

How to manage your JV partner



By Chris Devonshire-Ellis

Joint ventures are a marriage between businesses, and, as in any marriage, both partners need to put time and effort into it. Having conducted due diligence, negotiated investments and agreed to get hitched, the two sides now need to work out the management protocol.

This subject is the topic of much debate, with conflicting points of view. Conducting business also is largely time consuming, emotional and stressful. This is only enhanced in a multicultural environment. There will be times when both parties feel they are correct. It may be wise to draw up a blueprint of potential areas of dis-

agreement and work out for each issue which side is more likely to have the expertise.

Many companies leave the entire operations up to the Chinese partner to run. This is a crucial mistake. A new business needs all the support it can get. Correct systems, accounting, and quality control issues all need to be taken care of. A company's standards need to be implemented and operational in the JV. The ideal solution is an expat manager – if not for the long-term, then certainly for the initial development stages.

Generally, it makes good cultural sense to position the Chinese side as chairman. This gives them the role of ambassador for the JV, and it can be highly effective to have them shown as in a position of strength when needing to get things done locally.

True management, however, lies with the composition of the board. If the foreign side is in a majority position then they will retain this. If in a minority position, the Chinese will hold the vote. To

cater to this there are a number of positions that can be taken.

The general manager is responsible for managing operations, together with a deputy. As discussed previously, it makes sense to take a keen interest in the role; however, an expatriate manager may not possess adequate China market fundamentals. If the position is given to a Chinese executive, close watch needs to be placed on the GM, and he or she will need an effective expatriate deputy to work with. It is also possible to rotate this position every two years for the sake of balance and development, depending upon the circumstances of the business.

Possession of the company seals is an important issue. There are several of these. Financial transactions cannot usually be enacted with just one of these; additional chops are also required.

Limiting transactions in agreement with the JV bankers over certain specified limits is also useful. While hindering the basic financial administration is not desirable, prudence should be exercised.

Generally speaking, the finance chop should be controlled by a trusted employee in that department, while the company chop (needed in conjunction with the financial chop) should be placed in the hands of the majority shareholder. Transactions over a certain amount should require multiple signatures, including those from both parties' representatives.

Contrary to common belief, problems that arise with JVs do not usually result directly from mismanagement by the board. They more often come from corrupt implanted personnel in positions of some authority, such as purchasing, and human resources. It is common for these positions to be corrupted and for incumbents to use their roles to pass business to certain suppliers for kickbacks, or to deliberately buy high from a family related business. The same can occur in HR, with "ghost employees" being paid salaries into accounts managed by the payroll assistant. **Continued on P21**

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JV management is a combination of several factors: providing your partner with a good enough deal to keep him honest in the business, attention to detail across management layers and especially in financially related ones, and a willingness and desire to work with the Chinese partner.

Consistent discussions over business direction and development are also vitally important. A JV neglected by the foreign investor will develop serious problems. Those structured and managed properly will not. The aim of a JV is for both parties to make money for their efforts – a goal that all too often gets pushed to one side in the hands of the naive or simply greedy.

It is also important to clearly define what are to be considered unacceptable levels of business (losses in consecutive years, production below targeted levels, etc.) and have these agreed upon in the contract and articles. Often they are not, and this can lead to problems with getting out of a JV if the government does not agree with the assessment of what is and is not a viable business. Make sure economic performance is properly identified as a clear reason to effect closure if things do not work out as planned.

While managing a China JV can be difficult, with prudent planning, due diligence, and a strong management team in place and with both sides motivated to the ultimate goals, JVs can be spectacularly successful. This is especially true of those that can retain an element of remaining beholden to the foreign party, for technology or access to overseas markets.

JVs can also be immensely useful to establish business in a new area of China, and once the partner's job is done, the JV can then be converted to a wholly foreign-owned enterprise or merged with other ventures elsewhere to create a truly national business. JVs can be useful stepping stones to far larger structures, and when operated properly, can be an educational and fulfilling business

within the China business environment.



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