

Research on the Joint Ventures between Algeria and China in Car Manufacturing

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Abstract: International Joint Ventures “IJVs” have certainly emerged as a compelling strategic option for companies because it has the best offset of return/risk. Unfortunately, IJV performance & survival remains highly variable. Researchers have suggested that motives of establishing IJVs, performance assessment methods, and partner selection influence IJVs performance & survival. However, we understand little about how these factors relate to one another to affect IJVs performance & survival. Thus, this article takes an early step toward filling this gap by analyzing the potential IJV between Algeria & China in car manufacturing. The study findings revealed that there are disparities in the motives of establishing the venture. Nonetheless, it would be able to achieve each partner motives. Concerning choosing the suitable partner, there is somewhat complementary-resources between the two partners. Moreover, the study revealed a discrepancy in performance assessment methods, in which the Algerian partner focuses on financial return, and the Chinese partner on the achievement of the venture motives.

Keywords Algeria Car Market, Chinese Car Manufacturers, IJV Formation Motives, IJV Partner Selection, IJV Performance Assessment

I. Introduction

Since 2008, China has become the largest automotive industry in the world measured by its automobile unit production. According to China Association of Automobile Manufacturers (CAAM), China’s total vehicle production for the year 2012 reached 15.52 million. Out of this huge number of cars made in China, nearly 45% were local brands (BYD, Brilliance Automobile, Geely Automobile, Chery Automobile, Great Wall, etc) and the rest of it has being produced through joint ventures between local & foreign car manufacturers.

Most of the cars manufactured in China are sold within its market, hence, it sparks a fierce competition between local car manufacturers, therefore they are always looking for international expansion (go abroad) to reach dynamic markets (like Africa, Latin America, and Asia), meanwhile improving their products quality to reach mature markets like USA, EU, and Japan. Yet, even though the Chinese cars are sold in many countries across the world but the Chinese local car brands exports are still modest. Table 1 shows the Top Five Export Markets of Chinese Automobiles for the last five years (2008-2012)

Table 1 Top Five Export Markets of Chinese Automobiles from 2008 to 2012

Year	2008		Year	2009		Year	2010		Year	2011		Year	2012	
Annual Total Auto Exports	100%	681,008 Units	Annual Total Auto Exports	100%	370,030 Units	Annual Total Auto Exports	100%	566,653 Units	Annual Total Auto Exports	100%	849,500 Units	Annual Total Auto Exports	100%	1,056,091 Units
Russia	%12.51	85,241	Algeria	%11.19	41,407	Algeria	%8.33	47,237	Brazil	%12.26	104,200	Algeria	%14.18	149,800
Vietnam	%7.76	52,851	Vietnam	%8.30	30,732	Syria	%5.78	32,803	Algeria	%9.69	82,400	Iraq	%8.53	90,100
Algeria	%6.59	44,946	Syria	%6.79	25,157	Vietnam	%5.53	31,347	Russia	%8.4	71,400	Russia	%8.49	89,700
Iran	%5.03	34,253	Egypt	%6.03	22,336	Russia	%5.5	31,209	Chile	%6.29	53,500	Iran	%7.36	77,800
Syria	%4.73	32,267	Iran	%3.76	13,931	Chile	%5.4	30,642	Iran	%5.54	47,100	Chile	%5.93	62,700

Source <http://chinaautoweb.com/>

As you can deduct from Table 1, Algeria has always been among the top five export markets for Chinese local car brands, moreover Algeria was the largest export market for three years, two years in a row 2009 and 2010, and in 2012.

During the year 2009, China exported 41, 407 units toward Algeria which represents roughly 11, 2 % of China annual total auto exports. And during the year 2010, China exported 47, 237 units toward Algeria which represents roughly 8, 3 % of China annual total auto exports

Finally, during the year 2012, Chinese car exports toward Algeria skyrocketed to reach the highest ever of 149,800 units which makes up roughly 14,2% of China annual total auto exports

Therefore, Algeria which is one of the comparatively developed countries in North Africa, with car sales volume reaching almost 600,000 units per year, the second largest car market in Africa, is very interesting target for Chinese car manufacturers.

The Table 2 & Figure 1 show Algeria Annual Total Auto Imports from the year 2007 to 2012

Table 2 Algeria Annual Total Auto Imports 2007-2012

Year	2007	2008	2009	2010	2011	2012
Algeria Annual Total Auto Imports "Unit"	235,795	352,315	277,881	285,337	390,140	568,610

Source <http://www.ons.dz/>

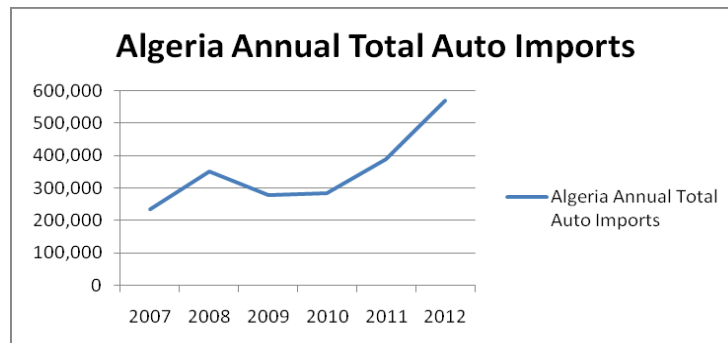


Figure 1 Algeria Annual Total Auto Imports 2007-2012

As you can deduct from Table 2 & Fig 1, the Algerian car market is growing with an exponential rate. During the year 2007 Algeria imported 235,795 units, in 2008 the car imports increased by 50% comparing to 2007 to reach 352,315. But during the year 2009, car imports dropped by 21% comparing to 2008 due to the world financial crisis and the ban of consumer credits by the Algeria government as a measure to tackle the financial crisis

In 2010, car exports increased by 2,5% comparing to 2009. But in 2011, car imports increased by 36,8% and it continued in the same trend during the year 2012 to reach 568,610 units which represents an increased by 45,7% comparing to the previous year

The statistics show that the Algerian car market is growing very fast, and if it continues in the same trend, in the near future Algeria will topple South Africa to become Africa's largest car market.

Therefore the attractiveness of the Algerian car market prompts a slew of foreign car manufacturers to establish local production plants in Algeria, and taking initial steps toward auto production localization. Yet, doing business outside the home country is quite different from doing business in the international scale. Therefore, when investing in foreign countries, you should take on consideration a lot of factors that could lead to the failure. Thus, the statistics show that International Joint Ventures (IJVs) is taken the lion share from the Foreign Direct Investment (FDI) across the world.

IJV has emerged as a compelling strategic option for companies because it has the best offset of return/risk. Unfortunately, IJV performance and survival remains highly variable. Researchers stated that motives of establishing an IJV, partner selection, and performance assessment influence IJV performance and survival. However, we understand little about how these factors relate to one another to affect IJVs performance and survival. Thus, this article takes an early step towards filling this gap by analyzing the potential IJV between Algeria trucks Manufacturer Company (SNVI Entreprise Nationale des Véhicules Industriels) and five of the fast growing Chinese car manufacturers according to the annual sales growth & patents "Chery Automobile, Great Wall Motor, Brilliance Automobile, Geely Automobile, BYD"

II. Literature Review

The growth of strategic alliance during the period of growth has been monumental but, given the period of economic downturn which started in 2007 and is continuing throughout the year 2013. Strategic alliances are likely to grow even faster, the statistics show that joint ventures are taking the lion share from the other forms of strategic alliances in the world

Even though, IJV is very profitable for both business partners because of its high return and low risk, but IJV has a high variable performance (Pan & Chi 1999), some succeed (Shenkar & Nyaw 1994) while others failed (Geringer 1991, Hennart 1998, Park & Russo 1996), and failure rates vary from 30% (Hennart 1998) to 50% (Harrigan 1988, Bleeke & Ernst 1991).

Due to the given intriguing mix of promise and peril that IJV holds, we will go over the literature review of IJVs formation motives, partner selection, and performance assessment and how these factors relate to one another to affect the outcome and survival of the venture

2.1 International Joint Venture Formation Motives

IJV is the fruits of thoughtful decisions made by the company. Hence, motives must be brought to justify the creation of the venture. It is primordial for the company to understand crystal clear why it wants to enter in the venture. Strategic and economic benefits cannot be the only reason for entering an IJV, but the company should go far beyond these motives and have other motives

Theoretically, there are three approaches which help to clarify the motivation as well as the goals of IJVs:

- The internalization approach which provides an economic rationale for the joint venture using the transaction cost paradigm.
- The strategic behavior approach which focuses more on a theory of motivation driven by competitive positioning and the impact of such positioning on profitability
- The third approach is derived from organizational theories and stresses the benefits of cooperative motivations and also includes organizational learning

2.2 International Joint Venture Partner Selection Criteria

The quest for a suitable partner is the most important step of IJV formation process; moreover, it is the key to the ultimate success of a joint enterprise. Partner selection will affect the mix of skills and resources which will be available for the ventures, and therefore it will not only affect IJV's performance, but also its ability to achieve its strategic objectives

A large number of selection criteria have been suggested in the literature, for instance, requisite skills and assets, compatibility and chemistry between partners, strategic fit and cultural fit (Child and Faulkner, 1998: 92). Although such criteria are reasonable but not clear enough to give us the fundamental criteria for venture partner selection. A significant contribution by Geringer (1988; 1991) who gave a holistic view by classifying the unlimited range of alternative criteria that might exist in a simple two-fold typology of categories of selection criteria

The typology suggested by Geringer is based on the distinction between "task-related criteria and partner-related criteria".

2.3 IJV Performance Assessment

Most of the people take success and failure as an absolute, but they are actually a relative matters and should be assessed according to specific criteria/yardsticks.

The balance between financial return expected from the venture and achieving the motives and strategic goals which the venture was made upon is very important. One partner may consider financial return as the main yardstick to assess the venture performance; on the other hand the second partner may consider achieving the motives and strategic goals which the venture was made upon is the yardstick to assess the venture performance. Therefore IJV performance assessment appears in droves throughout the literature Yan, A. and B. Gray (1994a; 1996). We can deduct three distinct approaches to defining and measuring the IJV performance:

- The first approach is a unidimensional measure that focuses on the financial assessment. This approach involves the appraisal of the venture on the basis of objective indicators (e.g., profitability, sales growth) or subjective measures, such as the managerial assessment of IJV economic goal attainment.
- The second approach which is also unidimensional assessment, involves assessing IJV stability, in terms of operational survival (e.g., rate of unexpected dissolution) or specific signs of instability (e.g., unplanned equity renegotiation) (Anderson, 1990).
- The last approach which emerged in response to the criticism that the unidimensional performance measures have received, it assesses diverse IJV performance facets via managers' perceptual judgments by on one hand giving an overall viewpoint on satisfaction with performance of goal achievement, and on the other hand providing indications along multiple, specific outcome dimensions (Olk, 2001).

III. Method

3.1 Sample

The sample frame was made up of 5 Chinese car manufacturers which were selected on the basis of annual sales growth and patents (Cherry Automobile, BYD Auto, Brilliance Auto, Geely Auto, and Great Wall Motor). And Algerian Industrial Vehicles Manufacturer "SNVI"

3.2 Instrumentation

The study used a questionnaire survey which included an introductory note explaining the purpose of the study. The survey was divided in three sections, the first section used a five-point Likert scales questions

“very important, important, moderately important, of little importance, unimportant” that sought to identify the main motives behind entering in an IJV. The second section used five-point Likert scales questions as well “very important, important, moderately important, of little importance, unimportant” in the aim to identify the complementary-resources needed from the IJV Partners. The last section used a closed ended question in the aim to find out which criteria are used to assess the venture success.

The questionnaire survey given to the Algerian Industrial Vehicles Manufacturer “SNVI” was in French language. We used three-point Likert scales questions “very important, moderately important, unimportant”, and the questions were slightly different because Algeria will be the host country of the potential venture. Therefore motives to enter an IJV and partner selection criteria will be different from the 5 Chinese car manufacturers

The study used descriptive analysis using frequencies and cross-tabulations of data were completed to summarize the variables and calculate the standardized values.

IV. Findings

Table 3 Chinese Car Manufacturers’ Motives to Enter in IJV

Some JV Motives		Ranking					Total
		1	2	3	4	5	
1-Enable Faster Entry to the Market	Frequency	0	0	1	4	0	5
	Percentage	0%	0%	20%	80%	0%	100%
2-Enable Presence in New Market	Frequency	4	1	0	0	0	5
	Percentage	80%	20%	0%	0%	0%	100%
3-Facilitate International Expansion	Frequency	1	4	0	0	0	5
	Percentage	20%	80%	0%	0%	0%	100%
4-Overcome Regulatory Restrictions	Frequency	0	1	4	0	0	5
	Percentage	0%	20%	80%	0%	0%	100%

Field Study

The frequency analysis of the factor: Enable faster entry to the market revealed that 80% of the responses think of it as of little importance, while 20% think of it as moderately important

The frequency analysis of the factor: Enable presence in new market revealed that 80% of the responses think of it as very important, while 20% think of it as important

The frequency analysis of the factor: Facilitate international expansion revealed that 80% of the responses think of it as important, while 20% think of it as very important

The frequency analysis of the factor: Overcome regulatory restrictions revealed that 80% of the responses think of it as moderately important, while 20% think of it as of little importance

Table 4 Algerian Industrial Vehicles Manufacturer SNVI’s Motives to Enter in IJV

Some JV Motives	Rank
1-Maintain or Improve your Current Market Position	1
2-Compete more Effectively Against your Common Competitors	1
3-Share Investment Costs	2
4-Reduce Competition from Existing or Potential Chinese Competitor	1
5-Exchange Technology	1
6-economy of Scale	2
7-Product Diversification	3
8-Share Costs of R & D	3
9-To Focus on Higher Margin Activities	2
10-Spreading the Risk of a Major Project on more than one Company	1
11-A rapid Return on Investment	1
12-Exchange or Acquire Patents	3

Field Study

Table 4 shows that “S.N.V.I” Algerian Industrial Vehicles manufacturer considers that improving the current market position, exchange technology, a rapid return on investment, reduce competition from existing or potential Chinese competitors, compete more effectively against the common competitors, and Spreading the risk of a major project on more than one company as very important Motives to enter in IJV.

Algerian Industrial Vehicles manufacturer considers that: sharing investment costs, reaching economy of scale, and focus on higher margin activities as important factors to enter in an IJV

Algerian Industrial Vehicles manufacturer considers that product diversification, share costs of R & D, exchange or acquire patents are unimportant motives to enter in an IJV.

Table 5 Chinese Car Manufacturers' Expectations to Get Complementary-Resource from IJV Partners

Expected Complementary Resource From JV Partner		Ranking					Total
		1	2	3	4	5	
1-Materials/ Natural Resources	Frequency	5	0	0	0	0	5
	Percentage	100%	0%	0%	0%	0%	100%
2-Technology	Frequency	5	0	0	0	0	5
	Percentage	100%	0%	0%	0%	0%	100%
3-Labor	Frequency	0	0	0	4	1	5
	Percentage	20%	80%	0%	80%	20%	100%
4-Capital/Finance	Frequency	5	0	0	0	0	5
	Percentage	100%	0%	0%	0%	0%	100%
5-Distribution Channels	Frequency	0	2	0	3	0	5
	Percentage	0%	40%	0%	60%	0%	100%
6-The Product	Frequency	0	4	1	0	0	5
	Percentage	0%	80%	20%	0%	0%	100%
7-Knowledge of Production Processes	Frequency	0	1	2	2	0	5
	Percentage	0%	20%	40%	40%	0%	100%
8-Production Capacity	Frequency	0	0	4	1	0	5
	Percentage	0%	0%	80%	20%	0%	100%
9-Regulatory Permit	Frequency	0	2	3	0	0	5
	Percentage	0%	40%	60%	0%	0%	100%
10-Local Brand Names	Frequency	0	0	2	3	0	5
	Percentage	0%	0%	40%	60%	0%	100%
11-Link with Major Buyers & Suppliers	Frequency	0	2	1	2	0	5
	Percentage	0%	40%	20%	40%	0%	100%
12-Knowledge of the Local Market	Frequency	0	0	0	1	4	5
	Percentage	0%	0%	0%	20%	80%	100%
13-Knowledge of the Local Culture	Frequency	0	0	0	0	5	5
	Percentage	0%	0%	0%	0%	100%	100%
14-To Cope with Government & Administration Bodies	Frequency	0	4	1	0	0	5
	Percentage	0%	80%	20%	0%	0%	100%

Field Study

The frequency analysis of the factor: materials/ natural resources revealed that 100% of the responses think of it as very important

The frequency analysis of the factor: technology revealed that 100% of the responses think of it as very important

The frequency analysis of the factor: labor revealed that 80% of the responses think of it as of little importance, while 20% think of it as unimportant

The frequency analysis of the factor: capital/finance revealed that 100% of the responses think of it as very important

The frequency analysis of the factor: distribution channels revealed that 40% of the responses think of it as important, while 60% think of it as moderately important

The frequency analysis of the factor: the product revealed that 80% of the responses think of it as important, while 20% think of it as moderately important

The frequency analysis of the factor: knowledge of production processes revealed that 20% of the responses think of it as important, while 40% think of it as moderately important, and 40% think of it as of little importance

The frequency analysis of the factor: production capacity revealed that 80% of the responses think of it as moderately important, while 20% think of it as of little importance

The frequency analysis of the factor: regulatory permit revealed that 40% of the responses think of it as important, while 60% think of it as moderately important

The frequency analysis of the factor: local brand names revealed that 40% of the responses think of it as moderately important, while 60% think of it as of little importance

The frequency analysis of the factor: link with major buyers and suppliers revealed that 40% of the responses think of it as important, while 20% think of it as moderately important, and 40% think of it as of little importance.

The frequency analysis of the factor: knowledge of the local market revealed that 20% of the responses think of it as of little importance, while 80% think of it as unimportant

The frequency analysis of the factor: knowledge of the local culture revealed that 100% of the responses think of it as unimportant

The frequency analysis of the factor: to cope with government and administration bodies revealed that 80% of the responses think of it as important, while 20% think of it as moderately important

Table 6 Algeria Industrial Vehicles Manufacturer's Expectations to Get Complementary Resource from IJV Partner

Expected Complementary Resource From JV Partner	Rank
1-Materials/ Natural Resources	2
2-Technology	1
3-Labour	3
4-Capital / Finance	1
5- improve Distribution Channels	2
6- Use of the Partner Brand Name	2
7-Knowledge of Production Processes	1
8-Production Capacity	2
11-Improve the Link with Major Buyers & Suppliers	3

Field Study

Table 6 shows that Algeria Industrial Vehicles Manufacturer considers that: knowledge of production processes, technology, and capital/finance as very important complementary resources which is expecting to get from its venture partner.

Algeria Industrial Vehicles Manufacturer considers that: materials/ natural resources, improving distribution channels, production capacity, and use partner' brand name as important complementary resources which is seeking to get from its venture partner.

Finally the Algeria Industrial Vehicles Manufacturer considers that: labor, improving the link with major buyers & suppliers as unimportant complementary resources.

Regarding IJV performance assessment, the 5 Chinese car manufacturers consider that the venture should be mainly assessed by how far the venture formation motives are achieved not by its financial return. By contrast, S.N.V.I Algerian Industrial Vehicles manufacturer consider that the venture financial return should be taken as the main yardstick to assess its success, and in less degree the achievements of the motives which the venture was made upon

V. Discussion & Conclusion

This study revealed that there are disparities in the motives for establishing an IJV in car manufacturing between Algeria and China. These disparities can be explained by the type of this IJV, in which Algeria will be the host country of this venture, therefore, the local & foreign partners will have different motives. Nonetheless, this IJV between Chinese and Algerian would be able to achieve each partner motives. On one hand, the venture can facilitate the international expansion & cost reduction for the Chinese car manufacturers by establishing an internal structure to serve the Algerian market rather than dealing with market intermediaries. Moreover, doing a venture with local partner will help to overcome regulatory restrictions and enable faster entry to the market, especially with Algeria terrible Business climate. On the other hand, the venture can help the Algerian to achieve some motives. For instance the Chinese partners could improve the Algerian partner current market position by competing more effectively against common competitors, spreading the risks of major projects on more than one company, and exchange technologies.

Concerning partner selection, the study revealed also that both partners are expecting similar complementary resources from the other venture partner which are mainly: capital/finance & technology. By contrast, the Algerian partner can provide some complementary resources which are expected by the Chinese partners, like cheap materials & natural resource, knowledge on how to deal with government and administration bodies, distribution channels. On the other hand, the Chinese partners can provide some complementary resources which are expected by the Algerian partner, like knowledge of production processes and advanced technology.

The research has many limitations, for instance selecting just 5 Chinese car manufacturers out of huge numbers may not give a holistic image of the whole Chinese car manufacturers. Nonetheless, not all the Chinese car manufacturers have the clout and means to compete globally. Second limitation could be the finite numbers of options given in the questionnaire survey concerning motives of establishing an IJV, and complimentary resources as well. Although the questionnaire survey showed that the Chinese car manufacturers do not give that importance to the knowledge of the local culture and local market. Therefore, this point could be a starting point for new research about the effect of cultural background differences on the performance & survival of potential IJV between Algeria & China

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