

WHEN THINGS GO WRONG: THE CASE OF THE JAC JOINT VENTURE

By

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American Basics Corporation (ABC), located in Cleveland, Ohio, is a manufacturer of industrial products with sales of over \$300 million. In the past five years, the sales and earnings of the company have increased substantially, primarily due to ABC's success in concentrating on the manufacture of a limited range of electrical machinery and in eliminating numerous unprofitable lines. Although ABC's customers are diversified, the corporation's objectives are now focused primarily on one aspect of industrial activity, the manufacture of electric motors. The company was established in 1950 and is run largely as a family-held concern. This may explain in part why ABC prefers to operate wholly-owned subsidiaries elsewhere in the world.

Japanese Instruments Ltd. (JIL) is a leading manufacturer of industrial instruments in Japan with headquarters in Osaka. It is fairly large, though not an industrial giant. The company is involved in general process-control instrumentation. The company was formed some seventy years ago by the father of the current president. Although JIL's shares are publicly traded on the Tokyo Stock Exchange, the company's biggest shareholders are its banks and major customers.

Although JIL has overseas operations in two countries, these are either on a wholly-owned or on a majority-partnership basis. JIL has a strong research orientation and manufactures a diverse range of products.

In 1969, ABC and JIL entered into a 50-50 joint venture, called Japanese-American Company (JAC), for the production of industrial equipment, especially various types of fluid pumps, for sale in Japan and in other countries in Asia. None of these products were sold in the U.S. or European markets. Each partner contributed \$1,000,000 to establish the joint venture company, a corporation established under Japanese law with its company headquarters in the same office building in which JIL has its own headquarters.

Under the joint venture arrangement, ABC provided most of the technological and product know-how and JIL supplied the management, marketing, and other support activities. Thus, the management of JAC has always been Japanese. Over the years, although JAC recruited a number of Japanese on its own, its management has largely been on loan from the Japanese parent company. ABC has never played an active role in the management and administration of the joint venture company. The manager for ABC in Asia, an English executive based in Hong Kong, visits the joint venture company once every quarter to review strategies and basic decisions jointly. Besides these regularly scheduled quarterly review sessions, most communication with the Japanese parent and

joint-venture companies has been through correspondence, e-mail, and occasional phone calls. ABC has basically adopted a hands-off management approach to the joint venture.

JAC's income has fluctuated sharply over the years; it made profits in some years and operated at a loss in others. During each of the last five years, JAC has registered losses in increasing amounts, and both ABC and JIL are very unhappy about the situation. JIL feels that ABC is not transferring its best and most recent technology and product developments to JAC, as was agreed in the 1969 joint venture agreement. In some instances, since the creation of the joint venture, ABC has ceased to manufacture products that had potential interest for JIL and JAC. ABC, on the other hand, is bitterly disappointed with JIL's marketing efforts on behalf of JAC, as well as in the general management of the joint venture, particularly with regard to cost controls and the quality and experience of its top managers.

Relations between ABC and JIL are growing steadily worse. Their joint venture agreement provides that the two companies are to arbitrate disputes under the auspices of the International Chamber of Commerce in Paris, France.

What approaches would you suggest to revolve their difficulties?