was the No. 6 Bakery of St. Petersburg which employed some 600 staff, 400 of which work in the manufacture of bread. As a standard bread maker (as opposed to being a craft baker like Fords) the No. 6 bakery turned out 250 tonnes of bread per day with only four product lines (Dark rye bread; straw sticks; French Sticks; and Bublika). This compares with a similar type of bakery in Edinburgh where 60 employees turned out 40 product lines and 120 tonnes per day.

Joint-Venture Objectives

The motivation of Fords in setting up the joint venture in St. Petersburg were a mixture of adventure and profit motives. Fords had hitherto no experience of operating outside Britain, despite being familiar with continental bakery practices. The proposal for a joint-venture in St. Petersburg had come from two old school friends of Peter Ford (MD) who ran a consulting firm advising on doing business in Russia. Their many visits to the FSU revealed various business opportunities. One of these visits in 1989 led to an audience with the newly-elected radical mayor of St. Petersburg Anatoly Sobchak. Food had been cited as a particular problem area, with the mayor anxious to attract investment in this socially-sensitive area. Aware that Fords had some surplus equipment as a result of their recent move to a greenfield site in Prestonpans, one of the Fords' old school friends put the idea to Peter Ford who was receptive to the idea.

The idea came at an opportune time as Fords had recently enjoyed a couple of good years and had enjoyed a successful move from its old site to a greenfield site. This move had resulted in some equipment surplus to requirements but nevertheless in very good condition. With one of the Fords' friends aware of funds made available through the government's Know How Fund (KHF), it was decided to consider matters further. The company had a strategy of refitting one of its 8 shops every year and decided to forego this and instead put that amount of money into an investment fund for the Russian project. If £70,000 did the job, all well and good; if not, then Ford pledged not to invest any further money.

Planning

In order to progress the idea, Tom Ford (PD) visited St. Petersburg for a week, during which time he spent seven days working in the bakery, and taking stock of the equipment, skills of staff and processes employed in the bakery. It was found that many original 1924 bread pans were still used; the age of equipment was old; treatment of raw materials was unusual and levels of training minimal. The latter point was demonstrated by the absence of "chaffing" ability in all the 400 baking staff, (this is the art of "moulding" dough to get roughness out prior to cutting it into shapes). This is such a fundamental skill in the bakery trade with Peter Ford making the analogy that "It's like a painter/decorator being unable to put paper on a wall!". Moreover, of the three major gas-burning product lanes, only two were in operation at any one time due to necessary maintenance.

Undeterred, Tom Ford asked the staff in No. 6 what sort of bakery products they preferred. Unaware of the sort of variety common in Britain or in other European countries, the Russians were unable to specify their tastes. However, after a little probing, it became clear that they had an affinity for "sweet-type" breads (a strong Scottish characteristic) as opposed to a "salty-type" (more common in Continental Europe). Tom decided to show them how to make other products with existing plant and raw materials - he opted for relatively simple products such as scones, biscuits and iced buns. The workforce loved it and asked for the recipe. However, armed with the recipe the result was disastrous as the core skill of chaffing was glaringly absent! With a little coaching, however, products were produced.

Fascinated that such varied, tasty products could be made with existing materials, the Chief Baker of Leningrad was called to witness the results with the result that he was very impressed and eager to support the idea of a joint-venture. The fact that the Chief Baker was father-in-law to the manager at No. 6 bakery was to be crucial in getting approval later! Tom's hands-on approach in showing what was possible earned the unreserved respect of the No. 6 staff who were also very enthusiastic.

On his return to Britain, Tom Ford gave a resounding thumbs up to the idea of a venture in St. Petersburg, knowing that the workforce was very willing and able given the training, and that Fords had the support of management of No. 6, together with the

Chief Baker of Leningrad. His brother Peter and advisors interpreted this as the green light and decided to move the project forward.

Negotiation

In January 1991 Peter Ford returned to Russia with an advisor to negotiate the terms of collaboration. Joint venture negotiations were difficult as this was the first British Company to set up a JV in the city. Talks took one week and were long and arduous with questions of terminology, differences in legal terms and translations all slowing down the process - business terminology and translation thereof were particularly troublesome.

Fords wished the agreement to be watertight given that they were in some ways crossing a frontier in establishing the first British JV in Leningrad. The final 60-page document covered all aspects of the business, and established strategic control through having chairmanship of the JV for the first three years of operation (to September 1994). From the first visit to operation it took 10 months to set up the joint venture.

The JV management board consisted of six members, three from each side, with Fords having the chairmanship and therefore the casting vote in cases of disagreement. Operational control was established through agreement to get bi-weekly reports of production, sales, costs and profits, much in the form of a regular P/L account. The size of investment was to be £100,000 on both sides. Fords contributed equipment, know-how, and cash for working capital which in total capitalised at £70,000. The £30,000 balance was contributed by the British government KHF, the vehicle for transfer of technical assistance and know-how to the Former Soviet Union. The Russian partner contributed leasehold/premises for the JV (one of No. 6's premises), the costs to refit the premises, registration and legal costs and access to raw materials. Twenty four staff were employed.

Staffing

Twenty four staff were chosen jointly by Tom Ford and the manager of No. 6 bakery. Tom Ford's time in the bakery before negotiations began was invaluable in being able to identify whom he believed were suitable candidates for the venture. In the end 21 women and 3 men were chosen.

Contracts of employment with the individuals were negotiated to cover aspects such as JV failure, terms in event of sickness, and ancillary payments normal in Russia, such as payment of rent, were excluded, while others were introduced to compensate. For example, access was made to foreign goods and articles unavailable in Russia shops. The largely female workforce appreciated wages and bonuses in the form of goods normally unavailable such as hairdryers, curling tongs and the like.

Implementation

Key elements in implementation can be summarised as follows:-

Preparation: The coalition of partners in establishing the JV successfully was particularly important with support for the venture from Mayor Sobchak and the encouragement from the Chief Baker in Leningrad; not forgetting the respect which staff at No. 6 accorded Tom Ford in showing them what was possible.

Management Procedures - The establishment of a clear reporting structure and submission of bi-weekly accounting reports enabled Fords to maintain close contact and control over events at the Bakery JV. Good personal rapport enabled procedures to be established quickly and smoothly in the initial stages of the joint venture.

Clarity of Roles

The role of No. 6 in securing raw materials in terms of flour, sugar etc. was critical to uninterrupted functioning of the bakery which worked seven days per week on 11 hour shifts. With Fords holding the chairmanship, weight was put into reinvestment of profits in the business, a concept not wholly accepted by the Russian partners. In the first year Fords decided to re-invest 55% of profits in new equipment and the purchase of two new delivery vans. In the second year it was decided to re-invest 100% of profits; although significant management bonuses were paid to overcome Russian reluctance and confusion over the need to do so.

Mixed Markets

As hard currency generation was necessary to make purchases of goods not available in Russia (stabilisers to keep flour fresh; bi-carbonate of soda; roll improvers) early moves were made to find hard currency as well as rouble sales. Fords achieved this through agreements to supply two leading St. Petersburg hotels with their products, as well as an Irish duty-free joint venture. These hard-currency sales, although only 10% of volume of the bakery, gave almost 50% of sales turnover due to low rouble prices and a rapidly devaluing rouble. This facilitated regular flows of imported materials.

End of the joint venture

The joint venture survived for some five years. In fact, while the Scottish partner withdrew from the joint venture in Russia, the actual bakery that was established continues in to the millennium to function successfully as a 100% subsidiary of the Russian partner. The primary reason for withdrawal was family circumstances and the departure from Fords of Tom Ford, Head Baker, and main driver of relationships with the Russian joint venture partner. The family-based business states that it did not have the resources (mainly personal), the motivation or the desire to continue with the joint venture, despite reasonable economic performance.

Conclusions

The case studies presented in this paper cover two successful sets of joint venture negotiations in Russia; and two joint ventures that were managed well in their five years of existence. While the joint ventures no longer function, taken together with the literature reviewed earlier a number of success criteria can be identified for negotiating joint venture agreements in the Russian Federation. At the same time further research can be suggested to pinpoint specific reasons for termination.

The establishment of clearly defined joint venture objectives is a necessary pre-requisite for successful negotiations. Both the VTS and Fords deals had clearly stated objectives, with Fords covering the Russian market and VTS the role of the joint venture in the company's overall international strategy.

Partner selection is a major determinant of joint venture success. In the VTS deal, there was a clear strategic fit between the Scottish and Russian partners who, benefiting from contractual deals over several years, were able to marry complementary skills in design, manufacturing and marketing. This was not as clear in the Fords deal where the JV represented the first contact between partners.
According to Harrigan (1984 and 1985), the outcome of joint venture negotiations is determined by the relative bargaining power of partners. Both VTS and Fords were in a strong bargaining position due to their control over technological know-how and the fact that they were operating in industries identified by the Russian authorities as ‘priority’ sectors. Neither company, however, abused this position, being very willing to contribute to the economic development goals of the partners through technology transfers and transfer of know-how.

In terms of successful implementation of joint ventures in Russia, Beamish and Frey (2000) emphasise the importance of similarity in organizational climate for long-run success. While the parent organizations differed somewhat in terms of size (Scottish small and Russian large); ownership (family-owned versus state-owned); and core competencies (bakeries in terms of craft bakers vs. mass-producing bakers; engineers in terms of design vs. manufacturing) it would indeed seem the partners successfully managed to create an organizational climate in the joint venture company that was more similar to that of the foreign parent than its Russian parent; hence relatively successful operations for a five year period. Moreover, while both joint ventures ceased to operate in this form, agreement to terminate joint venture agreements was mutual and periodic contact is still maintained on a personal level. Why then did the joint ventures "terminate"? It is felt that a critical reason behind termination is linked to the fact that both Scottish companies were family-owned. While the entrepreneurial nature of these firms put them in a position to take quick decisions regarding market entry and development it is felt that the unfavourable economic and political conditions (Nigh, 1990) placed an undue burden on them in difficult times. While a multinational enterprise has resources to weather difficult periods, and has clearer strategic intent smaller, family-based companies do not. It is therefore suggested that future research on joint ventures in Russia examine the duration and success of small versus large companies in Russia, the hypothesis being that the latter will maintain a presence in Russia linger than the former.

In conclusion, the key to successfully negotiating joint ventures in the Russian Federation is the ability to cultivate good relationships with the authorities and venture partners. The way of achieving this is to match the requirements of the host organisation for foreign currency, modernisation, technology transfer, exports and so on with the need for efficiency and profitability of the joint venture itself. While the latter must remain the ultimate goal of any deal, it will only be possible with sensitivity to the development needs of the Russian organisation.

Political and economic reform in the former Soviet Union will continue to create joint venture opportunities for Western companies. The long-term success of these ventures, however, is by no means guaranteed and requires careful planning, negotiation and management, not forgetting flexibility to manage the uncertainty and ambiguity inherent in a rapidly changing environment. While small (family-owned) companies may have the entrepreneurial agility to identify and grasp an early opportunity to do business through a joint venture company in Russia, the challenging nature of the business environment may lead them to exit the market due to sheer lack of resources.

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