AN ECONOMIC AND BUSINESS STRATEGY ANALYSIS OF JOINT VENTURES BETWEEN GREEK ENTERPRISES AND ENTERPRISES IN THE BALKAN COUNTRIES AND RUSSIA : FROM THE GREEK PARENT COMPANY PERSPECTIVE (VOL. I)

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A Thesis Submitted for the Degree of PhD
at the
University of St. Andrews

1997

AN ECONOMIC AND BUSINESS STRATEGY ANALYSIS OF JOINT VENTURES BETWEEN GREEK ENTERPRISES AND ENTERPRISES IN THE BALKAN COUNTRIES AND RUSSIA, FROM THE GREEK PARENT COMPANY PERSPECTIVE

Volume I

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Acknowledgements

This thesis in the outcome of both a painful intellectual and physical effort on the part of the author. However, I have to state that without the assistance and moral support of many people, this would have never been accomplished.

First of all I have to thank my supervisor Professor Gavin Reid for his intellectual remarks, confidence and moral support. I must also thank Mr Alkis Drakinos director's assistant in the European Bank for Reconstruction and Development (EBRD) in London, for providing me a lot of data concerning the economies of these countries, and Dr Bogdan Baltazar, Senior Adviser in EBRD. Furthermore, I have to thank the director of the Economist Intelligence Unit (E.I.U.) for Greece, Mr Robert Mc Donald.

In Greece I have to thank a lot of people, for their direct or indirect assistance. First of all the managers of the Greek firms who in spite of their commitments offered me much of their valuable time for interviews and discussion, which in same cases led me to aspects previously disregarded...

I must also thank my former professors in the University of Athens for their moral support and intellectual contribution by suggesting to me their work on Eastern European countries. I have to thank professor Luka Katseli, professor Luke Papadimos, assistant professors Kiriakos Kioulafas, George Mergos, Themis Minoglou and associate professor George Provopoulos.

I must also thank professor Stergios Babanasis of Aegean University and assistant professor Leonidas Maroudas of the same university for their intellectual contribution and support. Professor Josef Hassid's contribution of the University of Piraeus must also be acknowledged.

I have to make particular reference to Dr Charalambos Vlachoutsicos, member of Harvard's Russian research centre. I want to thank him again for his time, trust, moral and intellectual support... Furthermore I have to thank Dr Constantinos Lambropoulos for his contribution as well.

I have to acknowledge the help of the following research institutes :

a. *The Institute of International Economic Relations and especially Dr Tsardanidis Institute's director. I want to thank him for providing me with all the data that the Institute had available and also for providing me the records of seminars, conferences and roundtables which occurred when I was in St. Andrews.*

b. *The Hellenic Centre for European studies, especially the Balkan unit, and Dr Fakiolas member of the institute.*

c. *The library of the Hellenic Centre of European and Foreign Policy.*

d. *The library of the Foundation for Mediterranean Studies.*

In Thessalonika I must thank , the «Euroconsaltants S.A.» and especially miss Papavlachopoulou for providing me with data on the Bulgarian economy, as well as unpublished reports. I must also thank the Confederation of Industries of Northern Greece and especially Dr Alexandridis for providing me unpublished reports.

Furthermore, I have to acknowledge the help of the president of the Hellenic Romanian Chamber of Commerce and Industry Mrs Violetta Zervaki. Her help consisting in introducing me to business people activated in Romania was essential.

The assistance given to me by Mr Stelios Malikourtis, former Greek ambassador in Albania, Vencislav Again former counsellor of the Bulgarian embassy in Athens and Rossen Trendafilov, commercial counsellor has to be acknowledged as well. The same has to be said of commercial counsellor of the Romanian embassy in Athens Mr Bairel Bolovan.

Furthermore I acknowledge the help of the former deputy minister of the Ministry of Industry Research and Technology Mr Theodore Damianos by introducing me to business people activated in Bulgaria and Russia.

I must also refer to Mrs Anne-Scokou Bakolia of the National Bank of Greece, Mr Dimitris Pepelasis and Mr Nicos Vergos of the same bank.

I have to thank also the research department of the Ionian Bank of Greece and especially Mr George Mandakas as well as Mr Christidis Director of the bank's Balkan desk in Thessaloniki. Furthermore I have to thank the Director of the bank Dr Sapountzoglou. I must also thank Mr Christos Thomopoulos for his help by introducing me to business people activated in Albania, and his moral support.

Above all I want to thank, from the depth of my heart, my parents for their love, support and advice.

Ioannis - Dionysios Salavrakos
St.Andrews, Athens, Calamata

ABSTRACT

This thesis analyses joint ventures which have been established between Greek enterprises and enterprises from Albania, Bulgaria, Romania and Russia. An international joint venture (IJV) is an enterprise established between two or more companies, one of which exercises its entrepreneurial activities in a foreign country.

The core set of questions that this thesis addresses consist of motives for the establishment of joint ventures, partner selection criteria, control and conflict inside a joint venture, stability and performance. Another issue addressed is that of the problems which joint venturers face, as identified by Greek businessmen and academics.

This framework is deployed upon an extensive body of primary source data gathered in 1994 by field work methods, using an administrated questionnaire largely within the Greek parent companies. Our research relates to evidence on 44 Greek enterprises, groups of companies, or individuals who established joint ventures with Eastern European partners after 1989. The questionnaire design is based on the notion that the expansion of the domestic boundaries of the firm abroad, and its decision to establish an IJV are the outcomes of strategic, financial and country specific motives.

The key results of the thesis are that successful joint ventures in Eastern Europe have the following characteristics:

1. Dominant control by the Greek partner over the IJV, when the Eastern European partner is a bureaucrat.
2. Low perceived conflict as regards intensity and frequency over dimensions like transfer of knowledge.
3. High stability as measured by the percentage increase in share capital held by the Greek partner and by resistance to transformation to wholly owned subsidiary status of the IJV.
4. Good perceived financial performance.
5. Evolution of the IJV such that the Eastern European partner increasingly takes on a managerial role and becomes attuned to managerial modes of behaviour.
6. Shared decision making between partners to the IJV beyond the infant stage.

CHAPTER 1:
INTRODUCTION
INTELLECTUAL CONSIDERATIONS

1.1. Background

The thesis examines characteristics of international joint ventures (IJVs), which are enterprises established between two or more companies, one of which exercises its entrepreneurial activities in a foreign country[1], using an analytical framework drawn from the business strategy literature and an empirical approach which uses primary source data gathered by field work methods. One venturer was based in Greece and the joint venturer was based in Albania, Bulgaria, Romania or Russia. The analytical background considers auxiliary and core issues. The auxiliary issues address the question of firm's motives for international expansion. We identified firm specific motives, strategic motives and home-host country specific motives. Western scholars have developed many analytical frameworks in order to answer the question of why firms desire international expansion. The early classicals, like Adam Smith for example, expressed the view that a firm will expand its activities into another country in order to exploit the raw materials or profit from the cheap labour force of that country. Others, like Hood and Young (1979), expressed the view that what drive expansion is that a foreign firm will possess certain advantages (e.g. superior managerial culture, superior technology) compared to local firms. These advantages are crucial if the firm is to overcome the additional costs of operating in a foreign country. We had to consider the views which Western scholars have expressed, as well as those which Greek academics expressed, in explaining the phenomenon of Greek firms expansion in Eastern Europe in a historical context. In addressing this set of questions the analytical framework used by Western scholars has been modified, in order to make it applicable to the Greek case, where the majority of IJVs are small trading companies.

The core set of questions that this thesis faces consists of the motives for the establishment of joint ventures, the partner selection

[1] The above definition has been used by Geringer (1991) and we adopt it in this thesis. Other writers such as Lorange & Roos (1995) distinguish between «project-based joint ventures» and «full-blown joint ventures».

criteria, the issues of control and conflict inside a joint venture, as well as the issues of stability and performance of the ventures, and the problems that these ventures face.

The motives for joint venture formation have been analysed extensively by many Western academics. The major theoretical streams of thought are: the transaction cost approach, the strategic motivation approach and the organisational theory approach. We decided to follow the strategic motivation approach, which has been very well developed by Contractor and Lorange (1988).

The second issue is that of partner selection criteria and has the following dimensions: The first, is the potential choice between a private firm and a state owned firm as a partner. The second, is the general criteria that a firm has in order to select the joint venture partner. We have used eighteen criteria, which Western scholars have identified such as partner status, partner's ability to commit financial resources to the venture, partner's ability to provide a distribution network to the venture etc.

The third issue is that of control in the joint venture. This issue has three dimensions. These are: The focus, the type or extent and the mechanisms of control. The focus of control has been addressed by Geringer and Hebert (1989). The extent of control has been addressed by Killing (1982) and the mechanisms of control have been addressed by Geringer and Frayne (1990), as well as other scholars. On this issue we have used eighteen mechanisms, which Western academics have described.

The fourth issue is that of conflict inside the joint venture. This issue has also three dimensions. These are: The frequency, the intensity and the sources of conflict. The first two (frequency and intensity of conflict) have been addressed by Habib (1987), the third one (sources of conflict) has been addressed by many scholars such as Ganitsky and Watzke (1990), Geringer and Frayne (1990),Anderson (1990), Kogut (1989).

The final issues which Western scholars have developed are those of stability and performance of the ventures. These issues are also multidimensional. For example, there is no consensus on the theoretical definition of stability and the same occurs on the issue of performance. To illustrate, an indication of successful performance which many authors regard as important is the financial indicator of profit, while others consider different measures such as the performance of personnel and of the general manager.

The problems which joint ventures face have been addressed by Greek scholars such as Babanasis- Scarpelis (1994), Kioulafas-Maraveyias (1994) and Vlachoutsicos (1993). Furthermore Greek businessmen have contributed to identifying further difficulties.

The above analytical points have been put to empirical tests by the empirical evidence which is presented as the second background dimension of the thesis. We have to state that wherever we used quotes from Greek academics, we translated from Greek to English using the most close and accurate terminology. The same stands for the opposite case.

In the last six years (1989-1995) Greek enterprises have established hundreds of international joint ventures (IJVs) in Eastern European countries. These constitute our broad body of evidence from which our sample was drawn. The majority of these IJVs are small trading companies which have been set up in Albania, Bulgaria, Romania and Russia. This does not mean that Greek firms have not expanded into other Eastern European markets, but rather that the entrepreneurial expansion into the rest of Eastern Europe is limited compared to that into these four countries.

A further point, which has to be mentioned, is that only a small fraction of firms engage in foreign direct investment (FDI) activity, and it is this characteristic which makes Greek joint venturing unique.

1.2. Purpose

In this thesis case study evidence is used to test the analytical framework. The evidence itself is primary source data which have been gathered by field work methods[2] largely within the Greek parent companies. Whilst we recognise the desirability of directly gathering responses from the non-Greek partner to the IJV, and indeed in our early field work we made some progress in this direction it did not prove possible to follow through on this. We recognise that we had to use a research method, that was the «second best» option that was available to us, in that the «first best» option would have been to travel to all the Eastern European countries concerned, to identify the joint ventures and then to gather our data. This however was not possible because of time and financial constraints, although a certain amount of early field work

[2] On the use of this methods in economics see Reid (1987) for methodology and Reid (1993a,b) for application of this methodology for small businesses.

within Eastern Europe was undertaken. We would argue that the subsequent emphasis on the Greek partner did not have harmful effects on the research process and on the results because the Greek venturer is, in the majority of cases, the general manager of the venture. If the venture's general manager is local then it is an individual selected or imposed by the Greek partner. In order to use case studies for our test methodology the theories have been exposed to within-site and cross-site analysis.

The within-site analysis is demonstrated in chapters seven and eight. The classification of cases in these two chapters is deliberate, not accidental. Firms which have established multiple joint ventures in one or more countries provided us with a general response which covered wide aspects of their activities. In some cases non-responses were an impediment to differentiating between manufacturing and trading ventures. As an alternative this led us to distinguish between enterprises which had established multiple joint ventures in one or more countries and enterprises which had established a single venture in one country. Other types of classification, such as manufacturing versus trading ventures, or small, middle or large size ventures were rejected as inappropriate. For example, trading ventures were so much more common than manufacturing ventures that a split on this dimension would have had little empirical leverage.

Each case study makes particular reference to every theoretical point. That is in every case we describe the motives that the firm had to expand its activities abroad, to establish a joint venture, and consider the criteria for selecting the East European partner. Furthermore, we describe the issues of control, conflict, stability and performance, as well as the problems that the venture faces.

The cross-site analysis is demonstrated in chapters nine, ten, eleven and twelve. Again in there we make particular reference to every theoretical point. An important complement to these chapters is the accompanying evidence gathered in the second Appendix of 112 diagrams and tables which buttress our main conclusions.

1.3. Scope

In order to analyse and explain a phenomenon two different approaches can be followed. The deductive approach or the inductive approach. In the former we start with an a priori theoretical concept and

we select the data to test it. This is the process from the «whole» to the «part». In the latter we start from empirical evidence and we establish a theory a posteriori. This is the process from the «part» to the «whole». It is essential however to understand that both methodologies are useful and complementary.

The character of the thesis is that it uses both methodologies. The deductive methodology is obvious. We have an analytical framework developed by Western and Greek scholars, which consists of the motives for the establishment of joint ventures, the partner selection criteria, the issues of control and conflict inside a joint venture, as well as the issues of stability and performance of the ventures and the problems that these face. We select data (case studies) to test the analytical framework.

The inductive methodology is obvious, because from the cross-site analysis we ended by constructing a six point prescription for successful IJVs that we have already summarised in the Abstract. According to this, the successful joint venture is characterised by dominant control, exercised by the Greek partner for a certain time period, which can be lengthy. This dominant control is necessary because the East European partner is not familiar with the Western European managerial culture, and leads to low perceived conflict, high stability and good perceived financial performance. This is the «infant stage» of the venture. The stage when despite the problems, the Western European manager adapts to the new environment, and simultaneously the same occurs for the East European partner. After this infant stage the East European becomes familiar with the Western managerial practices and the venture can be transformed from a dominant to a shared-management one.

In the process of determining these prescriptions, we started with a certain theoretical framework, we collected empirical data to «fill the categories» of that framework; and end up by substantially modifying that framework in the light of evidence. In this sense, we have developed a «grounded theory»[3]. While the dominant theoretical stream of reasoning in Western literature on joint ventures argues that a successful venture is the independent or the shared management venture, we found that for East-West joint ventures the successful venture is the one which is dominant for a long period of time (until the Eastern European becomes a manager) and then becomes transformed into a shared management venture.

[3] See Glaser & Strauss (1967): «The Discovery of Grounded Theory: Strategies for Qualitative Research» N.Y. Aldine.

It is essential however to point out that the deductive approach is followed in another sense as well, that is our aim was not just to provide specificity. We wanted to provide the general, the overall picture as well. The significance of this is illustrated by the following example. Suppose that we want to evaluate a British petrochemical company. If we attempt to do this using only the company's financial and other indicators, that is emphasise the «part», our evaluation would be incomplete and misleading. In order to evaluate a company's future prospects «in whole» we have to consider as well:

a) the industrial sector in which the company belongs,
b) the prospects of the British economy,
c) the developments which occur in the global petrochemical industry.
d) the prospects of the global economy.

We followed exactly the above line of reasoning in our analysis of joint ventures, seeking to locate the analysis of «the part» (the IJV) in «the whole» (contemporary economic events etc.). That is why we provide a background analysis of the macroeconomic evolution which occurred in these countries until 1989 and afterwards (chapter 2). We also provide an analysis of the microeconomics of the «socialist state enterprise», as well, as this facilitates an understanding of the entrepreneurship which has evolved in these countries in recent years. Furthermore we provide a general analysis of Greek economic activity in these countries (chapter 4), so that the reader can understand that the expansion of Greek firms, and the establishment of joint ventures there is not an isolated phenomenon. It is part of greater dynamic process, which started in 1989, but accelerated after 1992 with the establishment of the BSEC area. This process stimulated all the major economic factors and encouraged the development of market forces.

1.4. Contents

The principal arguments of this thesis can be described as follows: The Albanians, Bulgarians and Romanians had experienced a centralised economic system from 1945, while for the Russians this dated even earlier, some time after the 1917 revolution. This system created totally different entrepreneurial and managerial attitudes and characteristics, from those that western states have experienced. After the collapse of the Eastern block, over the period 1989-1993 a new kind of entrepreneurship emerged in the former communist countries. Under this setting, which is a

mixture of the old and the new, Greek entrepreneurs expanded their activities into these countries, and formed joint ventures. These have diversified and sometimes multiplied entrepreneurial goals.

When they first start to operate, these ventures encounter tremendous impediments. On the one hand, the Western (Greek) side neither knows, the environment nor understands the expectations of the East Europeans. On the other hand, the East Europeans do not know the managerial culture of the West. Despite this initial inefficiency the managers on both sides of the ventures are able to be flexible, that is they can adapt themselves to the new circumstances. The evidence is that Greek managers can adapt rather more quickly than the East European ones, possibly because they have greater experience of market mediated relations. The thesis concludes from the evidence that because of these inflexibilities a successful East-West joint venture should follow an eight stage process.

1) The decision, on the part of the Western firm to expand in one of these countries must be taken very carefully. The Western firm must evaluate the macroeconomic evolution of the country, its prospects, the advantages that the firm has compared to local firms etc.
2) The decision to establish a joint venture is the second step. The Western firm must evaluate the prospects of every economic sector and activity and must decide if the venture will provide services, will be a trading company, or a manufacturing firm.
3) The third stage requires that the Western side has to exercise, for a long period of time, dominant control over the venture. That is, it must take strategic and administrative decisions and leave only the everyday operational issues to the partner. This is especially important if, as is often the case, the Eastern European is by training and experience a bureaucrat.
4) The first positive result of this dominant control is conflict minimisation inside the venture.
5) The second positive result is that the venture, because of minimum conflict, experiences high stability rates.
6) The third positive result a direct outcome of the above two, is the good financial performance of the venture. (If the performance is not what was expected, this has to be attributed in some degree to the general macroeconomic environment).
7) During these stages the East European is transformed from a bureaucrat to a manager, because he absorbs the Western managerial

culture and, up to a point, techniques. It is important to remark that this process is time consuming; it may last years.

8) Finally, a direct outcome of the above, is that the venture is strengthened and successfully passes through the «infant situation». Then the Western partner can relax the control that has been imposed on the venture, opening up the prospect of transformation of the venture from a dominant into shared management one.

It is important to point out, once again, that the above process assumes the form it does because of the general macroeconomic situation which existed in Eastern Europe until recently which engendered (generated) a bureaucratic rather than entrepreneurial mentality. The first two stages are the outcome of the «auxiliary issues» of our research. The other six stages are the outcome of the «core issues» of our research.

As a consequence the above prescriptions for success are necessary hending as they do on the fact that the Western managers in the joint venture initially can adapt more rapidly than their East European counterparts.

CHAPTER 2:
FRAMEWORK OF ECONOMIC ACTIVITY PLANNING AND SECTORAL ASPECTS

2.1. Introduction

With the aim of providing the context in which the part (micro) can be seen in the context of the whole (macro) this chapter highlights the economic evolution in Albania, Bulgaria, Romania under the communist regime and during the transitional period, after 1989. A brief analysis of economic evolution in the former USSR and the Black Sea Economic Co-operation (BSEC) area is also made.

2.2. The Economic Characteristics of Centrally Planned Economies (CPEs)

The basic characteristics of CPEs are the following:

a) Abolition of Private ownership

According to the political economy of CPEs private ownership is considered as an impediment to the advance of society and, should be replaced by social ownership (de facto state ownership). However, we have to point out that private ownership has not been abolished completely in any of these countries, although it has decreased dramatically. This is clearly demonstrated in Table 2.1:

Table 2.1 : Private Sector's percentage (%) contribution to National Income

Country	Year	(%) contribution	Year	(%)Contribution
USSR	1922	70	1937	0.9
Bulgaria	1950	31.4	1977	0.1
Albania	1962-64	9.6	1977	1.4
Hungary	1950	34.3	1977	1.9
Romania	1950	38.5	1977	4.5
Poland	1950	44.0	1977	16.0
Yugoslavia	1947	40.5	1973	18.9
G.D.R.	1960	10.7	1980	2.9
China	1952	78.9	1956	7.0

Source: The data have been obtained from Babanasis (1991) pages 44-50.

For the earlier years (left column) the private sector was seen to have made significant contributions to National Income (e.g. 38.5% for Romania in 1950), and even in later years (right column) this contribution became smaller but has not vanished. Thus in 1977 the private sector in Poland still contributes 16.0% to National Income.

b)Dominance of Planning Authorities

Under this system, market mechanisms are replaced by planning authorities, which determine the level of production, the quality of the products as well as the level of consumption. These authorities, impose the ex ante planning process at the macro and micro economic levels, in the centralised model. That is, after the specific determination of goals at the macroeconomic level, enterprises are obliged to achieve specific levels of production, which are imposed on them by the higher planning state authorities.

The above, are the two core characteristics of CPEs. We shall examine the system in a more detailed way in the following chapter. (See chapter 3,§3.1., 3.2.). For the moment, we shall try to highlight the macroeconomic evolutions in the countries which are of our particular interest, during the period of central planning.

2.3. The Albanian Economy (1945-1989)

2.3.1. The first period (1945-1980)

Before the Second World War Albania was an underdeveloped agrarian economy. In 1938 only 32 tractors existed in the whole country[1]. As Hall points out, : «...by the early 1940s Albanian manufacturing activity was still severely limited and concentrated in a handful of small towns. The lack of good communications restricted trade and industry... Nine out of every ten industrial enterprises employed fewer than 15 workers, and even by 1943 less than 80 firms employed more than ten people...». In November 1944 the communists took power in Albania, and established a centrally planned economy. The first nine month plan occurred between April-December 1947. This was followed by a one year plan adopted in 1948. A two year plan followed (1949-1950). After that transitional period five year plans have taken place (1951-1955), (1956-

[1] D.Hall (1994). According to Hall agricultural production was 82% of total output at that year.

1960), (1961-1965), (1966-1970), (1971-1975), (1976-1980), (1981-1985) and (1986-1990)[2].

Until 1950 the core economic goals were the application of the basic socialist principles and the restoration of the total output (agrarian and industrial) to the pre-war level[3]. In order to achieve these goals Albania had to rely on external aid. As Hall points out, Yugoslavia was the main source of economic aid for the country[4], that is why the one year plan of 1948 was focused «to closely align Albania's economy with that of Yugoslavia». However, the close ties between the two countries have been abolished and Albania turned to other C.M.E.A. countries for support. The disintegration of economic ties was the aim of the two year plan (1949-1950). During the first two five year plans precedence has been given to the development of industry over agriculture. In 1959 the Soviets advised the Albanians to develop the primary sector of the economy and not the secondary sector and as Khruschev, the Soviet leader put it, convert the country into a «flowering garden»[5]. These proposals had been rejected by the Albanian government and the country abolished economic ties once again, this time with the USSR, and turned to China for economic assistance, from 1961.

The principal aim of Albanian industrialisation was, according to Pashko[6], the development of heavy industrial sectors (chemical, engineering, copper industry, metallurgy, energy). In Table 2.2 Pashko gives the shares of heavy and light industry in the total industrial production. The term «Group A» represents the heavy industry. The term «Group B» represents the light industry. The data indicate that heavy industry has increasingly dominated total production, rising from a contribution of almost one half in 1960 to almost two thirds in 1980.

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[2] IMF (1992).

[3] According to Hall (1994) : «...During the war some 61,000 buildings, 5.5 km of bridges and 2.5 km of docks have been destroyed, as had much of the country's 2,230 km of road, but Albania was largely without the financial resources to make good such damage...».

[4] For an analytical presentation of Yugoslav-Albanian economic relations see Hall (1994).

[5] Hall (1994).

[6] in Sjoberg & Wyzan (eds) (1990).

Table 2.2 : Share of heavy (A) and light (B) industry in the total industrial output of Albania 1960-1980 (as a percentage).

Year	Group A	Group B
1960	48.9	51.1
1965	49.5	50.5
1970	57.0	43.0
1975	56.9	43.1
1980	64.0	36.0

Source: **Sjoberg & Wyzan (eds.): «Economic change in the Balkan States» page 133.**

Pashko points out that: «...The economy has continued its orientation towards resource-intensive industry rather than towards labour intensive activities which would make use of the supply of cheap labour... This resource intensive structure was also a result of the merger of economic units and a high degree of concentration in agriculture. The completion of collectivisation at the end of the 1960s marked the start of a new process: the merger of co-operatives...». With Chinese assistance Albania continued its industrialisation strategy, with a parallel effort to maximise agricultural production. In July 1978 the economic ties with China were officially abolished; just like with Yugoslavia and USSR in the past. Albania decided to impose a «self-reliance» strategy which lasted until 1990. The economic developments from 1951 to 1980 can be summarised as follows[7]. Albania became increasingly industrialised with percentage contribution to net material product rising from just 14% in 1951 to 40% in 1980. Although agricultural production roughly doubled over this period in absolute terms, in relative terms it fell from 80% to 36%. Construction, transport and communications increased in terms of net material product, but remained at almost 10% in relative terms throughout this period.

2.3.2. The second period (1980-1989)

The second period is that of «self-reliance», officially starting at the end of the seventies. Hall (1944) points out that the loss of foreign aid

[7] Based on Statistical Directories of the State Planning Commission, republished by IMF (1992).

from China had a harmful effect over the economic indicators. He remarks that only in the second half of the 1980s attempts were made to reform the system. Exactly the same view is expressed by Sjoberg (1990), who writes that the system was (from the mid 1970s) «more centralised than ever before», however after 1985-86, «some modifications have taken place». He evaluates the overall economic policy as one of a short term character, which «conformed closely to the orthodox prescriptions established by the original stalinist economic model». However during the 1980s the proportion of heavy and light industry in the total industrial output has been stabilised at about two thirds and one third of industrial output respectively. The economic depression, which gradually occurred from the end of the 1970s, because of the abolition of Chinese aid, accelerated during the 1980s and despite the efforts to contain it[8] , turned into a deep economic crisis during the period 1988-1990. According to a confidential report from the C.I.N.G. the crisis was the outcome of internal factors such as: economic inefficiency, low productivity, irrational use of limited resources, shortage of foreign currency, sclerosis in the prices of factors of production. Pashko, on the other hand, states that «... it is still difficult to carry out a detailed analysis of the structural problems afflicting the Albanian economy...». However he points out the errors in economic policy during the decades of the 1960s and 1970s, and attributes the crisis to structural problems such as underutilisation of the labour force, uncompetitive exports, demographic pressure and eventually, the lack of technological innovation. As he points out «...the greater part of the productive capacity introduced in the 1950s, 1960s, 1970s has become worn out. To restructure that technology demanded financial resources and hard currency reserves and these were very limited in Albania...». The macroeconomic evolutions during 1980s can be summarised as follows. Over the period 1980-1988 industrial production fell by almost 5%. All categories of production expanded little, if at all, over the period 1981-1990, and sectoral contributions to output were static with agriculture constituting almost a third, industry just under a half, and construction, transport and communications around one tenth[9]. From 1985 to 1989 macroeconomic performance can be characterised as controversial

[8] According to Sjoberg (1990) «reform efforts are ... attempts to redress difficulties by marginal concessions...», according to IMF(1992):«...practically no economic reforms were introduced... before 1990...».

[9] See data by State Planning Commission, republished by IMF (1992).

because of rapid rises of GNP growth rate and GNP per capita during 1985, 1986 and 1989 and declines during 1987 and 1988[10].

2.4. The Bulgarian Economy (1945-1989)

2.4.1. The first period (1945-1980)

Before the Second World War Bulgaria was an agrarian economy, since 80% of the labour force was occupied in the primary sector[11]. In 1939 the contribution of the primary sector was 55% in the formation of GNP, while the contribution of the secondary sector was only 15%[12]. The banking sector was developed in the pre-war period; however the 1929 crash had a harmful effect on the activities of the sector since out of 129 banks only 34 remained operational during the 1930s[13]. After 9/9/1944 a centrally planned economy was established. A transitional two year plan was introduced (1947-1949) followed by five year plans (1949-1953), (1953-1958), (1958-1962), (1961-1965), (1966-1970), (1971-1975), (1976-1980), (1981-1985), (1986-1990).

The aim of the first two year transitional plan was to abolish private ownership in all sectors of economic activity. From 1947 to 1949 7,000 firms turned to state control; including banks. By the end of 1948 93% of industry was state owned[14]. The first five year plan (1949-1953) had as a primary objective the development of heavy, compared to light, industry. In the second five year plan (1953-1958) the «State Planning Committee» was created in order to organise the five year plans with the collaboration of the «Prices Committee», the «Committee for Scientific and Technical Progress», the «Ministry of Industry» and the «Central Committee of the Bulgarian Communist Party». The third five year plan (1958-1962) was reoriented in 1961, and a new one (1961-1965) introduced having as a primary objective the development of chemical industry, machinery and electric power. In 1964, following the steps of USSR, Bulgaria made some initial attempts to reform the system at a microeconomic level, by lending authority to middle and low personnel in the state enterprises. The new five year plan (1966-1970) attempted to generalise the reforms, and replace the centralised system with a de-centralised system. Eventually in 1968 the reforms have been reversed and

[10] See data by the Albanian Statistical Service, republished by Kioulafas-Maraveyias (1994).
[11] Kentrotis (1994)
[12] Kioulafas-Maraveyias (1994).
[13] Bulgarian National Bank (November 1993)
[14] Kentrotis (1994). At that time the banking sector consisted of three banks: a central bank, one for retail banking and one for long term credit.

two more central authorities have been created. In the 1970s the primary aim of the two five year plans (1971-1975) (1976-1980) was to achieve further maximisation of agricultural and industrial production.

The economic evolution of Bulgaria from 1950-1980 can be summarised as follows: The sectoral distribution of industrial production was largely stable for many sectors but experienced a surge of the machinery contribution to gross material product (GMP) from 10% in 1952 to 20.2% in 1980. A sharp decrease occurred in the textile sector's contribution (from 14.7% in 1952 to 5.4% in 1980)[15]. Over 1950-1975 agricultural production rose steadily for all major commodities with particularly large increases in wheat and corn[16]. The labour force rose over the period 1975 to 1980 from 3.67 m to 4.11 m experiencing increases in all sectors[17]. Over the period 1965-1980, main sectoral contributions to GNP (in percentage terms) were stable, with industry contributing about a half and agriculture declining from almost one third in 1965 to about one fifth in 1980[18].

[15] See statistical data published by Jackson in Grothusen Bulgarien (1990), republished by Kentrotis (1994).
[16] Ibid (16).
[17] See data published by the Bulgarian Statistical Service 1988, republished by Kioulafas-Maraveyias (1994).
[18] Ibid (18).

2.4.2. The Second Period (1980-1989)

This decade can be characterised as controversial, because of the general economic performance, which caused a lot of debate.

According to the official view namely, that of the Bulgarian government, the economy prospered. Especially as Kioulafas-Maraveyias (1994) point out the industrial sectors of chemical products, electronics, biotechnology, machinery developed at a spectacular rate. This, is further documented by an unpublished report from the C.I.N.G. for the Bulgarian economy, which states that in the mid 1980s the electronics industry was the third world exporter of computers after USA and Japan for CMEA countries. The above are clearly demonstrated from the following table:

Table 2.3: Sectoral Composition of Industry (Thousands of employees)

	1980	1989
Electricity	25	36
Coal	43	47
Oil-Natural Gas	0.5	0.5
Ferrous Metals	34	39
Non-Ferrous Metals	37	43
Electronic Machines	365	558
Tool Machines	239	345
Electronics	*126*	*213*
Chemicals, Plastics, Rubber	97	113
Building Materials	63	58
Wood and Wood Products	73	69
Glass and Porcelain	26	24
Paper and Paper Products	18	19
Fabrics, Knitwear	128	118
Garments Textiles	64	80
Leather, Furs, Shoes	29	35
Printing-Publishing	11	10
Food Products	172	177

Source: Unpublished report, Confederation of Industries of Northern Greece.

The above table demonstrates, according to the official view, the successful performance of the economy and especially of the strategic industrial sectors. The electronics sector, for example, from 126,000 employees in 1980 had 213,000 in 1989. Similar increases can be observed in other sectors; such as tool machines, electronic machines and electricity. According to the official view from 1980 the economy entered a new phase, when the government issued the Decree No 535 which allowed foreign investors for the first time to invest in Bulgaria[19]. The second milestone was the «New Economic Mechanism», introduced in the primary sector from 1979 and in all other economic sectors from 1/1/1982. Wyzan (1990) expressed the view that the 1/1/1982 reforms aimed to improve the functioning of central planning, rather than replace it with a market oriented economy. This view is also shared by Kentrotis (1994), who points out that until 1986 the economy was characterised by low productivity, low wages and a low level of services. Ognian Pishev[20] shares similar views. Kioulafas and Maraveyias (1994) acknowledge, as we have already pointed out, the fact that progress occurred in various industrial sectors; however they also state that «...after 1970 problems started to press for reforms...», they also argue that it was the period 1989-1990, which created enormous economic problems. Another report[21] hints that the great problems started in the mid 1980s, but the collapse of the economy occurred in 1990 as a result of both external and internal factors. Summing up the above analysis we can distinguish between two extremely different evaluations for the economy during the 1980s.

The first one is the «official» view expressed in the National Statistics. According to this view, Decree No535 and the «New Economic Mechanism» were the first steps of a new prosperous era for the economy, followed by massive investments in strategic industrial sectors. These reforms continued in March 1986 with the abolition of most industrial branch ministries. In January 1987 the system was liberalised further and from June of the same year private activity has been allowed in some economic sectors. In January 1989 the Decree No56 was introduced making a distinction for the first time between enterprises[22]. The official

[19] As Maroudas (1994) points out Bulgaria opened its economy to foreign investors very late, compared to other countries Yugoslavia (1967), Romania (only in a j.v. form) from 1971, Hungary (1972), Poland (1974), Socialist Republic of Vietnam (1977), China (1978).

[20] In Sjoberg & Wyzan (eds.) (1990).

[21] Economic chamber of Greece-Thrace Department and Euroconsaltants, unpublished report on the Bulgarian economy (1992).

[22] For an analytical presentation of the reforms see Kentrotis (1994). For a presentation of the Decree No56 see Wyzan (1990), Kentrotis (1994), Babanasis (1991), Razvigorova, Nenov, Djarova, Borrishova (1991).

view, acknowledges that in order to develop the high technology sectors over a short period of time the government had to borrow funds from abroad, mainly form the West. This policy lead to the increase of foreign debt, which according to the «Ionian Bank of Greece», was 6,7 billion USD in 1988 and 8,92 billion USD in 1989.

The second view on economic evolution is expressed by Pishev (1990), Panov (1991), Wyzan (1990), Kentrotis (1994). According to them the problems in the Bulgarian economy lurked over the previous decade. During the 1980s the economy deteriorated. Fiscal imbalances and debt increase pressed for reforms. This view is also shared by the Economic Chamber of Greece-Thrace Department, while the Confederation of Industries of Northern Greece follows the first view; the official one. Kioulafas and Maraveyias (1994) on the other hand attempt to bridge the two approaches.

The economic evolutions during the 1980s may be briefly described as follows: GNP rose steadily at about 3% to 5% per annum. GNP per capita also rose steadily (from 2,467 leva in 1981 to 3,144 leva in 1987)[23]. The sectoral distribution of outpout was steady with agriculture and forestry contributing just over 10%, industry about 60% and construction about 10%. Trade rose relatively rapidly from 6.9% in 1985 to 20.1% in 1989[24]. At the end of the decade the main economic indicators deteriorated. GDP fell by 3.3% from 1988 to 1989 and exports of goods and services fell by 13.3% and 11.8% in 1988 and 1989 respectively [25].

2.5. The Romanian Economy (1945-1989)

2.5.1. The first period (1945-1980)

Before the second World War Romania was mainly an agrarian economy, since 74% of the labour force was occupied in the primary sector[26]. By the end of 1989 the economy had been transformed because of massive investments in the secondary sector, which «...even by the standards of communist economies may be considered unusually

[23] Data published by the Bulgarian Statistical Service (NSI) 1988, republished by Kioulafas-Maraveyias (1994).
[24] Ibid (26) and see also Lambropoulos-Maroudas (1992).
[25] See data published by IMF, the World Bank, the OECD, national authorities and European Bank estimates.
[26] Murtos (1994)

strong...»[27]. As Montias (1991) remarks: «...In 1950 the active population in agriculture was 74.1%... In 1989 it was 28.2%. Crude steel production increased from half a million tons in 1950 to 14,4 million tons in 1989. The proportion of the total value of industrial output... increased from 37.1% in 1950 to 62.6% in 1989...». Eight five-year plans occurred until 1990. These were (1949-1955), (1956-1960), (1961-1965), (1966-1970), (1971-1975), (1976-1980), (1981-1985), (1986-1990).

Murtos (1994) points out that during the 1950s precedence has been given to industrial development. At the beginning of the 1960s, however, the economic plans of the Romanian authorities contradicted those that Moscow had for its satellite; in particular the USSR's belief was that Romania should develop the primary sector of the economy. At that point, the nationalistic element was introduced, and the Romanian government decided to develop the heavy industry making massive investments and asking for western assistance. The official date of launching this policy was the 26-11-1962 when the government announced the establishment of steel industries with a British-French consortium of companies. The Romanian announcement occurred one week after Krushcev's announcement of his plans in the Central Committee of the Soviet Communist Party[28] for multinational planning.

In November 1971 Romania became the first Eastern European country, to participate as a full member in GATT. It established relations with the IMF and World Bank in 1972 and started, in 1980, to collaborate with the European Community[29]. It is important to point out, that in 1950 only 20% of the foreign trade was conducted with the West, while in 1970 it was 35.8%[30]. During the 1960s and the 1970s the primary aim was the creation of a heavy, but labour intensive industry. The country was able to produce low quality steel, petrochemicals, cars and machinery, but Romanian products could not become competitive in the world market. As industrial production rose, there was pressure on the labour supply to increase, to match industrial demand. This led the government to damage agriculture by attempting to transform the farmers into industrial workers[31]. According to Ronnas: «... The share of non-agricultural population in the total labour force increased from 30.3% in 1956 to 42.9% in 1966 and to 63.5% in 1977...». It is important to point out a remark made by Murtos (1994), that in their attempt to

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27 Montias, European Commission (1991).
28 Murtos (1994).
29 Murtos (1994).
30 Murtos (1994).
31 See Ronnas (1990) and Murtos (1994).

increase labour supply, the regime issued a law in 1966 stating that a precondition for a woman to be employed was to be pregnant!

Ceausescu policies were «successful» until 1975. At that time the percentage contribution of each sector to GNP was as follows: Agriculture and forestry (16.2%), industry (59.8%), construction (8%), transports and communications (5.8%), other (10.6%)[32].

From the beginning of the 1970s, the heavy investments in industry had exactly the reverse results from those that the regime anticipated, since as Ronnas (1990) points out «...there was a sharp drop in the return to investment...». For example between the periods 1971-75 and 1976-1980, incremental employment per million lei investment fell from 2.17 to 1.12[33]. As Ronnas points out: «...at the end of 1970s Romania and Albania remained the most centralised and rigidly planned economies in Eastern Europe...». Investment patterns over the periods 1961-65 to 1976-80 show remarkable consistancy both over time and by sectoral allocation as Table 2.4 indicates. Only agriculture experienced significant planned relative decline in investment. The rigidities displayed in these figures suggest a neglect of the issue of sectoral balance over the decades.

Table 2.4: Investment Patterns (%)

Sector	1961-1965	1966-1970	1971-1975	1976-1980
Industry (total)	46.5	50.0	50.5	49.2
Group A	41.5	42.4	42.1	42.1
Group B	5.0	7.6	8.4	7.1
Construction	3.4	3.9	4.7	5.9
Agriculture	19.4	15.0	14.4	13.8
Transportation	8.8	10.3	10.2	10.6
Communal Housing	11.5	9.5	9.3	10.2
Education & Culture	2.2	2.0	1.9	1.5
Health	1.2	1.2	0.9	0.7
Other Sectors	6.9	7.1	8.1	8.1
TOTAL	100	100	100	100

Notes:
1. Figures for 1961-65 in 1959 constant prices; for 1966-75 in 1963 constant prices; 1976-1980 in 1977 constant prices.
2. «Group A»: Heavy Industry, «Group B»: Light industry.

Source: Ronnas (1990)

[32] Data published by the Romanian Statistical Service, republished by Kioulafas-Maraveyias (1994).
[33] See Ronnas (1990).

2.5.2. The Second Period (1980-1989)

During the 1980s the regime continued its policy, that is to invest in heavy idustry; however as Ronnas points out the «... serious sectoral imbalances were further aggravated...». The same view is expressed by Murtos (1994). In addition, the sharp drop in investment return continued during the 1980s. By 1980-89 incremental employment per million lei investments had fallen again to 0.31(from 1.12 in 1976-80 and 2.17 in 1971-75). Incremental national income in lei per invested lei was 0.05 for the period 1980-1989 while during 1976-80 it was 0.16 and during 1971-75 it was 0.27, according to Ronnas (1990).

The second important characteristic of the economic policy during the 1980s was the repayment of external debt. This policy, according to Teodorescu, had « several unfavourable consequences» which he identified as: «a) rapid deterioration of living standards; b) Increased debt since no reduction or cancelling occurred; and c) a clear capital loss». He pointed out that: «...the profit... was not reinvested in technical modernisation, but was instead applied exclusively towards cancelling the external debt ...». The economic evolution of the 1980s can be characterised by two key statistical features. Firstly, year by year throughout 1980 to 1989 percentage sectoral contributions to GNP were confined within very rigid limits. For example the percentage contribution of industy to GNP varied between 58.6% and 62.5% and of agriculture varied between 14.40% and 15.90%. Secondly, by the end of 1980-89 the growth rate of NMP had collapsed. It was 6% in 1983, 3% in 1986, becoming negative at -2% in 1988 and -7.9% in 1989[34].

2.6. The Soviet Economy (1917-1991)

Since the USSR does not exist any more we shall be very brief in our analysis, concerning early economic developments[35]. The period from 1917 until 1920 is known as the period of «war-communism». At that time central planning was not imposed on the economy. The second period (1921-1929) is the era of «New Economic Policy», which was interrupted by the first five-year plan (1927-1932). After the Second World War (1941-1945) the Soviet economy can be analysed in three different periods. The first is the 1953-1961 period, the second is in the

[34] See statistical data published by the Romanian Statistical Service, republished by Kioulafas-Maraveyias (1994).
[35]For an analytical presentation see Vlachoutsicos (1993) and Minoglou (1984,1988)

1961-1979 and the third is that of 1985-1991. All these periods, according to Vlachoutsicos (1993), are characterised with unsuccessful attempts to reform the system.

If we want to describe briefly the post-war USSR economy we can say, following the official view, that it enjoyed high growth rates from the 1950s until 1970. That year was a milestone since «negative trends», which were officially recognised, started to emerge in the economy. However, a lot of western economists insist that stagnation and economic crisis were both persistent characteristics even from the beginning of 1960s. Similar work, which took place after 1987, was due to the Soviet economists Vasili Selyunin, Grigori Khanin, Nikolai Shmelev and S Dzarasov[36]. For example Selyunin and Khanin in an article called «smart numbers» («Lukavaia Tsifra»), published in Novyi Mir No2 (1987) claimed that the 90 times increase of the national income during the period 1928-1986 is false and the real growth was around 6 or 7 times[37].

The reforms that Gorbachev tried to introduce during 1986-1988 concerned primarily the state enterprises, the wholesale trade, self financed firms and issues like enterprises bankruptcy. These reforms actually attempted to replace, in many aspects, the centralised economic system with the de-centralised economic system[38]. Unfortunately the reforms had, exactly the opposite result from the anticipated one, since the country experiensed a higher level of unemployment, a higher public deficit and a higher inflation rate. From these results Babanasis (1991) concludes that: «...the basic cause is that the old economic mechanism does not work any more, while the new economic mechanism does not work yet...» As Ranenko and Soloviev[39] (1991) point out: «...The results of the political and economic reforms... cannot be seen immediately due to the complex character of the problems to be solved as well as to the slow pace of implementation and the bureaucratic hindrances to their realization. Food shortages are still a major problem in the country...». Vlachoutsicos (1993) points out that in order to achieve effective transformation certain preconditions should exist. These were: laws perceivable by every authority at all levels, a developed financial system and social consensus. The mistake of the Soviet authorities was that without the above preconditions, they decided to accelerate the pace of

[36] For an analytical presentation of this work see Vlachoutsicos (1993)
[37] Referred by Vlachoutsicos (1993)
[38] For an analytical presentation of the reforms see Vlachoutsicos (1993).
[39] In Razvigorova and Wolf-Laudon (eds): «East-West Joint Ventures: The New Business Environment» pp:141-162.

economic reforms, from September 1990, with the implementation of a four stage reform strategy.[40]

Political developments were also of great importance, especially after the «August coup», of 1991. Eventually in 31/12/1991 the USSR ceased to exist[41]. The economic evolution of republics in the former USSR is illustrated in Table 2.5. The time intervals under consideration are 1971-85 and 1986-89; the statistical measures are growth rates of NMP both absolutely and per capita, broken down by republics. Growth rates of most republics fell markedly between the two time intervals, with only Lithouania experiencing significantly higher growth. Growth rates per capita typically fell as well, with only Lithuania again and Russia being important exceptions.

Table 2.5: Growth Rates of Net Material Product 1971-1989 for each republic (average annual growth rate in %)

	TOTAL		PER CAPITA	
Republic	1971-1985	1986-1989	1971-1985	1986-1989
USSR	4.4	2.7	3.5	1.7
Russia	4.4	2.5	3.7	7.8
Ukraine	3.8	3.0	3.3	2.6
Bellorussia	6.2	3.8	5.5	3.1
Estonia	4.2	3.2	3.4	2.5
Latvia	4.2	3.9	3.6	3.3
Lithuania	4.1	6.0	3.2	5.1
Moldova	4.1	3.6	3.1	2.2
Georgia	5.9	-0.1	5.2	-1.2
Armenia	6.9	1.9	4.9	2.0
Azerbaijan	6.4	0.7	4.6	-0.8
Kazahstan	3.1	1.9	1.8	0.9
Turkmenistan	3.1	4.9	0.4	2.2
Uzbekistan	5.1	2.9	2.2	0.3
Tajikistan	4.4	3.2	1.4	0.0
Kirgizistan	4.2	4.9	2.1	2.9

Source : Soviet Statistics, republished by Vlachoutsicos (1993).

[40] For an analytical presentation of the reforms see Babanasis (1991).

[41] An excellent analysis on the late USSR economic evolution can be found in Karoly Kiss: "The Demise of the Soviet Union-Was it Necessary? (An appraisal of the Gorbachev era)" Institute for World Economics, Hungarian Academy of Sciences, Working Paper No13, Budapest, January 1993.

For the USSR as a whole, sectoral distribution of NMP was fairly constant over 1970 to 1989, with a slight tendency for industry to contribute less (down from 51.2% in 1970 to 41.9% in 1989). The main sectoral change was for foreign trade to contribute more (up from 3.7% in 1970 to 8.5% in 1989).

In terms of percentage increase of NMP over the period 1981-89 by sector, the USSR shows some flexibility. For example in 1986 a construction «boom» occurred with a growth rate of 12.1% (compared to 3.2% and 5.5% in 1981-85 and 1987 respectively). The growth rate of industry ranged from 0.6% to 6.1% over this period, and of transports from -7.4% to 4.1%. Indeed, negative growth rates for some sectors at some points in time were not uncommon, though most growth rates by sector were positive[42].

2.7 The Albanian Economy (1990-1995)

The economic evolution in Albania, can be divided into two periods. The first period starts from May 1990 until the middle of 1992. The second period starts from mid 1992 until 1995.

The first period (1990-1992)

The rapid deterioration of the economy obliged the government in May 1990 to introduce the New Economic Mechanism[43]. However, it was only in the end of July 1990, that the Decrees No 7406 and No 7407 were issued, giving *the first signal for economic changes. The decrees allowed* for the first time foreign direct investment, the establishment of joint ventures with foreign enterprises and the legal protection of any foreign investment[44].The economic reforms continued during 1991 with the establishment of new laws concerning economic activity[45]. The Albanian economy during the years 1990 and 1991 can be characterised as an economy in rapid decline and disintegration as a result of those measures. The percentage fall in GDP was 10% in 1990 and 27% in 1991. Industrial production fell by 8% in 1990 and by 37% in 1991. Broad money grew by 23% in 1990 and by 104% in 1991 leading to rapid price inflation at the

[42] See Soviet Statistics, republished by Vlachoutsicos (1993).
[43] Hall (1994)
[44] For an analytical presentation of the decrees see Babanasis (1991) pp:287-292.
[45] See Ermidis-Egiptiadis (1993) and various editions of Balkan Unit were the legal framework of Albania and of the other countries is also covered.

same time as real wages were falling and unemployment was rising rapidly[46].

The Second period (1992 - 1995)

From mid-1992 the government's primary aim was to stabilise the economy and to achieve a rapid transition to a free market economy. In other words the economic policy abandoned what may be called the gradual approach and adapted a radical orthodox doctrine[47]. However Albania is a special case because of foreign aid, which the country absorbed, from international organisations as well as individual countries. In 1993 it received 4,283 millions of leks from France, 3,013 million from Italy, 1,798 millions from Greece and significant amounts from Germany (1,776), USA (1,279), UK (1,189) as well as from at least other twenty countries[48]. The outcome of domestic reforms plus huge external aid had positive results and despite the UN embargo on Yugoslavia, which cost the Albanian economy around 500 million USD, the reforms succeeded. At the moment experts consider Albania to be one of the success stories of Eastern European reforms[49]. By 1993, industrial production was running at 28,200 billion lek, and over the period 1993-94 basic economic indicators were encouraging. GNP grew by 11% in 1993 and 7% in 1994 and 1995. Inflation fell from 85% in 1993 to 23% in 1994. The public deficit (as % of GNP) fell from 10% to 8% over 1993-94. Agricultural production enjoyed healthy growth (14% in 1993, 8% in 1994)[50].

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[46] See Statistical data published by the IMF, World Bank, OECD, Plan Econ. and EBRD.

[47] For these terms see Karoly Kiss: «Western Prescriptions for Eastern Transition. A Comparative Analysis of the different Economic Schools and Issues». Institute for World Economics, Hungarian Academy of Sciences, Working Paper No18, Budapest, June 1993.

[48] See data published in the Albanian Economic Tribune 5/1994, republished by Balkan Briefing No18-19 July-August 1994.

[49] This view is expressed by Fakiolas (1994) and from the general manager of IMF M Camdessus. For foreign aid see also Fakiolas (1994) and Koppa (1994). See also Politakis-Tsardanidis (1995).

[50] See Statistical data published by the Albanian Statistical Service, the Albanian Economic Tribune 5/1994, Hassid (1994) and Balkan Briefing:No18-19-July-August 1994, No31-32, August-September 1995.

2.8 The Bulgarian Economy (1990-1995)

We have already seen that Decree No56 of January 1989 was the initial step to reform the economy. The deterioration of the economy continued during 1990 as well accompanied by the debate concerning the causes of the economic crisis. A discussion paper published in 1990 (Osnovi Printsipi) regarded the system of central planning as responsible for the crisis[51]. On the other hand external factors, such as the Gulf War, which cost 1 billion USD worth of exports to the Middle East, the disintegration of Comecon in 1990, the fact that the USSR started to sell oil in world market prices, also contributed to the economic crisis. Eventually, in May 1991 the new Commercial law was approved by the parliament (becoming effective in 1/7/1991). After this law others followed concerning banking, privatisation, competition, foreign investments, tax regimes, use of agricultural land etc. According to the European Commission[52]: «... the results of the policies implemented in 1991 were satisfactory: price distortions were decisively addressed; trade and exchange systems were liberalised and some important institutional and legislative changes were introduced...». The economic policy from May 1991 until December 1994 can be considered as following what Kiss (1993) calls the «heterodox radical approach». The period before and after can be characterised as one which follows gradual prescriptions.

The economic evolution of the period can be characterised as inferior to that of Albania. In Albania the economic crisis reached its peak in 1991 (the GDP fell by 27.1%), slowed down in 1992 and the economic development occurred in 1993 (and continued in 1994 and in 1995). In Bulgaria, however, this pattern of recovery was not followed, and GDP decreased consistently from 1990 until 1994. At this point we must acknowledge the fact that the imposition of the UN embargo against «New Yugoslavia» (Serbia and Montenegro) in 30/5/1992 cost the

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[51] See Wyzan (1990)

[52] «European Economy 1994 Broad Economic Policy Guidelines Report on the implementation of macro-financial assistance to third countries».

Bulgarian economy 400 million USD in 1992 and 700 million in 1993, according to IMF estimations. The Bulgarian estimations however are of 1,8-2 billion USD until August 1993 and more than 3 billion USD until June 1994. The disastrous economic evolution of the period can be summarised as follows: Real GNP fell by 9% in 1990 and 16.7% in 1991. Inflation increased from 151% to 574% and unemployment jumped from 33 thousand to 368 thousand over 1990-91[53]. The GNP percentage growth rate continued to fall during 1992-1994. In 1992 GNP fell by 7.7%, in 1993 by 4.5% and in 1994 by 2.5% . Industrial production continued to decrease, and unemployment to increase. Furthermore the economy was characterised by high inflation rates, and the public debt increased from 10.9 billion USD in 1992 to 14.3 billion USD in 1994. However by 1995 GNP was again growing (at 1% p.a.) unemployment was under control (at 14%) and inflation was checked (at 75% p.a.)[54].

2.9 The Romanian Economy (1990-1995)

In January 1990 the leu, was devaluated by 140%. In February the Decree No54 was approved authorising the establishment of small businesses. Other important decrees followed concerning the reorganisation of state-owned enterprises. In November 1990 a new leu devaluation occurred (1 USD=351 leu) and government subsidies were reduced. In 1991 new legislation concerning foreign investment, privatisation, taxes as well as the banking system was approved. An interbank foreign exchange market was created, the prices of most goods were liberalised, a partial (internal) convertibility of leu was introduced and an economic co-operation agreement with the EC was signed. In 1992 the leu was depreciated twice; the second depreciation, however, was much more severe. The exchange rate at the beginning of the year was 1USD=60 leu by the end of the year it was 1USD=500 leu. The April devaluation was due to the domestic demand which could not be covered

[53] See statistical data published by the Bulgarian Academy of Sciences-Institute of Economics and NSI (National Statistical Institute), republished by the Ionian Bank of Greece (1994).
[54] See statistical data published by the IMF, EBRD, World Bank, Deutsche Bank, NSI, Bulgarian Academy of Sciences, EIU, Ionian Bank of Greece, Balkan Briefing No34-November 1995.

by the reserves of the Central Bank. Because of this, the whole system was altered and a new system of daily auctions was established providing an exchange rate per day. According to the OECD[55] the results of the tight macroeconomic policies during 1991 and 1992 were disappointing. The organisation criticised the economic policy of Romania, because its aim was to achieve a gradual transition to a free market economy with a minimum social cost. According to the OECD the gradual liberation of prices created expectations of higher inflation; in addition the implementation of measures was unsuccessful because of the lack of economic discipline. The OECD view contradicts the view of Kiss (1993), which considers the doctrine of economic policy as a heterodox radical one. The European Commission[56] however, states that during 1992 «... significant progress was made in the implementation of the structural reform measures: prices were substantially liberalised, subsidies reduced, foreign trade was liberalised...» and it also states that «... the result of the economic programme was mixed...».

Of course we have to say that the UN embargo against Yugoslavia was catastrophic for the Romanian economy as well. According to Austrian economists the direct and indirect losses until the end of 1993 were 7 billion USD[57]. The economic evolution in the period 1990-1995 is summarised in Table 2.6:

Table 2.6: Selected Macroeconomic Indicators 1990-1995

	1990	1991	1992	1993	1994	1995
GNP (% change)	-5.6	-15	-15.4	1.0	1.5	2.0
(%) Industrial production	-5.0	-12.1	-21.8	1.3	3.3	5.0
Unemployment (%)	(...)	2.9	8.4	12	10.9	12.0
(%) Consumer prices (annual average)	7.4	161.1	210.4	256	136.8	45.0
(%)Consumer prices (end-year)	37.7	222.8	199.2	275	100	(...)
External debt (in billion USD)	0.5	1,8	2,9	3,8	5,3	5,8
Exports (in million USD)	3,503	3,538	3,900	5,380	6,151	7,200
Imports (in million USD)	5,223	4,883	5,200	6,642	6,652	7,300

Source: OECD, European Commission, Morgan Stanley, EBRD, IMF, World Bank, national authorities, Deutsche Bank, Ionian and Popular Bank of Greece, Balkan Briefing No34-November 1995.

[55] See Balkan Briefing No8-9 September 1993
[56] European Commission (1994)
[57] Balkan Briefing Quarterly Report No2/12-1993

After a period of falling GNP, it starts to grow at a slow percentage rate from 1993 onwards, with attendant growth in industrial production. Inflation, while still high is falling by 1995. Furthermore both imports and exports are rising rapidly throughout the 1990s.

2.10. The Economy of the Russian Federation (1992-1995)

Russia emerged after the dissolution of the USSR. It is the biggest country of CIS extending to 76.2% of the surface of the former USSR, and having 51.3% of the population of the former USSR. The new state had the biggest share of former USSR external debt to repay: 61.36%. However it became evident that the other states of the commonwealth would pass-de facto- their debt burden to Russia[58]. On the other hand Russia has strategic advantages such as enormous natural resources, human capital of high quality, low labour cost etc. The economic policy launched in 2/1/1992 has been characterised by Kiss (1993) as one following the orthodox radical approach. It is correct to say that the aim of the economic programme was to achieve stabilisation and transformation into a free market economy simultaneously. At that date official controls over prices were almost abolished for 90% of the retail prices. State controls continued in some basic consumer goods (food medicine, electricity, rents, bus fares); however, even these prices increased three to five times compared to the previous level[59]. At that time four different exchange rates existed officially[60]. Privatisation was another goal, which would be achieved in a three stage process:

The aim of the first was to privatise small and medium size firms. The second involved mass-privatisation of the big firms. The third concerned the primary sector[61]. The economy deteriorated and eventually in June 1992 the government was obliged to adopt new «economic package» and adjust the January plan.

After 14/12/1992 the new Russian government tried to impose a gradual transition to the free market. However the economic results continued to be poor, in spite of the country's strategic advantages. A lot of funds were announced as foreign aid from various organisations;

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58 Haralambidou (1993). The total debt of USSR was 70,8 billion USD

59 Bus-tickets increased 40-50 times and rent by 1,500% according to Haralambidou (1993)

60 For an detailed discussion see Kioulafas (1993)

61 See Haralambidou (1993) and Kioulafas (1993)

however the actual delivered aid has been very limited[62]. The economic evolution of Russia over the period 1991 to 1995 can be summarised as follows: Between 1991 and 1993 real GDP and real NMP fell sharply reaching its peak in 1992 (-20%). This was reflected in similar falls in industrial production. Real investment fell to, but in a more relative way, experiencing as high a percentage fall as 45% in 1992. Credit and broad money increased very rapidly, especially in 1992 and the same occurred for all other prices (retail, industrial, wages). By 1995 the rate of fall of both GNP and industrial production had been cut to around 4% and inflation, although still high at 180% was well below its peak levels of more than one thousand percent. By this stage however, unemployment, which had been historically below 1% even up to 1993, had risen to 12%. The trade balance and balance of payments were positive and foreign currency reserves were high rising from 1.9 billion USD in 1994 to 9.2 billion USD in 1995[63].

2.11 The Black Sea Economic Co-operation Area (BSEC)

In 25/6/1992 eleven countries of the region (in alphabetical order Albania, Armenia, Azerbaijan, Bulgaria, Georgia, Greece, Moldova, Romania, Russian Federation, Turkey and Ukraine) formed the organisation of the Black Sea Economic Co-operation (BSEC). The aim of BSEC is to boost economic collaboration between its member states in the areas of transports, telecommunications infrastructure, energy, agriculture, science and technology, banking and finance, environmental protection, exchange of economic and commercial information and processing *of raw materials. The highest decision making authority is the* MMFA (Meeting of Ministers of Foreign Affairs) which convenes two times per year. The presidency is rotating between its member states. There are sixteen more bodies and institutions which help the MMFA to pursue the aims of the organisation. The body with the most important economic significance is the Black Sea Trade and Development Bank. The decision to establish it was taken in 30-6-1994 in Tbilisi. The aim of the bank is to finance investment projects in the member states, to provide financial services and assist for the development of trade between its members. The total financial capital of the capital of the bank will be

[62] See Fakiolas (1994), Stent (1995) and Politakis (1994).
[63] See statistical data published by the IMF, the World Bank, EBRD, Planecon, Russian national authorities, and Balkan Briefing No34 November 1995.

one billion SDR (Special Drawing Rights) (The exchange rate at 17-11-1994 was 1 SDR=1.47 USD). From that capital the initial payment is 10% (100 million SDR). In the following eight years an extra 20% will be given (200 million SDR). After that period the rest 70% of the financial capital will be granted. The percentage share of the financial capital contribution for each member state is as follows:

Table 2.7: % Financial contribution

Country	% Contribution of financial capital
Albania	2
Armenia	2
Azerbaijan	2
Bulgaria	13.5
Georgia	2
Greece	16.5
Moldova	2
Romania	13.5
Russian Federation	16.5
Turkey	16.5
Ukraine	13.5
TOTAL	100.0

Source: National Bank of Greece

The bank is based in Thessalonika (Greece); however it is not fully operational yet.

Contributions are related to size of member state but not closely. For example Bulgaria appears to have made a much bigger proportional contribution than the similarly sized and wealthy Azerbaijan. The establishment of the BSEC is characterised as a milestone by many Greek academics[64]. The BSEC is a new emerging market with more than 250 million consumers. It is correct to point out that, at the moment, the

[64] See for example Katseli (1993, 1994) and Perakis (1994)

BSEC area is characterised by political uncertainty, poor economic performance, low level of living standards in many countries, vast infrastructure requirements, low per capita income. However, the region has to offer a lot: Minerals and natural resources, low labour cost, demand for basic consumer goods, skilled labour force in certain industrial sectors, investment opportunities in primary, secondary and service sectors. Typical examples of investment opportunities are the demand in these countries for telecommunication services, construction and transport facilities. When Katseli (1993) discusses the BSEC area she includes the emerging regional market of Eastern Mediterranean, which consists of both the BSEC countries and the countries of the Middle East, and adds that it be regarded as embracing all the countries of Eastern Europe and of North Africa. She is correct if we consider that observer status to the BSEC has been given to the following countries: Slovakia, Hungary, Poland, Israel, Egypt and Tunis.

However someone can state the prima facie grounds for a trade area, its economic rationale is less easily identified. The counter-argument can be that the economic and cultural differences between countries like Russia and Egypt are so enormous, that they almost nullify the possibility of their common participation in the same economic organisation, in the same economic zone. However, and here we extend Katseli's (1994) arguments, all the BSEC countries and the countries of the Middle East, North Africa and Eastern Europe are more or less underdeveloped and many of their inhabitants live below the acceptable poverty levels. The need for economic development is vast. In that sense these countries can form a new economic area, which offers many investment opportunities.

Some principal characteristics of the BSEC countries have been summarised in Table 2.8.

Table 2.8: The profile of the BSEC countries

Countries	Population	GDP (per capita) in USD
Albania	3,255,000	500
Armenia	3,580,000	4,710
Azerbaijan	7,145,000	3,750
Bulgaria	8,428,000	3,500
Georgia	5,456,000	4,440
Greece	10,243,000	8,900
Moldova	4,458,000	2,170
Romania	23,400,000	2,700
Russian Federation	148,920,000	2,650
Turkey	58,376,000	2,853
Ukraine	52,200,000	1,670

Source: The above data are aggregate estimates for the BSEC countries and represent an average for the period 1989-1995.
They come from various sources and from the author's personal files. The data concerning the former Soviet Socialist Republics are of 1989.

Many are relatively small in terms of population with seven of the eleven having population of 10 million or less. The Russian Federation at almost 150 million is by far the largest and Turkey and the Ukraine rank as major nation states in terms of population. With two major exceptions the levels of economic development, in terms of GDP per capita, are similar varying from 1,670 USD in the Ukraine to 4,710 in Armenia. The main exceptions are Albania with a GDP per capita of just 500 USD and Greece with a relatively high GDP per capita of 8,900 USD.

2.12. Conclusion

The economies of these countries were under command and centrally planned control for many years. This was achieved by the five-year plans which the supreme central authorities imposed.

After the collapse of the system of command economy these countries experienced economic stagnation and hyperinflation. The country with the most successful economic performance in terms of GNP growth rate was Albania, because of the massive external aid that the Albanian government achieved to receive from abroad. Furthermore the economies of the Balkan countries were damaged by the imposition of the UN embargo against New Yugoslavia during 1992-1995. These economies nowadays face tremendous structural problems as well as high unemployment, inflation and public debt rates. However they have the potential ability to develop and in the future it is expected that the countries of the BSEC area will form a block of rapidly developing economies.

CHAPTER 3:
THE ENTERPRISE AND ITS ROLE IN EASTERN EUROPE

3.1. Introduction

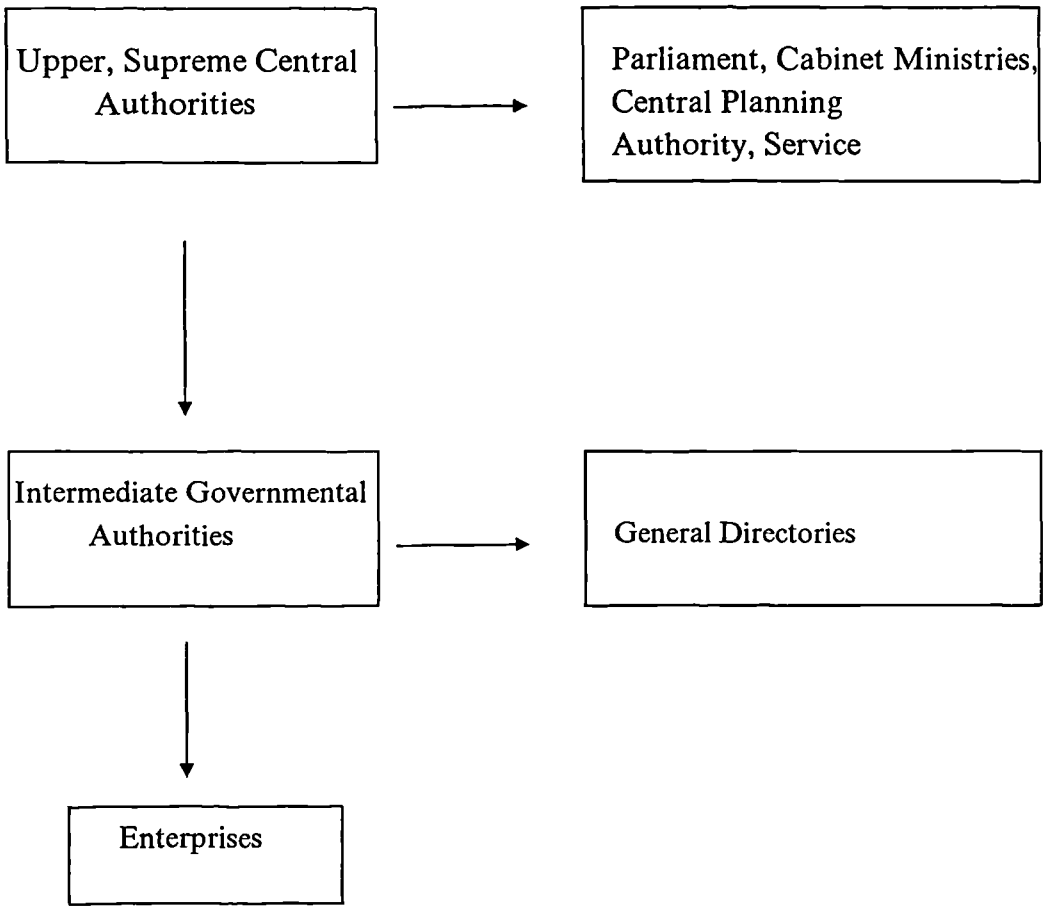
Macroeconomic developments in Eastern European countries have been described briefly in the previous chapter. The aim of this chapter is now to highlight microeconomic evolution. It inquires into the structure of an enterprise in Eastern Europe during the communist years, and asks what its aims and functions were and its means for setting and achieving them. These are essential background issues to our approach, insofar as the western investor who contemplates becoming engaged in economic activity in Eastern Europe (e.g. of the joint venture form) must be aware of the microeconomic environment's special features.

During 1945-1990 we can identify three different economic systems in Eastern Europe which influenced directly the way enterprises functioned. These were: The centralised economic system, the de-centralised economic system and the Yugoslav model. According to six leading Greek East-European experts the centralised economic system (CES) was implemented in Albania, Bulgaria, Romania, USSR and other countries. The de-centralised model was implemented in Hungary and Poland, and an unsuccessful attempt also was made to introduce it in Bulgaria in the period 1966-1968. Given our choice of countries for analysing joint ventures, we shall analyse the Centralised Economic System (CES), the case of the Soviet enterprise and of the other Balkan countries, excluding, of course, Yugoslavia. The «new entrepreneurship» is also tackled, as a way of introducing issues of new enterprise development.

3.2. The Centralised Economic System.

The structure of the system is described in the following figure.

Figure 3.1. Structure of the Centralised Economic System (CES).



Based in Babanasis (1991)

This figure is a generic treatment of a C.E.S. To illustrate in the case of the former Soviet Union the Upper Supreme Central Authority was GOSPLAN. It had horizontal linkages with the «Pansoviet Ministries», but GOSPLAN had the dominant role in planning economic policy. Under this scheme the Intermediate Governmental Authorities were the «Ministries of the Soviet Republics» and the «Republican Ministries». They had regional and sectoral responsibilities and exercised heavy authority over enterprises.

At the base of this system were very large enterprises which acted as monopolies. This led to low levels of potential competition and eventually to low levels of competitiveness, in a performance sense. In addition to this, monopolies were embedded in vertical relationships of control from the top to the bottom of the microeconomy. The central authorities determined for firms at each the level of production what the quantity and the quality of output would be. Thus the role of the enterprise was totally passive. According to professor Chikan Attila: «...the firm can be considered more or less as the last link in the chain of public administration and not as a real enterprise...»[1]. This emphasises the bureaucratic nature of the operations of firms. In addition, according to Sarkozy: «The position of the state enterprise in the system of the centrally planned economy can be characterised by the fact that it is not a real enterprise but an executory, technical... unit with limited self-sufficiency whose aim is the execution of the central plan...»[2]. This emphasises the lack of autonomy of firms in this system. Finally, Janos Kornai pointed out that an enterprise was part of the state bureaucracy belonging to the government sphere and not to the business sphere[3]. Thus firms were not part of an economic culture. To summarise, under the C.E.S. firms were bureaucratic non-autonomous monopolies or oligopolies, divorced from the environment of economic competition.

In spite of their monopoly status and their market domination, the majority of these enterprises suffered losses. The following reasons account for this state of affairs. The main governmental notion was that through central planning adequate resources could be accumulated and invested in the core industrial sectors for economic development (these being mainly defence and heavy industry). However what were considered to be core industrial sectors by bureaucratic public authorities were not so perceived by the society at large. This created two internal imbalances in these economies. The former was structural (developed versus

[1] Referred in Babanasis (1991)
[2] Ibid. (1)
[3] Ibid. (1)-(2)

underdeveloped industrial sectors). The latter was relative scarcity, the relation between supply and demand especially for consumer goods. These imbalances created a misallocation of resources, low quality products and an inflexible decision making system.

The shortage of any entrepreneurial motive created another problem for the firms. The workers and the general director of a firm had to maximise their production under the constraints imposed by the central authorities. Even if they achieved this goal, this need not generate profits. If they were achieved, the profits of the successful enterprises financed the losses of other enterprises. This occurred because the bankruptcy of a public enterprise was considered to imply a bankruptcy of the state and therefore a loss to the society. In order to tackle the physical or technical deficits of some poorly performing enterprises, the state subsidised their deficits via government budget. This was actually an income flow from the successful enterprises to the unsuccessful ones. This policy «forced» the successful enterprises to become unsuccessful[4], and flattered the performance of unsuccessful enterprises. Another essential weakness under the CES was the absence of active labour, capital and money markets. Amongst other things, this created financial barriers to the enterprises, especially in their investment plans. In order to finance an investment the firm had to obtain the necessary capital from the state budget, since no other source existed.

The public authorities regulated production activity in two ways, by so-called «bureaucratic regulation», and «advancing regulation»[5]. The former was achieved through an administrative constraint. The latter via pressure from the superior to the subordinate. This direct regulation, using administrative measures and commands, created the following problems.

(a) The central authorities planned, and imposed on the enterprises, unrealistic targets especially in large wide-range/scale manufacturing companies.

(b) Because of their passive role enterprises could not in the long run participate in economic development.

In the state farms specific production targets, in terms of quantity and quality were imposed from above. Farmers were obliged to hand over to the public authorities certain amounts of agricultural products at certain prices. Because of the absence of market signals there was always

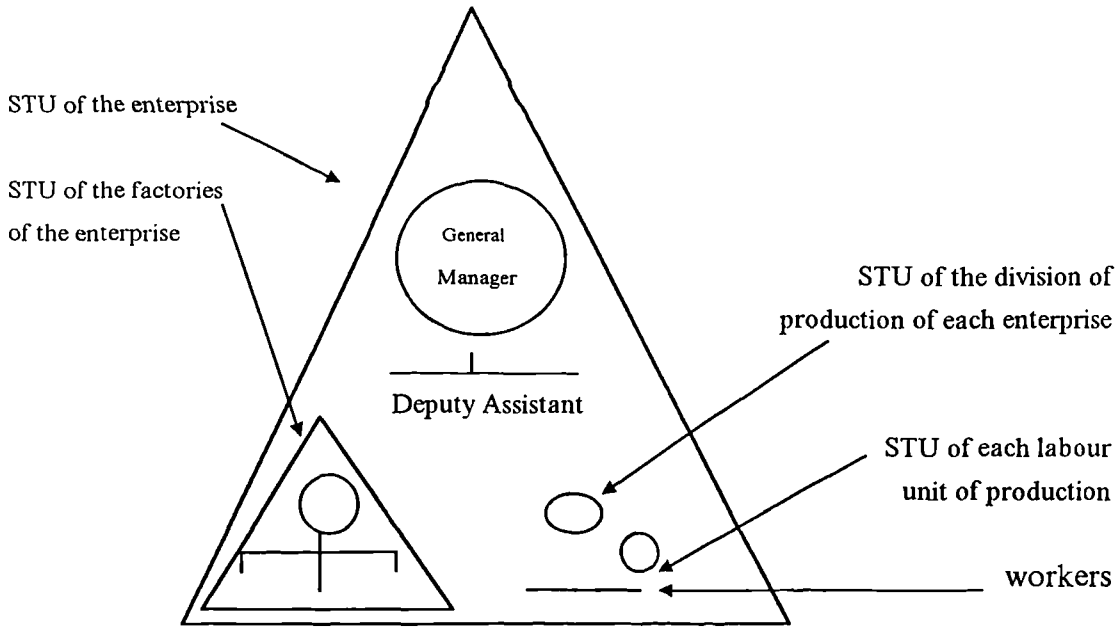
[4] Pajestka, a Polish economist, describes this essential point very well in Babanasis (1991).
[5] According to Kornai.

the possibility that demand and supply would be out of balance. This indeed proved to be the case especially in the 1950s. Finally there was little competition in the financial sector. The banking system consisted of just 3-4 banks; a central bank, a bank for foreign trade and another one, which provided financial services.

3.3. The Soviet Enterprise

The core concept of the Soviet enterprise was the Structural Task Unit (STU). Every STU was a group of people characterised by extremely strong bonds of solidarity, confidentiality and trust between members. There were two kinds of STUs, the production STUs and administration STUs. In the Soviet enterprise the bigger STU encompassed the smaller STUs. This can be seen in the following figure:

Figure 3.2: The structure of the Matrioshka. Classical hierarchical structure of the Soviet Enterprise.



Source: Vlachoutsicos (1990):"An Introduction to Some Key Concepts of Soviet Enterprise Management". Harvard Business School, Working paper 90-043. (Adjusted figure by the author).

The enterprise was mainly considered as a production unit, and all other functions were completely neglected. The enterprises were organised on the principles of Democratic Centralisation, Worker's participation, one person's command, territory and production[6]. Each STU had a leader, a person which was «elected», by the central authorities (see Figure 3.1). According to Vlachoutsicos (1990,1991) «the authority, of the leaders of STUs is similar to the traditional Russian puppets or dolls (matrioshka). The bigger doll contains all the smaller dolls, exactly as the powers of all leaders of larger STUs is exercised over smaller STUs ...». He adds that «even the worker can be considered as a leader of an STU, because his authority covers his own specialisation...». He also points out that: «an informal...agreement takes place between the leader and the members of every STU... The members obey the commands of the leader and the leader protects the interests of the members of the STU against anyone...».

The decision making process was based on the principles of one person's command and workers participation. In spite of their contradictory nature, the principles were combined because of the previous form of internal informal agreement, and because an integrated decision making system of six rotating phases existed. These were:

1) From Up to Bottom
2) Consultation
3) From Bottom to Up
4) Consultation
5) From Up to Bottom
6) Policy specification, Orders from Up to Bottom

It has to be noted, however, that the system was characterised by the absence of any horizontal integration, which according to Vlachoutsicos was the "Achilles heel" of the Soviet system.

3.4. The enterprise in Albania, Bulgaria and Romania

We have already noted that the four countries which are our particular interest followed the centralised model. This of course does not necessarily mean that the internal system of the Soviet enterprise, the STUs, can be applied to other cases like Albania, Bulgaria and Romania.

[6] For an analytical discussion see Babanasis (1991)

The STU is a specifically Soviet and Russian phenomenon. However, the fact that the three Balkan countries also followed the centralised model entitles us to claim that the functions, if not the forms, of the enterprises were identical and that they obeyed the general principles that we have already described. (see § 3.2).

Babanasis in his extensive book concerning the microeconomic basis of economies in Eastern Europe makes no distinction between the enterprises in these countries; implying that they are identical. This view was expressed, orally to us by Professor Babanasis himself in a meeting in Athens at June 1995. The same view was expressed by other five leading Greek East European experts during earlier meetings. In addition, Professor Panov[7] (1991) observes that: «...the business units- enterprises and their various associations-were practically turned into various levels of the state management hierarchy. Thus the business manager became simply a state administrator whose values were not oriented toward productivity and customer needs, but rather to the fulfilment of given administrative orders... Business managers were not encouraged to take initiative and action, as each initiative required approval from a superior level. ...Business managers and civil servants were predominantly trained and selected on political rather than professional criteria. Professional schools and colleges in management were noticeably lacking...». Panov continues by writing that in an enterprise culture: «...The main feature of today's manager is his independence and ability to take risks and responsibilities, to search energetically for innovative solutions and new niches on the global market... These qualities, however, were almost unknown to business managers in the Socialist Countries and did not receive social recognition and support...».

3.5. The «New Entrepreneurship» in Russia and the other former Socialist Balkan Countries.

According to Radaev (1993)[8] three groups of entrepreneurs can be found in Russia nowadays. The first is the biggest one. It comes «from the state run institutions, including officials from state ministries... and from state run-enterprises». The economic resources of this group comes from

[7] Professor O Panov pages 3-15 in Razvigorova-Laudon (eds.): «East- West Joint Ventures: The New Business Environment ».

[8] Vadim Radaev, Institute of Economics, Russian Academy of Sciences «Emerging Russian Entrepreneurship: As Viewed by the Experts» Economic and Industrial Democracy Vol. (1993) pp:55-77

the «transformation of state owned property» (privatisation). The second group consists of the «independents» -as Radaev calls them- true entrepreneurs. Their activity is small business oriented, and their capital comes either from bank loans or personal savings. The third group consists of «shadow dealers»; their capital comes from illegal activity and is «transferred into legal activities».

These entrepreneurs function in an economy with a short term business horizon. Nowadays in Russia a shift is occurring from production-oriented activities to trading activities and services. This is the outcome of the transformation of the economy; with services and trading activities apparently providing quick returns on low capital cost[9]. That is how these entrepreneurial groups currently function since the environment «creates a situation for speculative and short sighted activities». The issue of trust and personal links is still essential in the new Russian enterprise as it was in the previous Soviet construction. The principal of «one man's decision making» still exists, but what has changed is the employment system. Nowadays it is based on «...a contractual rather than permanent basis...»[10]. A short term contract is the most common contractual arrangement between employers and employees. However, personal links[11] exist since employers «look to relatives and personal acquaintances first and also follow recommendation they believe to be reliable...»[12]. The attempt to hire an unknown worker is the last option the employer will exercise.

Another essential feature of the emerging economic order is the lack of an entrepreneurial ethic. This aspect is very well described by Radaev who also points out that «business ethics are emerging in some market segments, but they are still rather fragmented...». The diverse (and often inexperienced, and even illegal) entrepreneurial culture is best captured by Dr Lambropoulos (1995) who in an article describes the new local entrepreneurs of Albania, Bulgaria and Romania. He writes: «...The local private entrepreneurial activity comes from different types of bodies, which have created three types of business-people: Those who come from the legal, semi-legal and illegal market of the former economic system, those who become entrepreneurs from the administrative positions which had been, or still were, in the state enterprises... and those who developed their entrepreneurial activity (scientists, technicians and others) in the framework of the new economic institutions... the first category is

[9] Ibid (8).
[10] Ibid. (9).
[11] Ibid.(10).
[12] Ibid.(11).

inclined to opaque and illegal entrepreneurial conduct... Trade and the provision of certain services are, until now, the most desirable grounds for them to exercise their entrepreneurial abilities... The second category is inclined to consider as a primary source of its revenues... the state funding of any entrepreneurial activity. This group is the preferential local partner of western industrial joint venture enterprises. The third category has no entrepreneurial past. This group consists of smart people, usually educated, who speak foreign languages, and start their own initiative with almost no financial capital... They are active in low volume domestic and international trade, in the provision of certain services and in handicraft production...».

Summing up the analysis of this chapter, three essential points have to be made: The first is that the manager of the socialist state enterprise was a bureaucrat. His entrepreneurial and managerial capabilities were extremely limited, and he can be characterised as an inflexible decision maker. The second point is that nowadays the majority of individuals in these societies are characterised by very narrowly self-motivated behaviour, which is a new characteristic of almost every aspect of their social life. This leads to a lack of any entrepreneurial ethics, as these are perceived in the West. The combination of the above two characteristics is the most essential barrier to entry by Western enterprise, and can jeopardise any East-West joint venture. The third point is that the evolution of domestic entrepreneurship in these countries has been very similar in the last fifty years (1945-1995). During the era of central planning the centralised economic model prevailed, in all of them, and entrepreneurship was similarly stilled in all of them. After the collapse of the old regime, the forms of entrepreneurship, which developed in the Balkan countries and Russia were almost identical. These, have been outlined and discussed in the writings of Radaev (1993) and Lambropoulos (1995). This is a very important argument and of direct relevance to the joint ventures. (This is analysed extensively in chapter twelve [see §12.10] where evidence is presented which largely confirms the views of the above scholars, but at the same time challenges them at particular points).

CHAPTER 4:
THE GREEK ECONOMIC ACTIVITY IN EASTERN EUROPEAN COUNTRIES

4.1. Introduction

To provide a bridge between the background analysis of Eastern European countries of chapter 2, and the activities of joint ventures, this chapter highlights Greek economic involvement in Albania, Bulgaria, Romania and Russia. The first section describes the policies of the public sector. The second section describes the policies of the banking sector. The third section deals with the activities of the private sector. Finally, in the last section, trade relations between Greece and the above countries are discussed.

4.2. Policies of the Public Sector

Despite being constrained severely by the domestic economic situation, arising from deficits in both the state budget and the balance of payments, Greece formulated an economic assistance policy for these countries. The motivation for this was that excellent political relations with these countries were thought to be of indirect assistance to the private sector. The economic significance of these newly emerging markets, is apparent and of obvious advantage to joint ventures. This will be analysed later. For the moment we would like to describe the forms which economic assistance policy towards these countries took. To Albania, a loan of 20 million USD was given by the Greek government in the form of export-credits. Humanitarian aid (food, medicine) was provided as well. The indirect aid, however, was the most important and worthily of mention. The Greek government extended law 1892/1990 for Albania (law 2008/1992) this involved subsidising up to 35% of any investment in the secondary sector or tourism made by Greek investors but excluded trading activity. The second form of indirect assistance was that Greece accepted illegal immigrants, whose exact number can not be estimated. The Greek authorities provided estimates of 250,000-350,000

while press reports[1] provided estimates of up to 400,000. It is thought that illegal immigrants who work in Greece send back to Albania, as remittances, huge amounts of money. According to the Hellenic Centre for European Studies these amounts are estimated at 300-350 million USD annually. However the US embassy in Tirana put its estimates even higher at 400 million USD annually[2].

For Bulgaria, a loan of 50 million USD was granted in the form of export credits. In addition, during the period 1989-1990 humanitarian aid was also provided. Agreements were also signed for the mutual protection of investments, and for economic, commercial, industrial and technical co-operation. In addition the opening up of new border check-points was planned (to augment the existing two), which allow faster entry of the transport vehicles from both sides, thus reducing transportation cost substantially.

For Romania a loan of 50 million USD was also granted in the form of export credits. In addition agreements were signed concerning economic co-operation in the fields of industry, tourism and trade. Agreements were also signed to avoid double taxation and provide investment guarantees. Greece signed 32 agreements with the Russian Federation to avoid double taxation, enhance economic commercial industrial and technical co-operation; and to cover shipping and political issues.

In addition a loan of 100 million USD was granted from Greece to the Russian Federation in terms of export credits and a special agreement was signed for the development of Russia's Krasnodar region. Particular reference should be made of two projects concerning the establishment of an aluminium oxide plant in Greece. The annual capacity is expected to be 700,000 tons of aluminium oxide. The Russian side is committed to buying the entire annual production. The total cost of the project is 950 million USD. A second project, which will be analysed later, concerns the supply of the Greek market with Russian gas.

A third project, finalised in September 1994, between Russia, Bulgaria and Greece concerned the creation of an oil pipeline from the port of Burgas (Bulgaria) to Alexandropolis (Greece). The pipeline will transfer oil from the Russian port of Novorosiiysk. In the previous eighteen months the Greek government decided to follow a "Multi-Parallel Vertical Axis Policy", which gives precedence to the development

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[1] See «The Guardian» 13/3/1995

[2] This is the information of «The Guardian» 13/3/1995 as well. The information was revealed in a closed seminar organised by the Institute of International Economic Relations by the former Greek Commercial attache in Albania John Jen in 18-10-1993.

of telecommunications, transportation and energy networks, linking the Danube and the Black Sea with the Aegean.

In summary, we can say that the aim of the Greek entire economic policy has been to develop economic ties with all BSEC countries, taking into account the special needs of its domestic economy.

4.3. Policies of the Banking Sector

Multinational banking first emerged in the nineteenth century, and a second wave of multinational banking activity has since taken place in the 1960s. There is a difference between «International Banking» and «Multinational Banking». In the former case «...a bank may own a branch in the foreign country... but cross border lending and trade finance can be-and often is - conducted without such facilities...»[3]. The latter case occurs when «...banks own and control branches and affiliates in more than one country...»[4]. Casson provides a theoretical framework for analysing the evolution of multinational banking[5] in which he points out the importance of immigrants. Until 1990 Greek multinational banking activity had taken place in the USA, Great Britain, Australia and Germany, countries where large Greek immigrant communities exist. An important additional reason is that places such as London, Frankfurt and New York are big international financial centres. This evolution of Greek multinational banking -in spite of its limitations- in Western countries gave an advantage to the Greek banks in terms of knowledge, experience, new financial products etc.

The above would suggest, prima facie, that Greek banks would rapidly expand in the BSEC countries, not only because of their advantages compared to the local banking institutions, but also because of Greek minorities who still live in some of these countries and the rising activity of the private sector.

Until the end of 1995, very few banks had representative offices in these countries, and even fewer had branches. However, 1994 was a milestone since according to data provided by the Bank of Greece five applications from banking institutions were approved in order to establish representative offices or branches in these countries.

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[3] G. Jones (eds.) «Banks as Multinationals» (1990) chapter 1 p:1

[4] Ibid. (3)

[5] See M.Casson: «Evolution of multinational banks: a theoretical perspective» in «Banks as Multinationals» chapter 2, pp 14-29.

These patterns can be seen in table 4.1., which relates to 1994 and early 1995.

Table 4.1: Applications approved by the Central Bank for the establishment of banking Institutions in Balkan countries.

	Date	Institution	Activity
1	20/1/1994	National bank of Greece	Representative Office in Sofia
2	10/2/1994	National Bank of Greece	Representative Office in Tirana
3	17/3/1994	Egnatia Bank	Branch in Sofia
4	3/6/1994	Ionian & Popular Bank of Greece	Branch in Sofia
5	23/9/1994	National Bank of Greece	Branch in Sofia
6	20/2/1995	Macedonia-Thrace Bank	Branch in Sofia
7	20/2/1995	National Bank of Greece	Branch in Buchurest
8	10/3/1995	Ionian and Popular Bank of Greece	Branch in Tirana

Source: Bank of Greece (Governor's report 1995)

This table demonstrates when two Greek state banks (National Bank, Ionian and Popular Bank) acquired licences in 1994 to expand their activities in Bulgaria and Albania. In addition a private bank (Egnatia) was granted a similar licence. In the first three months of 1995, the Bank of Greece approved three more applications. The situation as it stood at the end of 1995, may be summarised as follows: In Albania until the end of 1995 no Greek bank was operational. A state-owned bank, the Bank of Attica, attempted to establish a joint venture bank under the name of the Apollonian Bank. The efforts were unsuccessful for two reasons. The former has to do with the deterioration of bilateral political relations in 1993 and 1994. The latter is related to the inability of the partners to contribute their initial share to the venture. The second state bank which attempted to enter the Albanian market unsuccessfully was the National Bank of Greece. We have already pointed out that the bank had the permission of the Greek monetary authorities to establish a representative office in Albania from 10/2/1994. However, because of the political tension in the bilateral relations this was not possible in 1994 or 1995. However the establishment of the representative office is expected to occur in the near future. Furthermore, until the end of 1955, no private bank had any operation in Albania either, for the same reasons.

In Bulgaria the situation is different; however the banking presence is considered very poor compared to the presence of the private sector.

Distinguishing again between state and private banks, until the end of 1995 the following state banks had representative offices in Sofia: a)Macedonia and Thrace Bank, b)Agricultural Bank of Greece c)National Bank of Greece. (All these banks are expected very soon to transform their activity status from representative offices to full operational branches). In addition it is expected that another state bank the Commercial Bank of Greece will enter the Bulgarian market. The only state bank with a fully-operational branch in Sofia was the Ionian and Popular Bank. Simultaneously Chios-Bank, a private bank, had a fully-operational branch in Sofia and Egnatia Bank had a representative office.

In Romania, distinguishing again between private and state banks, we can mark the presence of a private bank (Credit Bank) which established, through its affiliate Alpha Finance, a joint venture bank under the name: Banca Buchuresti. The EBRD participates in the above project as well. The state banks had actually no presence in the Romanian market until the end of 1995. This however is expected to change in 1996-97. It is important to point out that many Greek state banks such as the Hellenic Bank of Industrial Development, the National Bank of Greece, the Commercial Bank of Greece have plans to establish joint-venture banks in Romania.

In Russia the first unsuccessful attempt to enter the market was made by a private bank. In 1993, the Egnatia Bank, tried to establish a bank with the Patriarch of Moscow, under the name The Bank of Orthodoxy. The project, however, was postponed, if not abandoned. No other Greek private bank is reported to have had any activity in Russia. The state-owned banks have expressed an interest in expanding their activities in Russia. During 1994 the National Bank of Greece had established a representative office in Moscow with the participation of a Portuguese, a Spanish and a Belgian Bank. In addition another state bank, the Commercial Bank of Greece, had a representative office in Moscow[6] and simultaneously established a joint venture bank, not activated yet, in Southern Russia. This bank, under the name Investment Bank of Kuban, was established jointly with the EBRD, the Cyprus Bank of Development, the Kubin Bank and the Kuban Bank. The latter two are the biggest Russian banks in the region. (The bank plans to establish branches or joint venture banking institutions in Moldavia, Ukraine, Armenia and Georgia as well). Furthermore, the same bank attempted to

[6] Referred by Sideris (1995)

establish a venture capital fund with a Japanese financial contribution of 500 million USD[7]. However, the project was postponed if not abandoned.

In summary it is obvious that the presence of Greek banks in the area, until the end of 1995, was not the expected one, given their skills and the activity of the private sector. However the situation improved during 1995, compared to the previous year, and it is expected to improve further in the near future. The present situation, however, still gives rise to enormous problems for the entrepreneurs; and as one of them stated: «...the development of entrepreneurial activities becomes adventurous, since a great part of transactions is taking place even today with physical money transfers... The development of Greek banks will make easier the activity of Greek firms in these countries...». The fact that Greek banks have not utilised their experience from the Western countries in the new markets of Eastern Europe can be attributed to reasons like the political context, the level of economic development and trade issues. These are considered next.

(a) Political climate

In the case of Albania the deterioration of bilateral relations during 1993 and 1994 made impossible the establishment of any branch or representative office by a state bank. As far as the private banks are concerned, it goes without saying, that no-one risks funds when the time is not proper. In Bulgaria on the other hand, the problem was not the bilateral relations, which are excellent, but the internal political instability. The same is true in the Romanian and the Russian case.

(b) Economic Development

The second reason concerns the economic state of these countries. We have already noted that in recent years these economies have been characterised by hyperinflation. This, together with other factors, created markets where the marginal propensity to save is, at the moment, non-existent. This is a major impediment for the banking institutions.

(c) Trade

The third and most important reason is the quality of the private sector activity in the period 1989-1994. During this period FDI is the exception to the rule since the private sector established many firms in these countries of trading character. The fact that many Greek firms had a strategy with short-time horizons in these markets, a «hit and run»

[7] Ibid. (6)

strategy to use Porter's terminology, matched up to a point with the similar horizons that the local entrepreneurs had as well. This type of activity is of no interest to the banks because of its short term nature and the occasional absence of business ethics on both sides.

Finally we have to point out that during 1995 two venture capital funds have been established. The first is the Euromerchant Balkan Fund with a total capital of 27.3 million USD. The second is the Commercial Capital capitalised at 100 million USD. A third venture capital fund, under the name Danube Fund has been established; however it was not operational until the end of 1995[8].

4.4. Policies of the Private Sector

The private sector established many wholly owned subsidiaries (W.O.S.) and joint ventures (J.Vs.) in these countries. The majority of these enterprises have a commercial character; they are trading companies. Unfortunately no accurate data can be obtained concerning the exact number of such firms and the size of their capital. The various sources available present information which is often lamentably confusing and contradictory, so the analysis presented below should be considered in this light.

4.4.A: THE CASE OF ALBANIA

According to Lambropoulos & Maroudas[9] (1992), at the time they wrote; just four Greek-Albanian JVs existed: 2 in transportation, 1 in the service sector and 1 in the textile industry (clothes). However, Ermidis & Egiptiadis (1993)[10] pointed out that until November 1992 «...12 Greek-Albanian joint ventures had been established with a total investment capital of 12 million USD, of which 21% has been contributed by the Albanian side». As they pointed out, that number, did not include any of the 18 investment proposals which became approved by the end of 1992. Thus the rate of formation of joint ventures became rapid. The Hellenic

[8] For the activities of the venture capital funds see McDonald Robert: «California, Here I Come... A Survey of Greek Investments in post-Soviet Europe», Industrial Review, Special Survey Series, No17, Athens, October 1995.

[9] Lambropoulos & Maroudas: «I epihirimatiki Prosegisi stis agores ton Valkanikon Horon ke tis kinopolitias- Anexartiton Kraton», Kritiki (eds.), July 1992 Athens.

[10] Ermidis & Egiptiadis: «Albania-Bulgaria-Romania: Ikonomiko ke Emporiko perivalon simera». Thessaloniki, April 1993.

Centre for European Studies in 15-12-1992 reported that according to the law 2008/92 until that date 34 investment projects had been considered with a total capital of 4,5 billion GDR. In a Quarterly Report (8/1993) by the same centre it is stated that «...in the course of 1991 and 1992 64 j.vs were set up-36 in 1991 and 28 in 1992. These j.vs. were jointly set up with companies of the Ministries of Energy, Minerals and Industry, Agriculture & Construction. Italian firms held the greatest share (45%) followed by the Greek firms (23%) and the German and American ones 7%...». If that is correct it means that during 1991 and 1992 only 15 Greek-Albanian j.vs had been established. The Bank of Greece for the period 1991-1992 gives the number of 9 firms with a total investment capital in USD, DM and GDR. For two firms the amount was 118,195,000 GDR, for one firm the amount was 141,000 DM and for six firms the amount was 13,995,477 USD.

The data for 1993 are the following: Ermidis and Egiptiadis (1993) pointed out that until April 1993 70 Greek-Albanian joint ventures had been established; 30 of them were engaged in trade. However in 5/4/1993 the Ministry of National Economy in Athens provided the estimate of 36 enterprises in Albania (J.Vs. and W.O.S.) with capital partly given in USD, partly in GDR and partly in DMs. In total the list had 7 firms with an investment capital of 16, 254, 538 USD, 22 firms with investment capital of 2, 477, 670,000 GDR and one firm with investment capital of 141,000 DM. For the remaining six firms, no data concerning their capital was available. In total for 1993 the Greek Ministry of National Economy estimated that 33 new Greek firms had entered the country with a total capital of 5, 353,415,200 GDR. Of that amount 951, 582,000 GDR were government grants, subsidies.

The data for 1994 are once again contradictory: According to a press release from the Greek embassy in Tirana in the beginning of January 1994 it is stated that in the near future more than 6.5 billion GDR will be invested and at that time the number of firms was estimated at 40[11]. Professor Luka Katseli (1994) provided the number of 75 joint ventures (without any reference to W.O.S.) and investment capital of 25,5 million USD. Nicos Efthimiadis, the president of the Confederation of Industries of Northern Greece, speaking in the same Thessalonika conference (4-5/4/1994) with Katseli, gave the number of 99 joint ventures in Albania with a total capital of 120 million USD. No reference was made to wholly owned subsidiaries. Dr Koppa in an unpublished report in 13/6/1994 remarks that: «...today 99 Greek-Albanian J.Vs exist with an

[11] See B.N. &E.E.R. (23/1/1994).

investment capital of 120 million USD, and of these firms only 20 are in industry...». She adds that there are also 55 wholly owned subsidiaries with an investment capital of 85,7 million USD of which 45 firms are in industrial agriculture and public works area with a total labour force of 15,000 workers...». The Hellenic Centre for European and Foreign Policy in 1994 provided a list of 34 firms activated in Albania. In addition three more had stated their intention to invest in Albania until October 1994. No reference to the investment capital was made. Finally, according again to the Greek Ministry of National Economy the total number of Greek enterprises until December 1994 was 100 with total investment of 25.5million USD. The estimate that the Hellenic Exports Promotion Organisation provided was 100 enterprises with total investment capital of more than 50 million USD. Depending on definition, J.V.s seen to have risen steadily over 1992 to 1993.

For 1995 the data have not been finalised. The latest report is one of 18/9/1995 and comes from the Greek Ministry of National Economy. In there it is stated that: «...79 Greek firms have invested in Albania... The total amount of investment is almost 10 billion GDR (43 million USD), (secondary sector 92.3%, primary sector 6.3%, services 1.4%). From these enterprises around 6,500 new jobs have been created...». However, the report continues pointing out that: «...the total number of Greek firms activated in Albania is around 150... The total investment capital, according to Albanian sources, is 120 million USD, and Greece remains in the second position in foreign investments after Italy. Austria, Germany and the USA follow...».

From the above data two issues are of particular importance. The first is that we can not have accurate data concerning the exact number of joint ventures and wholly owned subsidiaries. The numbers raise steadily during the years. In 1991 we had the establishment of 7 enterprises which should all be joint ventures. In 1992 the number increased between 12-30. Again the majority of firms are joint ventures, but we have the establishment of some wholly owned subsidiaries as well. In 1993 we had another increase in the number of firms which is estimated around 40-45. This number is realistic if we consider the political tensions which occurred at that time in the bilateral relations. Again the data indicate that the majority of these firms are joint ventures. In the 1994 reports, another increase is observed and at that year the average number of Greek firms activated in Albania is estimated around 75-90. Finally for 1995 the number of firms continues to increase and is estimated around

100-150 enterprises. From those the three quarters are believed to be joint ventures and the rest wholly owned subsidiaries.

The second issue concerns the investment capital of these enterprises. Again there are no accurate data. Our personal estimate is that until the end of 1995 it was around 120 million USD. This includes the initial capital, and investments which were financed by the profits of the enterprises, Greek government subsidies as well as EU funds, provided to Greek firms under Pharre/Jopp programme.

4.4.B: THE CASE OF BULGARIA

The same confusion prevails in the case of Bulgaria since according to a report from the Greek Embassy in Sofia (16/2/1993):«...The involvement of a company to the commercial-industrial chamber is not obligatory».

B1: Bulgarian Sources

According to the «Commercial and Industrial Chamber of Bulgaria» the total FDI until May 1993 was 59.2 million USD. Of that, 47 million was from Greece accounting for 77% of the total FDI. Germany followed with 7.9 million USD and 13% , France with 1.5 million USD and 2.5% and the USA with a total investments of one million dollars (1.6%). The CIS, Austria, Holland, Liechtenstein and Turkey followed with a small amount of investments.

In a statement made by the former Bulgarian Foreign Minister Stanislav Daskalov in 31-10-1993 it is stated that «...more than a thousand Greek and Greek-Bulgarian enterprises develop economic activity, the Greek investments are estimated at 50 million USD. There is a tendency to pass from the dominant trade of consumer goods, to superior entrepreneurial initiatives including production procedure...».

According to the «Commercial and Industrial Chamber of Bulgaria», until October 1993, 600 Greek wholly owned subsidiaries have been officially registered (the unofficial estimate is 1000 enterprises) and 202 J.Vs. have been created. There were also 19 Greek Bulgarian J.Vs. in Greece.

The Bulgarian data for 1994 change the picture. The NSI(National Statistical Institute) estimated that during the period 1990-1994 2,200 foreign firms had established (J.Vs. or W.O.S.) with a total investment capital of 500 million USD the distribution was as follows:

Table 4.2.: % Distribution of foreign Investments in Bulgaria according to invested capital.

Country	% contribution in the total capital
Germany	40.6
Holland	10.2
Switzerland	9.2
Belgium	7.1
USA	6.5
UK	4.5
Austria	4.2
Greece	3.6
France	2.6
Cyprus	0.9
Turkey	0.6
Russia	0.4
Others	9.6

Source: NSI (1994) republished by the «Ionian and Popular Bank of Greece».

The 1994 evolution changed the situation completely. Until the end of 1993 Greece was the biggest foreign investor in Bulgaria. However during 1994 Bulgaria attracted massive foreign investments which changed the situation. The majority of these investments came from Germany, which by the end of 1994 was the biggest foreign investor, followed by Holland and Switzerland. Greece fell from the first to the eighth place.

The Bulgarian prime-minister in an interview at 18/6/1995 pointed out that in Bulgaria around 700 Greek firms were operational and added that «...the two countries must register as soon as possible the joint ventures on their soil...».

B.2: GREEK SOURCES

According to Lambropoulos & Maroudas (1992) there were 1000 JVs and 69 W.O.S. However, Ermidis & Egiptiadis (1993) pointed, out

that the number of Greek firms should have been more than 500 until the summer of 1992. Their estimation was 240 registered enterprises from which 50 were J.Vs. Most of them were trading companies. Additionally there were 87 commercial firms with representative offices, so in total there were 327 firms.

The data for 1993 are also confusing: In a report of the Greek embassy in Sofia (10/3/1993) is stated that «...at this moment in Bulgaria more than 400 enterprises of Greek participation are activated (More than 150 of them are J.Vs.)...». Some months later in an interview that the Greek Commercial counsellor in Sofia gave he stated that in 1993 Greece had the first position and out of 216 million USD of foreign investment from the beginning of the economic reforms... until 1993 the Greek participation was 48 million USD compared to 22 million of Germany (see Epilogi November 1993). It is important to note that the Greek Embassy estimated the total FDI in Bulgaria until the end of October 1993 at 216 million USD compared to the estimation of the Commercial and Industrial Chamber of Bulgaria which held the total FDI in May 1993 up to 59.2 million USD. The data of the embassy are similar to those that have been presented by Daniela Bodeva head of the foreign investment commission. According to Bodeva from 1990 until November 1993 219, 670,000 USD have been invested by foreign firms in Bulgaria. According to her statement: «This is the official total but it very much underestimates reality». She added that foreign investments represent 2,1% of Bulgaria GDP and out of 1200 J.Vs 60% has not been registered and that Bulgaria does not calculate future investment commitments[12]. Eventually, Dr Koppa (1994) used the same information that the Greek embassy provided. Information which we presented earlier.

The data for 1994 are as follows: Professor Katseli speaking in the Thessalonika conference in May 1994 stated that:«... In Bulgaria Greece is second after Germany in investment activity participating in around 1,000 joint ventures, out of the 1,500 established, with a total invested capital of 47 million USD...». In the same conference Efthimiadis stated that Greece is the first foreign investor in Bulgaria with 700 joint ventures with a total invested capital of more than 100 million USD. The Ionian Bank of Greece estimated that until the first half of 1994 800 Greek firms were activated in Bulgaria forming J.Vs. or W.O.S. More than 80% of these companies were trading companies of a small size activated in the commerce of consumer goods (clothes, food etc.). Maroudas (October 1994) pointed out that 80% of Greek enterprises are W.O.S. or

[12] B.N. International, No27,28/11/1993.

representative companies and only 20% are J.V enterprises. This explains an earlier miscalculation made by Maroudas & Lambropoulos in 1992. In October 1994 Maroudas informed us that the majority of Greek FDI was in Sofia (70.7%) while other places were Plovdiv (7.4%), Haskovo (2.5%) and Blagoevgrand (1.8%). The Greek Ministry of National Economy estimates for the period 1990-94 that 573 Greek firms were activated in Bulgaria with a total investment capital of 54.1 million USD. The ministry pointed out that only 421 of these companies have deposited investment capital.

For 1995 the data have not been finalised. The Ministry of National Economy in a report of 18/9/1995 noted that: «...until 30-6-1995 in Bulgaria there were 714 Greek or Greek-Bulgarian joint venture enterprises activated in the sectors of trade, industry (food, brewery, clothes,... pharmaceutics and hospital equipment, ... plastics, chemical, coal production etc), energy, transports, services, telecommunications, tourism... The total Greek investment capital is 80 million USD ... consists the 10% of total foreign investment capital in Bulgaria...».

The above data demonstrate that inspite of the variations on estimates the economic activity of the private sector in Bulgaria is bigger compared to that of Albania. However, in Bulgaria the majority of enterprises have a wholly owned subsidiary status; they are not joint ventures.

The fact that the Greek private sector has a greater expansion in Bulgaria compared to Albania has to be attributed to economic factors such us better infrastructure in Bulgaria, compared to the one in Albania, bigger market, and to political factors that is the Greek-Bulgarian relations are excellent while during *1993-94* the Greek-Albanian relations were severely harmed.

In Bulgaria again the number of firms has increased during the years. In 1992 there were 350-380 enterprises (joint ventures and wholly owned subsidiaries). In 1993 the number increased to 450-480 enterprises, while in 1994 a further increase was observed and the average estimate was 600-640 firms. The above phenomenon was repeated in 1995 with an average of 950-1000 firms. Here the joint ventures represent a smaller percentage which is estimated around 30-35%.

In the Bulgarian case the second problem has to do with the level of investment capital. We estimate the total capital, until the end of 1995, at 200 million USD. This includes the initial investment capital, capital from EU under the Phare (Jopp) programme, capital from EBRD, as well

as investments which were financed by the profit that these enterprises made in Bulgaria.

4.4.C: THE CASE OF ROMANIA

C.1: Romanian Sources

The National Statistical Service gives the following numbers of Greek firms in Romania.

Table 4.3.: Number of Greek firms and their capital

Period of time	Number of firms	Capital in millions of USD
20/3/90-7/10/1992	478	10,740,030
20/3/90-5/3/1993	668	11,216,790
20/3/90-30/3/1994	904	16,957,980
20/3/90-23/9/1994	1138	22,231,100

In this data investments which have been made by Molino (3E) and also the investments in shipping industry are not calculated. Greece is in the 14th position in terms of numbers of firms and in the 13th position in terms of invested capital. The report pointed out that during the period 20/3/90-23/9/1994 France was the biggest foreign investor in Romania in terms of invested capital (96,561,490 USD) followed by Germany (96,508,770 USD) which was the first foreign investor in terms of number of firms (4,268).

In a Romanian government report, republished in the Balkan Briefing No21- October 1994 the Greek investments until the middle of 1994, are estimated at 18.4 million USD and the number of Greek firms activated in Romania is estimated at 992. From the data of this report we can see that Greece was the fifth largest foreign investor in terms of capital. According to this report the biggest foreign investor was Canada (61.7 million USD) followed by UK (51.5), Luxembourg (36.0), Turkey

(33.9). It goes without saying, that the above data contradict between them.

The chamber of Commerce and Industry of Romania for the period December 1990-October 1994, estimated the Greek investments at 12,314,000 USD and the total number of firms at 978. According to this report the Greek investments were just 1.9% of the total foreign investments in terms of capital and 2.8% in terms of number of firms. Daianu the Chief Economic Advisor of the National Bank of Romania and President of the Romanian Institute for Free Enterprise in a personal discussion with the author in Thessaloniki in the end of November 1994 estimated the Greek investment in Romania «around 20 million USD».

Dr Baltazar, Romanian official advisor in EBRD in London in a meeting with the author in early June 1995, stated that: «...The Greek entrepreneurs are risk-averse. They invest small amounts of money and they expect to expand their activities from the reinvestment of their profit. That is why the amount of the total investment capital is small, approximately 30-35 million USD...».

C2: Greek Sources

Lambropoulos & Maroudas (1992) estimated that until March 1992 there were 310 Greek firms (J.Vs. and W.O.S.) with a total investment capital of 4,150,000 USD and the distribution of capital as follows:

-Manufacturing Transformation conversion	1,474,000 USD
-Electronics	200,000 USD
-Food industry	194,440 USD
-Trade & Tourism	130,000 USD
-Light Industry	101,100 USD

For 1993, Ermidis & Egiptiadis (1993) give the estimate of 649 Greek firms with a total initial capital of 11,207,840 USD. They point out that their data are of 11/2/1993.

The Ministry of National Economy in a report of 18/9/1995 notes that: «...In Romania from 20/3/1990 until 12/9/1995 1,426 Greek or Greek-Romanian joint venture enterprises were established...The level of Greek investments in Romania, ...is 38 million USD...».

In Romania we can see that the number of firms increased as well during the years. In the Romanian case the overwhelming majority of enterprises (85%-90%) have a joint venture status.

Again like the previous cases in Romania the number of firms increased dramatically. In the middle of 1992 there were 450-470 enterprises. One year later there were 700-720 enterprises. In June 1994 the number was increased to 950-1,000 enterprises, and in June 1995 there were 1,350-1,385 enterprises. The overwhelming majority (90%-95%) are small trading companies and despite the large number the invested capital is smaller compared to that in Albania and Bulgaria. The actual capital commitment is in this case as well a confusing issue. The estimate is that until the end of 1995 the total invested capital was 110 million USD (excluding Greek investments in shipping). In this figure as in the previous cases we include capital from EU Phare (Jopp) programme, EBRD, and re-invested profit.

4.4.D: THE CASE OF RUSSIA

According to Lambropoulos and Maroudas (1992) there were eight Greek-Russian joint-ventures, until July 1991, with a total initial capital of 14,138,000 rubbles. Vlachoutsicos (1993) using data until February 1991 states that the joint ventures, at that time, (February 1991) were ten with a total investment capital of 8,800,000 rubbles.

Data for 1992 are also provided by Lambropoulos and Maroudas (1992). They provide an estimate for the period until July 1992 of 27 joint-ventures.

Speaking in Thessalonika conference in May 1994 Professor Katseli estimated 42 Greek-Russian joint ventures, making no reference to their capital. The ministry of National Economy officially reported 38 Greek-Russian joint ventures until October 1994 and provided to us an unofficial estimation of 50 joint ventures. No reference was made to the capital of the firms. Vlachoutsicos in a private discussion with the author

in December 1994 estimated that the total investment capital of Greek firms in Russia was 20 million USD.

In June 1995 Valinakis and Vlachoutsicos in an article published by the Hellenic Foundation of European and Foreign Policy, pointed out that in 1992 there were 60 firms which were either Greek-Russian joint ventures or Greek wholly owned subsidiaries. By 1993 the number was 150 firms; and for 1994 an estimation of 200 firms was provided. However they pointed out that only 25% of these firms were operational during 1992 and 1993, and provided an estimation of 50% for 1994. This is the only reference which attempts to assess the development of Greek private sector activity from 1992-1995 in terms of firm's numbers. Sideris (1995) in an article published by the Institute of International Economic Relations notes that in the period of 1989-1992 many firms announced their intention to expand their activities at the beginning in the former USSR and then in Russia; however during these years nothing practically happened. Sideris classified 20 firms, as follows:

4	firms	in	shoe-trade
1	firm	in	furs-trade
2	firms	in	furniture-trade
4	firms	in	shipping
2	firms	in	medical services
2	firms	in	perfumes and medicine
1	firm	in	oil
4	firms	in	technology, telecommunications and PCs

In total, however, he provided the estimate of 38 joint venture enterprises.

In Russia the number of firms increased during the years, with a very slow pace compared to that of the Balkan countries. In 1991 there were 8-10 enterprises. In 1992 there were 15-19 enterprises. In 1993 the number increased to 30-32. In 1994 to 35-42 and in 1995 45-60. The majority of these firms (70-80%) are joint ventures and not wholly owned subsidiaries. In this number we have to add the multiple enterprises which have been established by big groups of firms such as the Intracom Group, the Vardinoyiannis Group, the Meton Etep Group etc and this will give us a number of around 100 enterprises with a total capital of 180-200 million USD. In this figure as in the previous cases we include capital from EU programmes, EBRD, and re-invested profit.

4.4.E: CRITIQUE OF EXISTING DATA

From the data that we have already presented it goes without saying that the situation concerning the extent of the private sector's economic activity in Albania, Bulgaria, Romania and Russia is confusing and contradictory. However new data provided by Mc Donald[13] clarify certain aspects. Mc Donald challenges the existing data pointing out that: «...official statistics record only a fraction of the investments already made. But some of the most prestigious names in Greek business have made significant outlays either on their own or in conjunction with the European Bank for Reconstruction and Development... The concerns are becoming major players in a vast new market... stretching from the White to the Black Seas...». Mc Donald provides new financial data concerning eighteen investment projects. From the data presented in table 2 page 6 of Mc Donald's survey we can see that the total amount of capital is 501,200,000 USD. From that data, as well as those that are already presented, in the official statistics the following conclusions can be drawn out.

The first one is that compared to Russia, the activity of the private sector is more intense in the Balkan countries. In the Balkan countries around 2,000-2,400 firms have been established with a total capital of around 500 million USD. The number for Russia is smaller around 100 firms with a total capital of 180-200 million USD. This despite the fact that Russia is a bigger country and provides the foreign investor with more opportunities than the Balkan countries. This outcome can be attributed to geographical factors (lower transportation and monitoring costs in the Balkans compared to those in Russia).

Within the Balkans itself today we have the emergence of exactly the same paradox. That is, despite the fact that Romania is the biggest market (22.7 million consumers) the presence of Greek firms there -in terms of investment capital- is less marked compared to that in the other Balkan countries. In Romania the total capital of the 1300-1350 firms is around 110 million USD. In Bulgaria, a country of just 9.8 million consumers, the total capital of the 950-1000 firms is around 200 million USD. In Albania, with only 3.5 million consumers, the total investment capital of the 100-150 firms is estimated at 120 million USD, which exceeds that for Romania. In total, Albania and Bulgaria, the two neighbouring countries, attracted 320 million USD of investment

[13] Mc Donald Robert: «California Here I Come...A Survey of Greek investments in post-Soviet Europe», Industrial Review, Special Survey Series No17, Athens, October 1995.

compared to the 110 million USD of Romania. The above demonstrate the importance of geographical proximity, both within the Balkans and further.

The second conclusion has to do with the level and the quality of investment activity per se. In all the countries the number of firms is enormous; however their capital is terribly low. This can very easily be demonstrated if we consider the following data:

a. In Albania one firm (which happens to be in our sample) invested 14 million USD out of the total 120 million USD worth of Greek investment.
b. In Bulgaria two Greek firms (which both participate in our sample) invested 90 million USD out of the total 200 million USD worth of Greek investment.
c. In Romania one Greek firm invested 78 million USD out of the total 100-120 million USD worth of Greek investment.
d. In Russia, one firm invested 90 million USD out of the total 180-200 million USD worth of investment.

From the above it becomes obvious that Greek investments are «concentrated» in a few enterprises which control a very big part of the total investment capital, while the rest is controlled by hundreds of small trading firms. We estimate that in Albania one firm controls around 12% of the total invested capital. In Bulgaria two firms controlled 45% of the total invested capital. In Romania one firm controlled 71% of the total capital. Finally, in Russia one firm controlled 45%-50% of the total invested capital at the end of 1995. The estimates for all the countries are for 1995.

It would be a serious omission not to point out the speed with which the Greek private sector developed in these countries. It is correct that the level of investment is small compared to the number of firms. However, in 1988 only fifteen joint ventures existed in Eastern European countries (some of them situated in Greece). Of those, eleven were trading companies, and only four were production oriented, according to the Ministry of National Economy.

If we consider the obstacles that existed, and are very well described by Professor Panov and Greek scholars such as Babanasis and Vlachoutsicos, we can say that an «economic miracle» has been taking place since 1989, stimulated by a new dynamic environment which offers opportunities, mixed with new problems and risk. Furthermore we have to acknowledge the fact that Greek investment activity has been

undervalued by official statistics. Mc Donald's contribution has cast very essential light on this issue. According to the official statistics Greek firms invested in Albania, Bulgaria, Romania and Russia just 250-290 million USD. However, if we refer to Mc Donald's survey the total investment capital is estimated at 680-700 million USD, a fraction of which is, provided by the EBRD.

It remains true that the Greek firms set up in these countries are of three different categories. The first is that of big enterprises. In this category we have less than twenty groups of firms. They are concentrated in FDI rather than trade. The second category is that of medium size enterprises. They may engage in both FDI, trade and/or provide different types of services. This category consists of around, 100 enterprises. The third category is that of small size firms. These are trading companies or companies set up to provide certain services with very limited capital, which can be less than 100 USD. It is in this category that 95-98% of the firms belong.

4.4.F: THE ACTIVITIES OF THE PRIVATE SECTOR IN OTHER EASTERN EUROPEAN COUNTRIES.

The aim of this section is to provide data concerning the activity of private sector in other countries for comparative reasons.

Katseli (1994) provided the following estimates:

28 joint ventures in Poland
48 joint ventures in Hungary
24 joint ventures in Ukraine
19 joint ventures in Czech and Slovak Republics
1 joint venture in Azerbaijan

No estimate on the investment capital has been made.

The Ministry of National Economy (1995) provided the following estimates:

40 enterprises (including joint ventures and wholly owned subsidiaries) in Poland with a total invested capital of eight million USD.

46 enterprises (including joint ventures and wholly owned subsidiaries) in Hungary; without providing an estimate on the investment capital.

37 enterprises in Ukraine, again without providing an investment capital estimate. (For the case of Ukraine, earlier data from the ministry, provided the same estimate with that of Katseli)

The above data highlight further the importance of transportation, monitoring costs and geographical proximity. They also highlight that the Greek private sector activity is unbalanced in the BSEC area and in Eastern Europe in general.

4.5. TRADE RELATIONS

In this section we provide general trade data from which the economic significance of these new markets is clearly highlighted. A brief analysis is also needed in order to provide the reader with a realistic picture of the issue. As a whole, Greek industry, for various reasons which go beyond the present analysis, has been characterised by unbalanced sectoral development. Mainly light industrial sectors have been developed (textiles, food, tobacco and paper industry, wines and spirits etc.), producing labour intensive products. The production cost of these products is high compared to other countries. Furthermore, monetary policy is an additional obstacle to further development, because of the high interest rate regime compared to trade rivals, and the policy of the «hard drachma» which is subject to only gradual and very limited depreciation. By contrast trade rivals such as Spain, Portugal and Italy devaluated their currencies severely, thus boosting their exports. The economic evolution described above led to a loss of competitiveness of Greek products in the world markets. This can be seen in the following table:

Table 4.4: Trade Balance 1988-1994

Year	Greek Exports (in USD)	Greek Imports (in USD)	Trade Balance (in USD)
1988	5,933.6m	13,564.7m	-7,631.1m
1989	5,994.4m	15,114.7m	-9,120.3m
1990	6,364.8m	18,692.5 m	-12,327.7m
1991	6,797.1m	19,104.6 m	-12,307.5m
1992	6,008.8m	19,902.0m	-13,893.2m
1993	5,034.3m	17,615.5 m	-12,581.2m
1994	5,218.9m	18,741.7 m	-13,522.8m

Source: Bank of Greece

Table 4.4 illustrates this decline of competitiveness by the rapidly deteriorating trade balance over the period 1988-1994. This is attributable to a stagnant overall export performance and rapidly rising imports. It is clear that Greek products lost their competitiveness in the international markets, and in the domestic market as well. The importance of the new emerging markets in Albania, Bulgaria, Romania and Russia is rising. This is demonstrated by the following tables:

Table 4.5: Trade Balance between Greece and Albania (1998-1994)

Year	Greek Exports (in USD)	Greek Imports (in USD)	Trade Balance (in USD)
1988	4,960,000	4,050,000	+ 910,000
1989	18,780,000	7,498,000	+ 11,282,000
1990	17,820,000	12,283,000	+ 5,537,000
1991	12,212,000	11,876,000	+ 336,000
1992	41,264,000	18,075,000	+ 23,189,000
1993	126,315,000	15,433,000	+ 110,882,000
1994	213,200,000	35,300,000	+177,900,000

Source: National Statistical Service of Greece (ESIE).

Table 4.6: Trade Balance between Greece and Bulgaria (1998-1994)

Year	Greek Exports (in USD)	Greek Imports (in USD)	Trade Balance (in USD)
1988	33,852,000	47,070,000	-13,218,000
1989	68,564,000	70,038,000	-1,474,000
1990	52,965,000	109,135,000	-56,170,000
1991	87,789,000	155,795,000	-68,006,000
1992	167,172,000	160,921,000	+6,251,000
1993	303,362,000	198,270,000	+105,092,000
1994	413,100,000	317,700,000	+95,400,000

Source: National Statistical Service of Greece (ESIE).

Table 4.7: Trade Balance between Greece and Romania (1998-1994)

Year	Greek Exports (in USD)	Greek Imports (in USD)	Trade Balance (in USD)
1988	31,790,000	57,908,000	-26,118,000
1989	42,296,000	79,351,000	-37,055,000
1990	59,273,000	71,991,000	-12,718,000
1991	84,813,000	92,159,000	-7,346,000
1992	107,386,000	67,960,000	+39,426,000
1993	89,299,000	65,731,000	+23,568,000
1994	93,400,000	93,200,000	+200,000

Source: National Statistical Service of Greece (ESIE)

Table 4.8: Trade Balance between Greece and Russia (1992-1994)

Year	Greek Exports (in USD)	Greek Imports (in USD)	Trade Balance (in USD)
1992	125,000,000	435,000,000	-310,000,000
1993	185,612,000	509,993,000	-324,381,000
1994	243,100,000	547,700,000	-304,600,000

Source:The data for 1992 are provided from the Centre of Export Research and Study (KEEM), the data for 1993 and 1994 are provided from the National Statistical Service of Greece (ESIE).

Table 4.5 demonstrates the development of trade relations between Greece and Albania. We can see that Greek exports to Albania increased tremendously in the previous years, from 4.9m USD to 213m USD over the period 1988-1994. Imports from Albania rose also, however the trade balance at the end of this period was a healthy 178m USD.

Table 4.6 demonstrates the development of trade between Greece and Bulgaria. We observe a similar evolution that is an increase on the volume of trade (exports and imports). By the end of 1994 after a period of negative trade balance in the late 1980s a positive balance of 95m USD was evident.

The case of Romania (table 4.7) was less encouraging with both exports and imports rising, but the latter often keeping step with the former, and often outstripping it. By 1994 the trade balance was just 0.2m USD.

Finally the trade balance with Russia (table 4.8) was extremely unfavourable. Over the years 1992, 1993, 1994 both exports and imports increased, however the Greek imports from Russia outnumbered the exports and the trade balance was negative.

Overall, in 1992 the four countries absorbed 440,822,000 USD of Greek exports or 4.33%. By 1993 it was 13.99% !!! The first remark to make on the evidence overall is that Greece lost in the Western markets. This was because of high cost, a low level of competitiveness, and the UN embargo on Yugoslavia. However, it gained, up to a point, in the new emerging markets, of the East. This demonstrates the economic significance of the new emerging markets. That is, Greece lost in the Western markets but gained in the East. From the 5.2 billion USD worth of Greek exports in 1994 973 million USD were products obsorbed by Albania, Bulgaria, Romania and Russia. That is around 25% of the total exports. The second remark to make is that despite the fact that Russia is a bigger market (148.3 million consumers) compared to the Balkan countries (33 million consumers), Greek exports have been concentrated in the Balkans rather than Russia. (315,822,000 USD in the Balkans during 1992 compared to the 125,000,000 USD in Russia). The same situation was observed in 1993 and 1994. That is the Balkan countries absorbed exports worth of 518,976,000 USD compared to the 185,612,000 USD of Russia. This situation may be largely attributed to geographical reasons (lower transportation costs in the Balkans compared to Russia). In general we can see that the trade data follow the data of the private sector. That is, we have more exports in the Balkans compared to Russia. Between the Balkans we observe a similar situation. That is, in Romania we have a lower level of exports (in spite of the fact that Romania is the biggest Balkan market), compared to the other countries. In addition the trade volume with Romania decreased between 1992-1993 compared to the other three countries.

The final remark is linked to the activities of the private sector in the four Eastern European countries. We have already noted that the Greek firms which were established in these countries are of three different categories. The majority of them (95-98%) are small trading companies. It is exactly these companies which «created» the export-boom to Albania, Bulgaria Romania and Russia.

CHAPTER 5:

JOINT VENTURES:

THE ANALYTICAL FRAMEWORK

5.1. The Analytical Framework

5.1.1 The distinction between auxiliary and core analytical issues

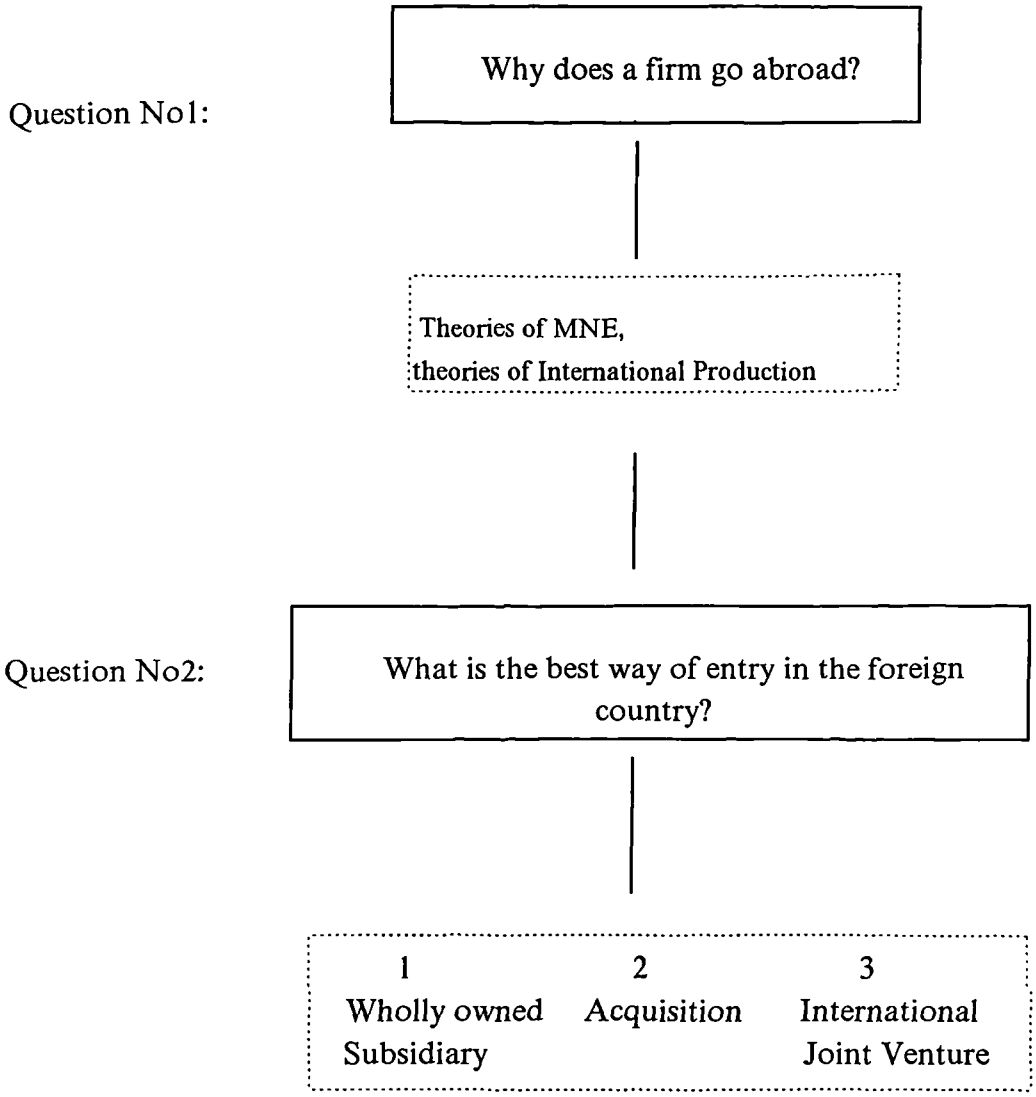
We have identified two sets of questions to address. The first set consists of auxiliary questions. The theoretical framework behind this set is a modification of the theories that Western scholars have developed in order to explain the genesis of international business in their countries. We were obliged to modify at least, or even to abandon, intellectual contributions of western scholars to the extent that they cannot be applied to the Greek case.

As regards the second set of questions, the core one, we have been able to apply the analytical framework developed by Western scholars with far less modification. However, the results differ from what a western researcher might expect. This demonstrates precisely the point that phenomena in social sciences are unique. We may have some general principles; but what is applicable to one case, may not be applicable to another.

5.1.2. The Auxiliary questions

The auxiliary questions are displayed in schematic form in figure 5.1. They consist of two questions. The first is: «why does a firm go abroad». The second is «what is the best way of entry in the foreign country». The first question has been analysed both by the Western and the Greek academics. An extensive presentation of their analysis follows.

Figure 5.1 : Auxiliary theoretical questions/issues



5.1.2.A. The Auxiliary questions: The view of the Western Academics.

The theoretical background behind Question No1 at the top of the schema consists of theories of the Multinational Enterprise (MNE), and theories of International Production (i.e. of FDI). As Dunning (1990) points out[1] «There is ... much common ground between the theory of international production... and explanation of the extension of the

[1] John Dunning: «The Eclectic paradigm of international production: a personal perspective» in Pitelis & Sudgen (eds.): «The nature of the Transnational Firm» London 1990 pp:117-136.

territorial boundaries of the firm, but the one major difference is that some variables which are exogenous, to the latter set of explanations become endogenous when the subject of interest is groups of firms or countries...». The main theoretical frameworks which have been used to analyse FDI (international production), are the market power approach, internalisation theory, competitive international industry approaches, macroeconomic developmental approaches and the eclectic paradigm[2]. These approaches, which have been developed by the Western academics, cannot be used as explanatory frameworks of the Greek case. This is analysed below.

A1) The Market Power approach.

In the market power approach, according to Cantwell: «...The main idea is that in the early stages of growth firms steadily increase their share of domestic markets by means of merger as well as capacity extension and that as industrial concentration (and market power) rises so do profits. However there comes a point at which it is no longer easy to further increase concentration in the domestic market, as few major firms remain, and at this stage profits earned from the high degree of monopoly power at home are invested in foreign operations leading to a similar process of increased concentration in foreign markets... The market power approach is often associated with the industrial organisation literature in which it is common place to argue that a more concentrated market structure is allied to greater collusion and a higher share of profit...»

The above theory cannot be applied to the Greek case. First of all it is a theory which explains FDI (international production). We have already pointed out (chapter 4, section 4.4) that the majority of Greek joint ventures are trading companies, so we can not apply this theory in the whole population, but only in a small fraction of it. Furthermore the theory implies the existence of oligopoly in the domestic market which forces the firms to expand abroad. However, the Greek textile firms, the firms of the food and beverages sector as well as the firms from other sectors operate in fully competitive industries rather than oligopolistic industries.

The above reasons made us to disregard this stream of thought as inappropriate for the Greek case.

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[2] For an excellent overview of these theoretical frameworks see John Cantwell: «A survey of theories of International production» in Pitelis & Sudgen (eds.): «The Nature of the Transnational Firm», London 1990, p: 16-63.

A2) The Competitive International Industry approaches.

The competitive international industry approaches is another analytical framework. As Cantwell remarks: «...competitive international industry approaches share the view that in general the growth of international production tends to be associated with rivalry and to sustain the process of technological competition amongst MNCs...».

The above theory is not applicable to the Greek case as well. The first reason has to do again with the type of activities which the majority of joint ventures persue, e.g. trade and not investment (international production). The second reason is that this theory implies that the crucial issue in the domestic competition is that of technology. The rivalry of the firms in the domestic market occurs for the possession of better technology. So if one firm A possesses technology A' and firm B possesses technology B' and A' is superior to B' then firm B will expand abroad in order to exploit the technology of another country and match its technological standards with those of firm A. The intrinsic rationale of this approach is that the two firms are producing capital-intensive or knowledge-intensive products. However, in the Greek case the firms which expanded in these countries are producing labour intensive products, so they do not expand in there in order to absorb new technologies. Because of the above reasons this framework is also not applicable in the Greek case.

A3) The Macroeconomic Developmental approaches.

Another framework is that of the macroeconomic developmental approaches. Under this framework notions such us «resource availability» or «resource-based approach» and «investment-development cycle» are crucial. The former, is the assumption that the domestic firms are interested in resources exploitation in order to expand their production. If the supply of these resources is inadequate in the domestic market the firms will expand in certain locations abroad (countries) where they can find them. The latter, as Cantwell remarks, «...is based on the proposition that the level of inward and outward direct investment of different countries... depend upon their national stage of development. The poorest countries have very little inward or outward FDI, and consequently a level of net outward investment that is close to zero...».

The first idea is not applicable to the Greek case because: a)again as in the previous cases the firms are expected to engage in FDI activity,

which is not the dominant activity of the Greek firms. Furthermore this notion implies that the resources which the firms seek to exploit demand investments with enormous financial capital (e.g. oil, extractive sectors etc.). The Greek firms which expand in these countries do not exploit any of these resources because they do not have abundant financial capital.

The second idea is helpful and actually explains why the majority of Greek firms is not engaged in FDI activity. Greece is a small open economy with low level of inward and outward direct investment. This provides one explanation why Greek firms in these countries are activated in trade and not investment.

A third idea which this theoretical framework encompasses is that of the role of the currency. The overvaluation of one currency (the USD for example) is an essential factor for outward investment because the US firms can expand abroad more cheaply. This idea is again not applicable in the Greek case. We have seen that the majority of the ventures are trading companies. It is correct that the Greek drachma (GDR) is a stronger currency compared to the lek, leva, leu and rouble, however in the case of the trading ventures this is a disadvantage and not an advantage.

A4) The Eclectic Paradigm.

The fourth framework for analysing international production is the eclectic paradigm developed by Professor Dunning. As Cantwell (1990) remarks: «...The eclectic paradigm... was... soon acknowledged that it was not itself another theory...». Professor Dunning himself points out that[3]: «...The eclectic paradigm seeks to offer a general framework for determining the extent and pattern of ... foreign-owned production undertaken by a country's own enterprises and... it is not a theory of the MNE per se, but rather of the activities of enterprises... Neither is it a theory of foreign direct investment... as it is concerned with the foreign-owned output of firms rather than the way that output is financed... Finally, the eclectic paradigm chiefly addresses itself to positive rather than normative issues...».

The above quote gives the prima facie impression that the eclectic paradigm is not an analytical tool which can be applied to the Greek case. However, Dunning's ideas can partly be applied to the Greek case. Dunning developed the OLI framework (Ownership/ Location/ Internalisation). According to this, the firms have «Ownership-specific

[3] In Dunning: «Multinational Enterprises and the Global Economy» (1992), page 76.

advantages/assets», «Location-specific assets» and «Internalisation incentive advantages».

The «ownership specific advantages» include, among other things: «...Product innovations, production management, organisational and marketing systems... marketing, finance, know-how etc...». In general Dunning distinguished: «...ownership advantages which arose as a direct result of a firm engaging in international production and those which it [the firm] might possess prior to its becoming a multinational...».

The «location specific variables» include, among other things, «low transport and communication costs, investment incentives and disincentives...artificial barriers... to trade in goods and services, societal and infrastructure provisions...». Finally, the «internalisation incentive advantages» include, elements of the transaction cost approach.

Dunning's ideas are similar to those of Hood and Young (1979). For us the «ownership-specific» and the «location-specific» factors are essential. Hood and Young (1979) pointed out that: «...It may be assumed that a multinational firm operating in a foreign country is faced with certain additional costs in comparison with local competitor. These arise from cultural, legal, institutional and linguistic differences... therefore the firm entering from abroad must have some advantages not shared by its local competitors. This is the starting point for all theories of foreign direct investment and the MNE...». They also point out that: «...To explain the choice of foreign direct investment... it is necessary to take into account... location specific factors such as relative costs of production, trade barriers, market characteristics... It is the association of ownership - and locational specific factors which determines whether, firstly, a particular firm has an advantage over other firms and secondly, whether the firm will exploit that advantage by producing abroad, by exporting or by licensing. Together the two sets of factors, therefore, represent the essential conditions for multinationality...».

Because the above factors can be applied to the Greek case we have identified «Firm-specific» motives and «Home-host country specific» motives (see in the questionnaire questions 3.1 and 3.3). From the above it is obvious that we have, partly, applied the ideas of Dunning in the Greek case.

A5) <u>The Internalisation approach</u>.

The starting point of this approach can be traced to the writings of Coase (1937) and Williamson (1975). The rationale has been extended

by many authors and this made Kay (1990) to point out that: «...transaction cost economics is subject to many interpretations, and there is no single route in this area...». He also points out that: «...Transaction cost economics is a paradigm, not a theory...».

The main general points of the transaction cost rationale are that «in the beginning there were markets» and that «the transaction is the basic unit of analysis». In the market transaction costs can be high because of the following six factors which create transaction difficulties: 1)Bounded rationality, 2)Opportunism, 3)Uncertainty and complexity, 4)Small numbers, 5) Information impactedness, 6) Asset specificity[4]. As Jones and Hill remark: «...The joining together of... these factors causes specific transaction difficulties. For example the combination of bounded rationality with uncertainty and complexity, and/or opportunism with small numbers trading conditions makes market transacting hazardous and difficult to execute efficiently...». Because firms have to overcome the «transaction difficulties», which are caused because of the high transaction costs they have to internalise. As Jones and Hill (1988) remark: «...First internalisation allows the firm to invest in specialised assets which result in the production of goods and services at a lower economic cost... Second internalisation leads to economic benefits because it removes the possibility of resource misallocation due to information impactedness... Third internalisation produces economic benefits because it obviates the need to write complex contracts...»[5].

The concept of internalisation is used in another sense as well. As Casson (1987) remarks: «The theory of internalisation provides a useful basis for the theory of the growth of the firm... it is assumed that the firm grows either by entering new markets or by increasing its penetration of existing ones...»[6]. The above rationale is elaborated further by Buckley and Casson (1991) who state that: «...It is little exaggeration to say that at present there is no established theory of the multinational enterprise... The outdating of the orthodox theory of production stems from the fact that the modern business sector carries out many activities apart from the routine production of goods and services: particularly important are marketing R and D, the training of labour, the building of a management team... All these business activities are interdependent and are connected by flows of intermediate products... Efficient co-ordination of business

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[4] For the definition of these factors see Williamson (1975, 1988, 1989, 1991, 1993). See also Jones and Hill (1988).

[5] Buckley and Casson (1991) distinguish «five types of market imperfection which generate significant benefits to internalisation». See pages 37-39 in Buckley and Casson: «The Future of the Multinational Enterprise», second edition 1991.

[6] See Mark Casson: «The Firm and the Market» (1987) pages: 21-22.

activities requires a complete set of markets in the intermediate products. However, markets in certain intermediate products are difficult to organise, and it is our thesis that attempts to improve the organisation of these markets have led to a radical change in business organisation, one aspect of which is the growth of the MNE... When markets in intermediate products are imperfect, there is an incentive to bypass them by creating internal markets. This involves bringing under common ownership and control the activities which are linked by the market. Internalisation of markets across national boundaries generates MNEs... prior to the Second World War multinationality was a by-product of the internalisation of intermediate-product markets in multistage production processes and that post-war it is a by-product of the internalisation of markets in knowledge...».

The above approach is not applicable to the Greek case as the previous ones. (Market Power approach, Competitive International Industry approaches, Macroeconomic Developmental approaches). The reasons are similar to those expressed earlier, that is a) the overwhelming majority of Greek firms when they expand abroad they establish small trading companies so they have no interest to internalise intermediate-product or knowledge markets. Furthermore, and this is a wider remark, the transaction cost approach is controversial and this is documented by many scholars[7].

A6) The Network approach.

Based on the writings of Cantwell (1990) as well as other authors we have discussed in detail the main theoretical contributions of the Western scholars. However, the above do not provide the overall picture. Another essential contribution is that of Professor Mc Kiernan[8]. From there we discuss the network theory. Mc Kiernan points out that: «...The premises of network theory are as follows: 1) Organisations are related to a network of other organisations and to understand individual organisational behaviour it is necessary to understand these relationships. 2)Organisations are dependent on other organisations for resources and this ties them together based upon reciprocal transactions. 3)Resources controlled by individual organisations are all different and not comparable; hence investments are made in the relationships between them that create value in their dependent linkages... 4)The network is in

[7] See for example Pitelis (1991), Kay (1992) and Mc Master (1993).
[8] See Peter Mc Kiernan: «Strategies of Growth» (1992).

constant flux as suppliers, buyers and customers may enter and exit. 5)The strength of the individual organisation depends... on links with customers, suppliers, distributors, competitors and so on 6)...Information exchange and adaptation processes are key attributes of the networks 7)The character of the products of exchange influences the extent of the bonding in the network, e.g. high-tech products require much closer liaison between organisations...». He continues stating that: «...From a network standpoint the view of the internationalisation process begins to change. First, any strategic investment is meant to obtain, defend or develop a position in the network. If an organisation is already involved in a foreign network, its direct investment will be to defend or develop its position; if it is not, its direct investment will be to obtain a position within it... Second, because the organisation is part of a network, the importance of any company-specific advantage is much reduced. An organisations strength...depend...more upon its network linkages...».

The above concept cannot be applied to the Greek case as well. Eastern European countries face, nowadays, tremendous structural problems. The majority of the enterprises in Eastern Europe is bankrupt and closed down, suppliers are insolvent and the same occurs for customers. Furthermore, there is no reliable source of information, and there are no institutions to provide direct assistance to the private firms (e.g. banks, stockmarkets etc). From the above it is clear that at the moment there are no networks in Eastern Europe in the way that the theory describes them. For example the theory states, correctly, that organisations are interdependent. This was also the case under central planning where for example in the Soviet Union the electricity produced in Russia and Ukraine was used also be the firms operating in Moldavia. However, nowadays, the old state enterprises have gone bankrupt and this has harmful implications for other firms as well. The links between firms, banks, suppliers, buyers, customers etc are very loose if not completely perished. So for the moment the above theory cannot be applied to the Greek case since there are no networks in the way that these are defined. This of course may change after some decades as these countries will experience structural changes which will enable them to re-establish new networks which will differ from the old bureaucratic system and from today's chaotic situation.

5.1.2.B: Auxiliary questions: The view of the Greek academics.

The emergence of multinational entrepreneurial activity started in the Western economies in the late 19th century. It may be viewed within the framework: trade, first stage; investment, second stage. That is, a firm from country A initially exports its products to country B, and at a later stage, this firm invests in country B by establishing a factory. International production is the dominant type of multinational activity in Western economies[9], so when we ask Question 1 «why does a firm go abroad?» we automatically mean «why does the firm go abroad and invest?». However, this line of reasoning is not appropriate for the majority of Greek firms. In the previous chapter (see chapter 4 section 4.4) we described the activities of the private sector. We demonstrated that the majority of the firms (many of them small) have low stocks of financial capital, with the exception to this being just a few big firms. This pattern is attributable to entrepreneurial characteristics which favour the establishing of trading companies. This should not, however, encourage the misleading opinion that the majority of them follow the path of trade in the first stage, and investment (production) in a later stage.

Greece «lost» the historical experience of both industrial revolutions; the first, that of the eighteenth century because it was then still under the Ottoman rule; and the second, that of nineteenth century, because the aim of the Greek state was, at that time, to unite all the Greeks who were living beyond the borders of the state that emerged in 1830, and then to create a modern economy. This process did not end until 1949; and it has only been since 1949 that the main aim has been economic growth and development. So we must always remember that Greeks historically are merchants and seamen, not investors. Because of this historical element the answer in a clear-cut way to the first question «why do Greek firms -and sometimes individuals - go to these neighbouring countries?» is not as easy as one may think. In particular, we have seen that we cannot have a straightforward imposition of the theoretical frameworks which have been developed in other western countries, though of course, at least some points of these theories are applicable to the Greek case, a typical example being firm -specific motives. In this context we must mention the views which have been expressed by Greek academics and businessmen to explain the

[9] For the evolution of MNE see M.Wilkins: «The emergence of Multinational Enterprise» (1970) pp:35-110 which cover the period before 1914. For the inter war period see M.Wilkins «The Maturing of Multinational Enterprise» (1974) pp:138-205 and after 1945 see in the same book pp:327-408.

phenomenon. An interesting historical view is expressed by Professor Katseli[10]. She points out that «even from the 17th century Salonika was the biggest commercial centre of the Balkans... and ...Greek commercial networks united the markets of the Balkans, with those of Constantinople and the Black Sea with... Italy and the South of France». She also points out that: «...Almost all the transactions in Balkan trade during the 18th and 19th centuries were made in the Greek language and with Greek legal rules exclusively...» and adds that «...in 1815 three quarters of the French foreign trade with the Eastern Mediterranean was made by Greeks...». The fact that during the 19th century large Greek communities were living in what is today Albania, Bulgaria, Romania, South Russia and Georgia was also another factor, to boost trade. The process was interrupted during the period 1912-1990 due to, the Balkan wars, the World Wars and the Cold War, and according to Katseli today «history repeats itself».

Dr Karafotakis[11] shares the same view as Professor Katseli, pointing out that «in the end of the 19th century a partial retreat of Greek positions in the transbalkan trade is observed as an outcome of the initial nationalistic targets from all Balkan countries. The situation worsens after the Balkan Wars; however it showed some stability in the Interwar period. During the same period the development of German positions in the area... becomes dominant ... especially... with tobacco». He continues stating that: «with the Second World War trade relations ceased to exist, and they restarted from 1990 and afterwards...». Greek businessmen, in a research[12] which has been reported in the current economic press and in journals, have pointed out the partially similar needs that these new markets have with the Greek market. The historic ties, the thirst of these markets for Greek products, and geographical proximity, are major factors encouraging investment in these countries. The above demonstrate the peculiarity of the Greek case. Furthermore the fact that many Greek researchers and academics have provided, in recent years, adequate answers to the issue has made us consider it auxiliary to our own research. According to them the expansion of Greek firms in the BSEC countries is attributed to historical, cultural and economic factors.

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[10] Katseli (1994).
[11] Karafotakis E. (1994): «Ta Diavalkanika Diktia Dianomis» (The Transbalkan Distribution Networks), paper presented in conference in Thessalonika November 1994.
[12] See for example «Epilogi», November 1994, pages 73-79 special issue.

5.1.2.C.: The Auxiliary issues in our research.

In our research in order to face the above issue we tried to identify the previous (if existing) experience and association of Greek firms in these markets, to see if they followed the classical western path from trade to investment. We identified three different categories of motives that a firm may have for expanding its activities abroad. In the first category, we identify firm specific advantages which can provide the motivation for expansion. These advantages may include access to cheaper-financial capital, better technology, superior entrepreneurial and managerial capabilities, and any other advantages that the Greek firms possess compared to local enterprises. In the second category, the motives may include different strategies that the Greek firms pursue. Thus the firm may seek to achieve a first mover advantage in these countries (markets) or may attempt geographical diversification. It is also possible that a cost leadership strategy, or a differentiation strategy, may be achieved more readily, if implemented via these countries. In order to clarify this sensitive point we will use a simple example. Let us assume that a Greek textile firm seeks to achieve cost-leadership in the Greek domestic market. This is not possible because of high wages. However, if this firm establishes a factory in Albania producing textiles, the cost is twelve times lower than it is in Greece. Therefore, a cost leadership strategy by the firm is readily achieved by expanding its activities abroad. The same can be said of a differentiation-focus strategy. The firm, for example, may spot a market segment in these countries where it can sell products of lesser quality than the Greek market may absorb. In the third category, we identify host and home country specific motives. Thus the host country may offer to the foreign investor specific advantages, such as natural resources, and a large demand for its products. Additionally the imposition of tariffs and quotas may oblige the foreign firm to transform from a trading company to a production unit (or in the Greek case, to abandon the market). This category includes home country specific factors. Thus, high domestic interest rates, or the small size of the Greek market, may force the Greek firms to go abroad.

The intellectual influence of the economic thought of western scholars is obvious in these categories that we have identified[13]; Concerning the second issue, that of the most desirable way of entry into the foreign market, by using the option of the wholly owned subsidiary, the acquisition or the international joint venture, the answer is simple. Typically, Greek firms have not used the acquisition option. From the data that we have already presented (see chapter 4 section 4.4) we have seen that the typical Greek firms established only wholly owned subsidiaries or joint ventures in these countries. Since there are no reported acquisitions, there is no point in further discussion of this activity. The Greek firms have not used the acquisition option because in these economies the evaluation of the assets of the target firm is impossible because of the adverse macroeconomic situation (e.g. hyperinflation). Additionally, the Greek managers were relactant to pursue hypothetical question about the acquisition option. Furthermore, by omitting the issue of acquisition from the question about entry, it becomes similar to our first core question concerning joint venture formation. By highlighting why firms create joint ventures we simultaneously answer the question why firms do not form wholly owned subsidiaries. It is the other side of the coin. Again we emphasise the auxiliary nature of the above questions in our research agenda.

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[13] The theoretical points of these categories are described by
1) John Cantwell: «A survey of theories of international production»,
2) John Dunning: «The eclectic paradigm of international production: a personal perspective»,
3) Neil Kay: «Multinational enterprise as a strategic choice: some transaction cost perspectives» all in the book «The Nature of the Transnational Firm» London 1990 edited by Pitelis & Sudgen. Also in the following:
4) M.Porter: «Competitive Strategy: The core concepts» in his book «Competitive Advantage» New York 1985 pp:1-30,
5) M. Porter: «The Competitive Advantage of Nations», Harvard Business Review March-April 1990 pp:73-93,
6) Hood and Young (1979): «The Economics of Multinational Enterprise» pp:1-86.,
7) Shan W & Hamilton W: «Country Specific Advantage and International Co-operation» in Strategic Management Journal 1991 Vol. pp:419-432.

5.1.3. The core questions

The core questions of our research agenda can be seen in the following figure.

Figure 5.2.: Core theoretical questions/issues

Question No 3:	What are the motives to establish an I.J.V.?
Question No 4:	What are the criteria for selecting the I.J.V. partner? (characteristics of I.J.Vs.)
Question No 5:	Who controls the J.V. and is there a conflict inside the J.V.?
Question No 6:	Is the J.V. stable or not and how can we characterise its performance?

The core analytical questions, displayed in figure 5.2, represent the dimensions which have been developed in order to analyse International Joint Ventures (IJVs). A brief reference to these core issues is needed, so that the reader can acquire personal insight into the development of our framework.

A: MOTIVATION FOR IJV FORMATION

The issue of motivation has been addressed by many scholars. For example Beamish (1985, p.13) follows the rationale developed by Killing (1983) and categorises the motives for venture creation into three groups. These are «...government suasion or legislation, partner's need for other partner's skills and partner's needs for other partner's attributes or assets...». Shan (1991, p.556) points out that there is a possibility that «...the formation of a JV between a foreign and a state-owned firm is motivated more so by mutual need and interdependence rather than a set of common goals...». This remark is important because he speaks about US joint ventures in China. In addition Kent (1991, p.388), following Berg's (1982) rationale reports «three primary reasons for the creation of joint ventures: (1) the creation of greater market power by combining resources or generating economies of scale; (2)... reduction or sharing of risk; and (3) the acquisition or sharing of information.» Kent adds two more reasons, one of them of importance: «...joint ventures are often used in international business to overcome cultural political or legal impediments, or to meet host country requirements ...». Other scholars who have contributed to the literature on motives for I.J.V. formation are Gullander (1976:105) Afriyie (1988), Hamel-Doz-Prahalad (1989), Harrigan (1984, 1988), Beamish-Banks (1987), Hennart (1988,1991), Lane-Beamish (1990), Franko (1989),Geringer- Hebert (1991: 249-250), Crutchley-Guo-Hansen (1991:23), Dunning (1988:328), Buckley-Casson (1988), Kay (1990).

From the above we would single out the work of Kogut (1988) and Contractor-Lorange (1988) for further attention. Kogut identified three major theoretical streams of thought for (I).J.V. formation. These are: the transaction cost approach, the strategic motivation approach and the organisational theory approach.

Contractor and Lorange on the other hand identify strategic rationales for co-operation. These are: Risk-reduction, economies of scale and/or rationalisation, complementary technologies and patents, co-

opting or blocking competition, overcoming governmental barriers, vertical quasi-integration (access to raw materials, technology, labour, capital, distribution channels, ets.). Drawing on the intellectual contributions of the above scholars, we have constructed strategic type arguments applicable to the Greek case of international joint ventures. In doing so we have largely followed the strategic motivation approach expressed in Kogut's terms, developed by Contractor and Lorange, which is of great importance. In their approach they distinguish different types of co-operative arrangements such us: Technical training/start-up assistance agreements, production/assembly/buyback agreements, patent licensing, franchising, know-how licensing, management/marketing service agreement, nonequity co-operative agreements... equity joint venture. Furthermore they examine «...strategic-management and industrial organisation rationales for forming co-operative ventures...». These are the rationales which we have already presented and they are reflected in the questionnaire (see questions 5,6,7,8).

B: PARTNER SELECTION CRITERIA

The issue of partner selection has the following dimensions:

The first concerns the potential choice between a private firm and a state-owned firm as a partner. The issue has been addressed by Raveed-Renforth (1983). Their research was conducted in Costa Rica with US MNEs. They found out that US MNEs were afraid that they would interfere in domestic political issues if they selected a state owned firm as a partner. They also stated that: «...the executives... believe that the disadvantages of the state enterprise... far outweigh its advantages...» In addition it is stated that: «...They (the executives) believe that a state enterprise partner is often incompetent, inefficient, takes an inordinate amount of time to reach decisions, and frequently has different objectives. They also feel that conflicts are likely to arise because of differing managerial styles...». However in certain cases there was a more willing acceptance of a state enterprise partner. Thus Beamish (1985) points out that: «...where the scale of investment was particularly high, or the business lay in an industrial sector important to the local economy, the use of government partners was higher...».

The second dimension of the issue concerns the set of general criteria that a firm uses in order to select the joint venture partner. The

best theoretical presentation has been made by Geringer (1991). Geringer at the beginning discusses work that has been done on the issue by previous authors [Tomlinson (1970), Tomlison and Thomson (1977), Renforth (1974), Daniel (1971), Adler and Hlavacek (1976), Awadzi (1987)]. After an excellent presentation of previous research Geninger points out that: «...past research has had only limited success...». He continues stating that: «...while almost unlimited range of alternative criteria may exist, it might be possible to simplify analysis by distinguishing broad categories of these criteria...». Geringer identified two types of criteria: the «task-related» and the «partner related». The former «...refer to those variables which are intimately related to the viability of a proposed venture's operations regardless of whether the chosen investment mode involves multiple partners. The variables could be tangible or intangible, human or nonhuman in nature...». The latter «...refer to those variables which become relevant only if the chosen investment mode involves the presence of multiple partners. Examples include partner's national or corporate culture, the degree of favourable past association ... and a partner's organisational size or structure...».

After making this distinction Geringer focuses on the task related criteria ignoring the other category. This, accompanied by the fact of the loss of analytical context, made us select as a theoretical framework the work that was made prior to Geringer's article. Despite his attempt to identify two types of criteria Geringer does not analyse both categories. Indeed, he does not specify exactly which criterion is adopted in each category and why. It is correct, on the other hand, to point out that previous research identified an «unlimited range of criteria» as Geringer says. This range however, is clear, straightforward and comprehensive to business people.

C: CONTROL OF THE J.V.

The issue of control has been addressed by many writers such as Killing (1982), Schaan (1983, 1988), Geringer and Hebert (1989), Geringer and Frayne (1990). The issue has three dimensions. These are: The focus, the type, or extent and the mechanisms of control.

The focus of control is an important issue because «...parents may choose to exercise control over a relatively wider or narrower scope of the IJV activities...» (Geringer and Hebert 1989). The extent of control is an issue addressed by Killing (1982). He identified three different types of

joint ventures: the dominant, the shared management and the independent type. In the first one, the parent firm manages the venture. In the second, both partners influence the venture's decisions. In the third type the parent firms do not interfere. The third issue, that of control mechanisms, is addressed by many scholars. They identify formal and informal control mechanisms, positive or negative control mechanisms, context, content or process-oriented mechanisms. In our questionnaire we addressed all these issues. In due course, a further issue, the relationship between control and performance, will be addressed later.

D: CONFLICT IN THE J.V.

This issue also has three dimensions. These are: The intensity, the frequency and the sources of conflict inside a joint venture. The first two dimensions manifest the existence of conflict, and are discussed by Habib (1987). In our research agenda we evaluate both dimensions with the use of a qualitative scale. This is consistent with our methodology which is of qualitative nature, rather than quantitative; however we acknowledge the fact that the answers are of a subjective rather than objective nature. This however, is unavoidable, since for practical reasons, we could not extend the length of the questionnaire. The third dimension, the sources of conflict, is the one addressed by the majority of the writers. See for example Killing (1982), Shenkar and Zeira (1987,1992), Harrigan (1988), Kogut (1989), Lane and Beamish (1990) Baird, Lyles and Wharton (1990), Ganitsky and Watzke (1990), Hennart (1991), Zajac and Olsen (1993). In our research we identified eleven sources of conflict.

The issue of conflict is not only a destabilising force, but it has a positive dimension as well. It can be argued that the best way for an organisation to achieve success is via conflict[14]. This may be correct in the Western enterprises; however in the case of the East-West joint venture the above positive side of the conflict is not applicable straightforwardly. In order to clarify this subtle point we have to consider two elements. The first relate to the major causes of conflict. In general we can identify five broad categories. These are: (1)Different Goals, (2)competition for resources, (3)bad communication inside the organisation and misunderstanding of information, (4)disagreement about the performance standards, (5) disagreement on the structure of the organisation.

[14] See P.J. Montana and B.H. Charnov: «Management», second edition, (1993), republished in Greek (1993).

The above causes inside a Western enterprise can become a force for synthesis of different approaches, and thus a force for creativity. This works because in the West different attitudes are based on the same managerial, cultural background.

The second element that we have to consider is that of the Eastern European entrepreneur per se. In chapter three we have identified the three types of entrepreneurs from which the Western entrepreneur will have to select his or her partner. In there we found that the first group is «...inclined to opaque and illegal conduct...». The second is that of the former bureaucrats in the state enterprise and the third one «...consists of smart people...who...start their own initiative with almost no financial capital...».

The combination of the above two elements provides the answer to why conflict cannot be considered as a force for successful ventures. In our case if the Western entrepreneur has as a partner someone from the first group that is someone «...inclined to opaque and illegal conduct...» then the disagreement (conflict) is the outcome of the partners attempt to persue personal goals, and such a conflict cannot have a positive outcome (Typical examples Cases No23 and 25). Especially in Case No25 the statement made by the Greek manager: «...The intensity of conflict increased when the Bulgarian side insisted on criticising the general exportation policy of the venture as wrong, and also expressed disagreement over the split of profits between the two partners. That was his primary objective and had nothing to do with the venture or the general manager which were just excuses...» demonstrates exactly this point.

In the case that the Greek entrepreneur selects as his/her partner the old state bureaucrat who has no experience from a market economy; then this type of conflict may have a positive effect if the bureaucrat is transformed to a manager (e.g. learn from the re-action of the Greek side). So in this case, under certain assumptions, there is a possibility that the positive impact of conflict will occur.

The final hypothesis is that the Greek entrepreneur will select as his/her partner an individual of the third group who is «smart and educated», but inexperienced. In this case again a positive effect of conflict may occur if (as in the previous case) the inexperienced manager learns from the re-actions of the Greek side.

From the above, it is evident that under certain assumptions the positive effects of conflict may emerge. This however, under the present

circumstances is the exception to the rule; and that is why its significance was played down in our analysis.

E: STABILITY -PERFORMANCE IN THE J.V.

E_1: Stability

This issue has two dimensions. The first one is the definition of stability; its theoretical concept. We followed the concept of Gomes-Cassseres (1987) who points out that «...we can distinguish three possible types of instability in a joint venture. First the venture may be liquidated completely... Second the venture may be sold to the local partner or to outsiders ...Third the MNE may buy out its joint venture partner and create a wholly owned subsidiary...»

The second dimension is that the stability of a venture is linked to control. For example Killing (1982) expressed the view that a dominant controlled joint venture is more stable compared to a shared management one. This however contradicts the views of Blodgett (1992) and Beamish Banks (1987). However, a joint venture established with a state-owned local firm is considered more unstable compared to one where the local partner is a private enterprise [See for example Beamish (1985), Raveed and Renforth (1983)].

E_2: Performance

This issue has also two dimensions. The first one is the theoretical concept of performance. We evaluate performance using financial indicators or other measures such as the duration of the venture, its growth, the performance of personnel and general manager. We have used the financial indicator of profit and the way the parent firm assesses the performance of personnel and general manager. We rejected other measures of performance for practical reasons (length of the questionnaire, and the time required to respond to a larger one).

The second dimension of the issue is how control is linked to performance. This issue is addressed in the following section.

F: INTERACTIONS IN THE ANALYTICAL FRAMEWORK

The analytical framework which has already been presented is deliberately concerned with a dynamic continuous process. It would be misleading to assume the opposite, a static state. Despite our commitment to a dynamic process, it is difficult to try and specify the causality of the process. We must always remember that we are trying to analyse human behaviour, which is unpredictable. In addition we cannot generalise from certain forms of behaviours. The Japanese manager is different from the Greek, Bulgarian, American, Russian or Egyptian manager. The same can be said of the labour force.

The following figures represent some possible interactions between the theoretical elements. It goes without saying that we may have unlimited interaction according to cultures and the sources of events.

Figure 5.3:

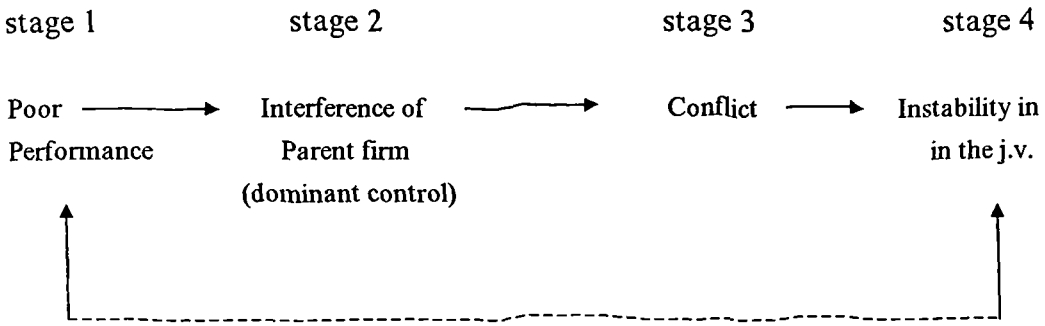


Figure 5.4:

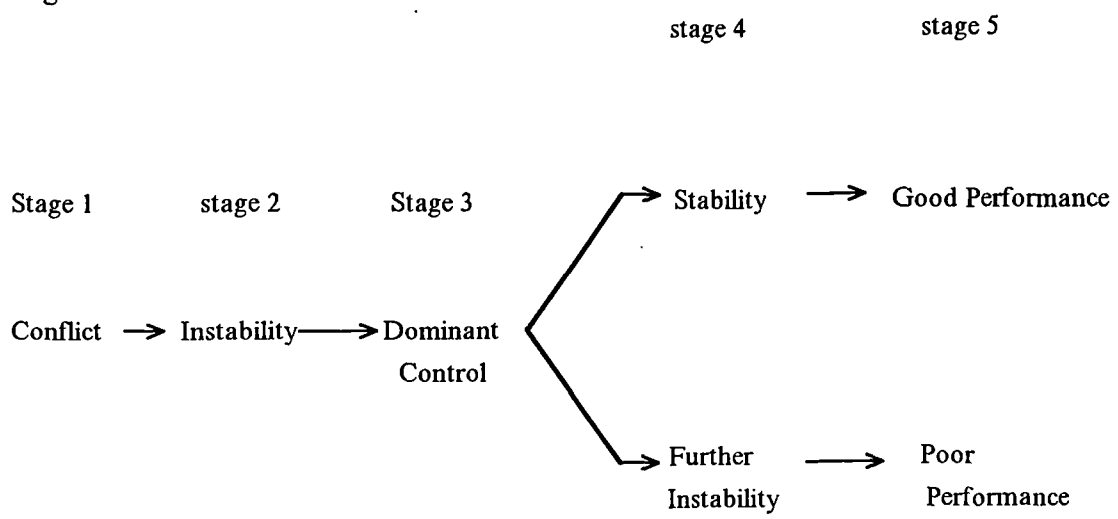


Figure 5.5:

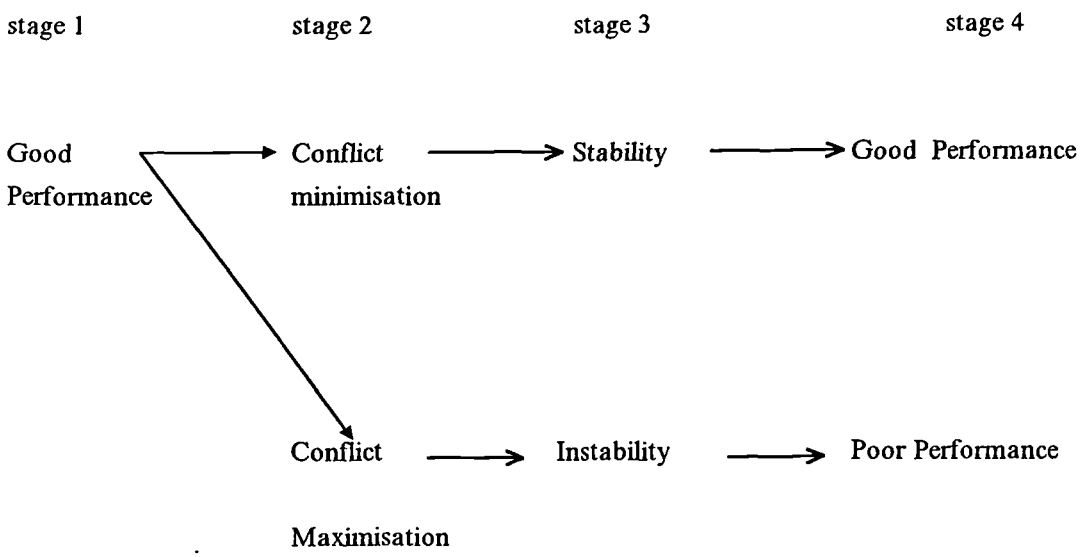
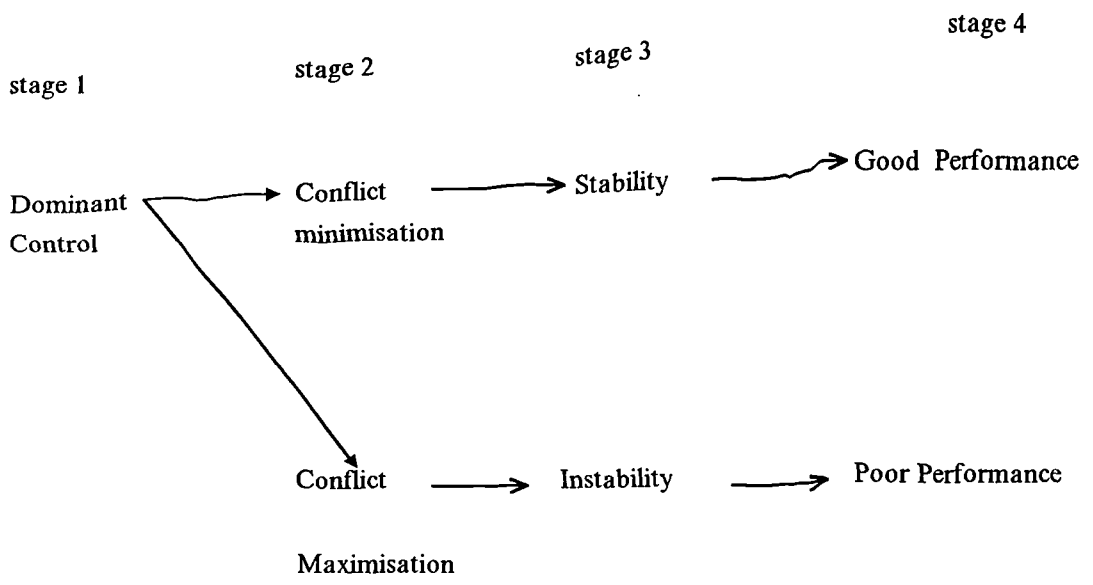


Figure 5.6:



In Figure 5.3 we have indicated a possible interaction of the theoretical elements. We assume that a joint venture has poor performance or that the level of profits is not the anticipated one (stage 1). This may lead to parental intervention, that is one of the parent firms starts to exercise dominant control on the venture. This parent firm is the majority shareholder of the venture (stage 2). This intervention is perceived by the minority partner (the second parent firm) as an attempt by the dominant venturer to protect his personal interests, and not those of the venture. Then the conflict between the two partners is unavoidable (stage 3). This will lead the joint venture to an unstable situation (stage 4).

In Figure 5.4 we have another possible interaction of the theoretical elements. We assume that a situation of conflict arises in a joint venture because the joint venture's general manager has different strategic objectives compared to those of one of the parent firms (stage 1). The conflict between the joint venture's general manager (IJVG.M) and one of the parent firms creates an unstable situation inside the venture (stage 2). In order to avoid further escalation of the conflict the majority shareholder of the venture intervenes, exercising dominant control on the venture by imposing new strategic objectives (for example a new target

concerning the level of sales). This interference may lead to a stable joint venture or it may increase the instability (stage 4). According to the evolution this will lead to good or poor performance.

In Figure 5.5. we demonstrate another possible interaction. We assume that in stage 1 the venture achieved high levels of profit (good performance). This may create conflict minimisation, because both partners are satisfied (stage 2). If this occurs, then the venture experiences high stability rates (stage 3). The above process will lead to good financial performance, under the ceteris paribus hypothesis (stage 4). The second possibility however, is that the good financial performance of stage 1, will lead to conflict maximisation in stage 2 because the partners disagree on the split or use of profits. If this occurs, then the venture experiences high instability rates (stage 3). The above process will lead the venture to poor performance (stage 4).

Finally in figure 5.6 we demonstrate the possibility that a dominant joint venture (stage 1), experiences minimum conflict (stage 2) because the dominant partner (majority owner) imposes his own objectives on the venture. The passive partner (minority shareholder), follows with devoutness the will of the dominant partner. If this occurs the joint venture experiences high stability rates (stage 3) which lead to good performance (stage 4). The second possibility is the opposite one. The dominant control which the majority owner imposes on the venture will not be tolerated by the minority venturer. This will create a conflict between the two partners (stage 2). If this occurs the venture will experience high instability rates (stage 3). This eventually will lead to poor performance (stage 4).

G: OTHER ANALYTICAL ISSUES

Two more analytical issues have been developed concerning I. J.Vs. The first concerns the establishment of a joint venture and the price-effect that this has on the shares of the parent firms in the stock market. An attempt has been made in our research to explore the issue, but we decided to omit it, since the majority of Greek parent firms were not members of the Athens stock exchange. From our sample only seven firms stated that they were members. Of those, three stated that there was no difference in the price, before and after, the announcement. So we decided to omit this issue. The low level of efficiency that characterises the Athens-stock market, was another perceived drawback for us.

Because of the above reasons we do not face this issue in our thesis, despite the fact that it was included in our questionnaire. The second issue is of particular interest to us and emerged, from the interviews that we had with business people. That issue is the problems that joint ventures face in Eastern Europe. Some of these problems have been identified by Greek academics as well. For example Vlachoutsicos (1993,1994) examined the convertible currency problem in Russia and Babanasis-Scarpelis (1994) examined the telecommunications problem in the BSEC countries.

In general we can say that the theory of joint venture as it is developed by the Western academics was very helpful for the explanation of the Greek case. We applied the work of the Western academics covering all the major theoretical issues (motives for joint venture formation, partner selection criteria, control, conflict, stability, performance).

We have used the writings of many authors. Their influence is reflected in the questionnaire (see questions 5-35). For example the motives for joint venture formation as these are described in the questionnaire (see questions 5,6,7) have been analysed by Gullaner (1976) Contractor & Lorange (1988), Beamish (1985), Raveed & Renforth (1983) Kofi (1988). The partner selection issues (questions 9-13) presented in the questionnaire have been discussed by Geringer (1991), and Raveed & Renforth (1983). The type of control (question 14) has been addressed by Killing (1982) and Blodgett (1992). The focus of control (questions 15-17) has been addressed by Geringer and Hebert (1989). The mechanisms of control (questions 18-19) have been addressed by Schaan (1988) and Geringer & Frayne (1990). The frequency and the intensity of conflict (questions 24-25) have been addressed by Habib (1987) and the sources of conflict (question 26) by many authors such as Lane and Beamish (1990), Geringers & Frayne (1990), Ganitsky & Watzke (1990), Kogut (1989) Killing (1982), Anderson (1990). For the issue of stability (questions 27-28-29) the writings of Gomes-Casseres (1987) were essential. Finally, for the issue of performance, (questions 30-33) the writings of Geringer and Hebert (1989,1991) were essential.

CHAPTER 6: QUESTIONNAIRE DESIGN, SAMPLING PROBLEMS AND METHODOLOGY

6.1. Questionnaire Design

The questionnaire has been designed in order to cover the core issues which we have just described, in a strategic way. The questionnaire was finalised in May 1994; however during the period June to August 1993 we entered the field in Greece, as well as, Bulgaria and Albania making eight (8) early contacts with Greek businessmen as well as Bulgarians who had acted as intermediaries between Greek and Bulgarian enterprises. During this time we pre-tested ways of approaching certain issues which it was thought could be possibly faced in future interviews. These issues concerned: the motives of Greek firms to expand abroad; the possible problems which they faced; information about their partners, and about the stability, performance of the venture. This part of the field work was of use in finalising the design of the final form of the questionnaire and avoided sample attrition in what was equated to be a relatively small sample. We decided not to test the transaction cost hypothesis, partly because of its theoretical controversy and partly because our personal motivation (intellectual and practical) was to cover issues which are important to the business world in an «integrated» way. (Our research is the first of its kind from the Greek standpoint; combining as it does analysis and business experience in all aspects concerned with joint ventures in Eastern European Countries).

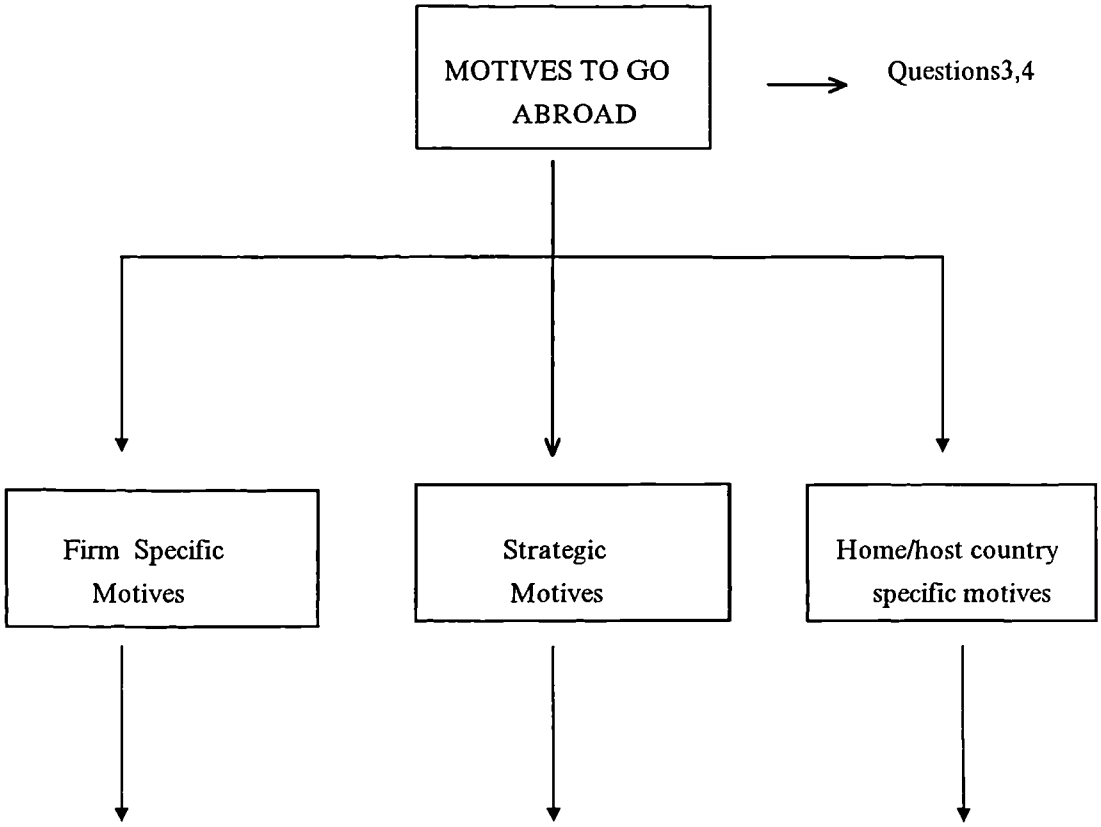
Our concern was with a multidimensional analysis of all core issues concerning joint ventures, rather than with the specific analysis of one core issue concerning joint ventures. We designed a questionnaire which aimed to cover all these dimensions in a way that would provide adequate information to us and simultaneously would not be too arduous for business people to complete. This restricted it to a certain length, and stylistically required that it should contain straightforward and

comprehensive questions. At the same time, we should offer respondents the opportunity to record their own particular experience.

The intrinsic rationale of our questionnaire is the notion that the expansion of the domestic boundaries of the firm abroad, and its decision to establish an I.J.V., are the outcome of strategic decisions that the firm makes. The reasoning we apply to the joint ventures is as follows. We assume that if an entrepreneur decides for strategic reasons to expand abroad and establish an IJV, he/she will have certain strategic motives to select his/her partner and will also impose control using certain strategic mechanisms (for example key personnel appointments). Conflict may also arise for strategic reasons, involving, for example, different strategic goals. Though performance can also be assessed using strategic criteria, it is known that this kind of data would not be provided to us by the firms. For us, the core analytical framework relates to the strategic decisions that firms make. We can analyse our questionnaire in the following figures. (see Figures 6.1-6.9). We can see that a «stream» of strategic motives factors exists and that they provide a useful framework for analysing the establishment of joint ventures in Eastern European Countries. There are also other factors which need to be considered, like firm and country specific, financial, managerial and cultural factors. Although some aspects of the relevant theory are not encompassed in the questionnaire, that was a decision that we had to undertake, because of the requirement to limit the questionnaire's length. Questions should be neither very time consuming, nor too arduous for business people to answer. In the following figures we analyse the auxiliary and core issues which were included in the questionnaire. We have indicated in the schema of these figures how the relevant questions posed in the questionnaire arise.

Figure 6.1.

MOTIVES FOR THE FIRM TO GO ABROAD
(auxiliary issue in our research agenda)

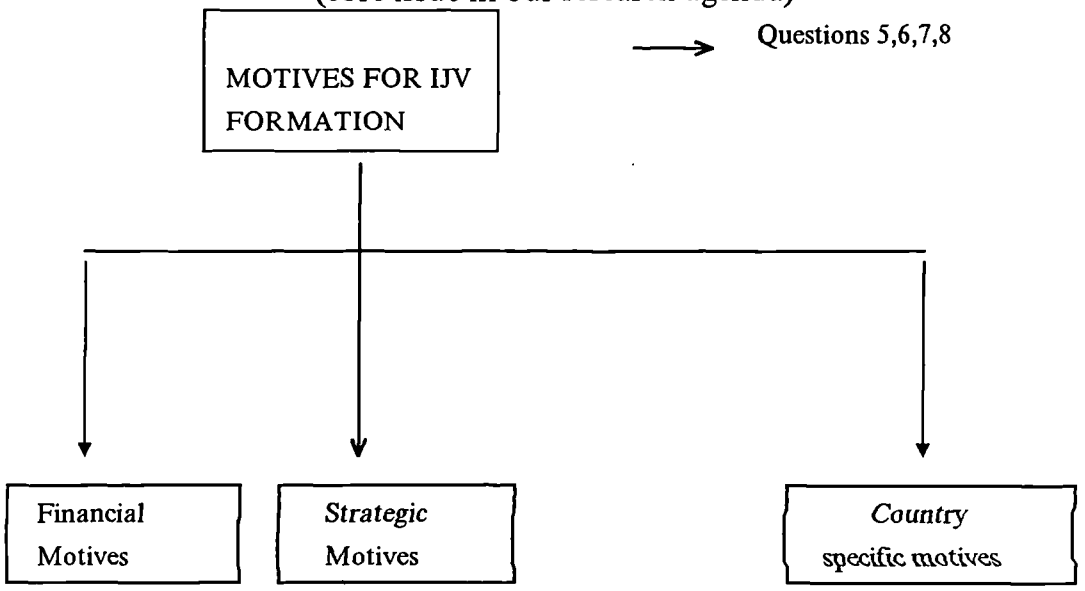


1]The (Greek)firm has access to cheaper financial capital	1]First Mover advantage for Greek firm	1]Factor Conditions in host country
2] The (Greek) firm possess better technology compared to the E.E. firms	2] Cost leadership	2]Demand Conditions in host country
3] The firms has superior entrepreneurial/managerial capabilities compared to E.E.firms	3]Differentiation strategy	3]Trade barriers from host country governments
4]Any specific motive that each firm may possess	4] Cost -focus	4]Home country factors (interest rates, wages etc.)
	5]Differentiation focus	5]International competition
	6] Geographical diversification	6]Other factors that firms may have
	7]Any other, motive a firm may have	

E.E.East European

Figure 6.2.

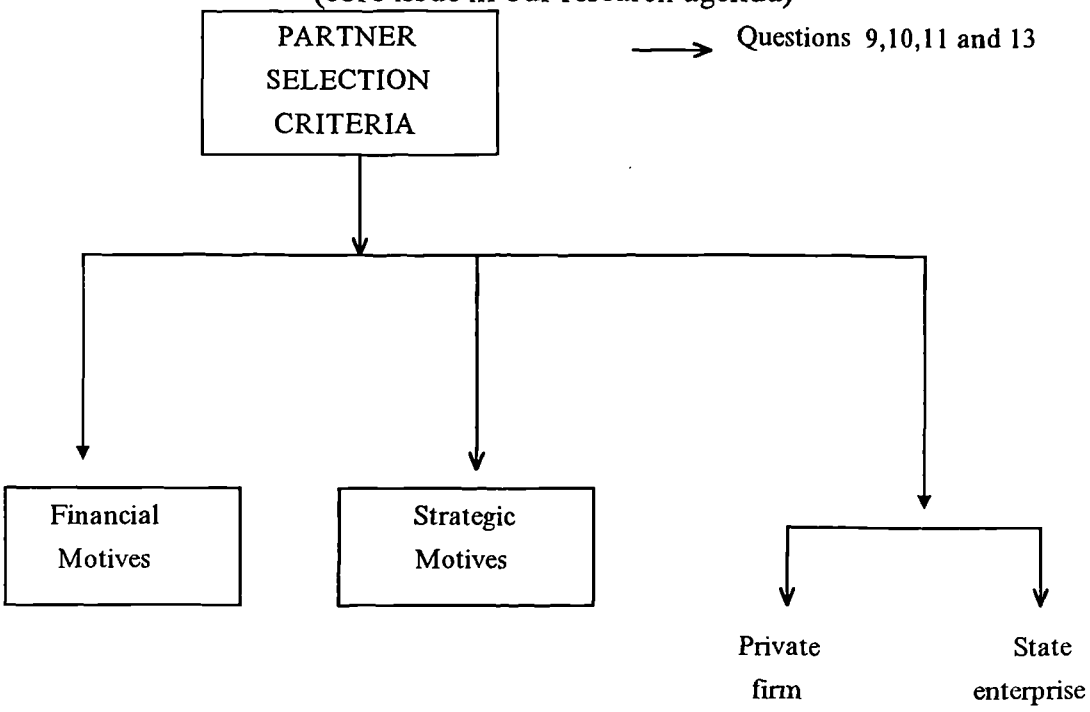
MOTIVES FOR I.J.V. FORMATION
(core issue in our research agenda)



Financial Motives	Strategic Motives	Country specific motives
1]Portfolio Diversification	1] Access to raw material	1] Overcoming government barriers
2]Risk reduction by committing lower financial capital	2]Access to cheap labour force	2]The host country legislation forbids the W.O.S. entry
3]Other financial motives that firms may have	3]Access to distribution networks	3]Bargaining power with local governmental authorities increases
	4]Low Cost achievement by using advantages that EE partner may have	4]Other country specific motives for the firm to have an IJV option
	5]Exploitation of economies of scale and scope	
	6]Following a competitor's, strategy from the domestic market, who established a j.v. in that country	
	7]Risk reduction in a socially, legally and politically unstable environment	
	8]Overcoming cultural differences «absorption» of local-partner's know how and management	
	9]Other strategic motives that firms may have	

Figure 6.3.

PARTNER SELECTION CRITERIA
(core issue in our research agenda)

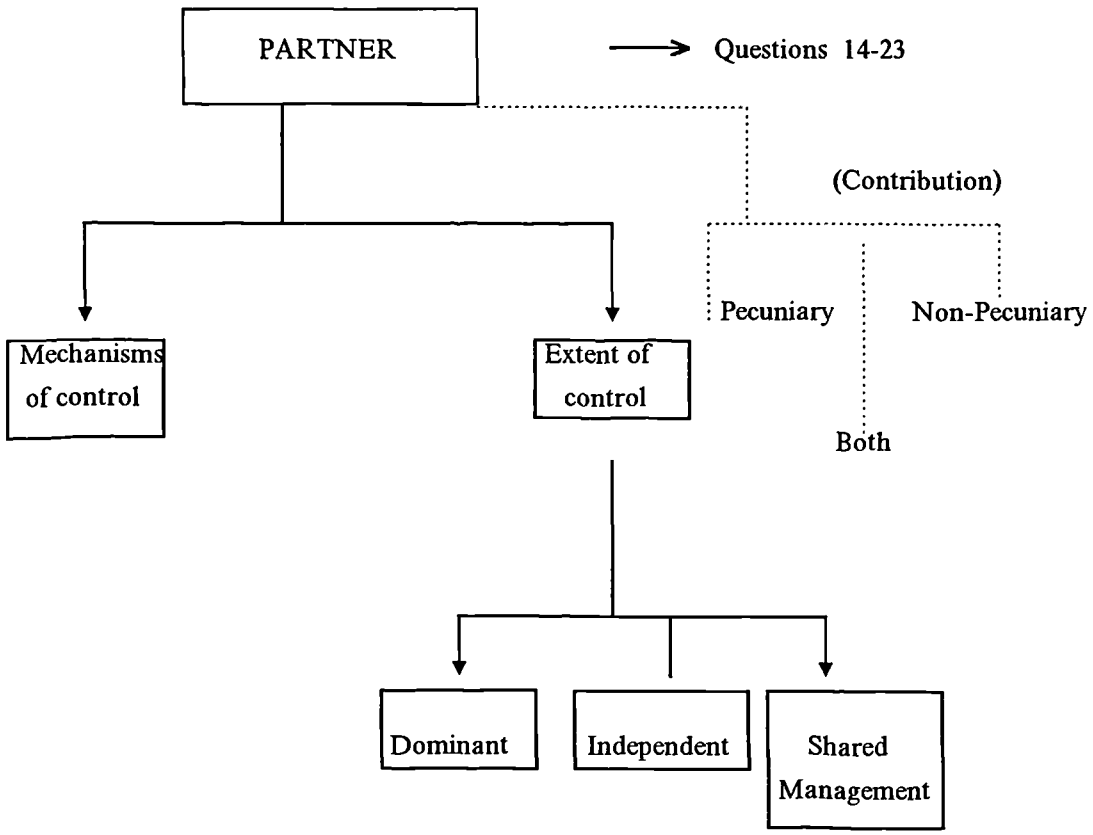


1. The partner has adequate financial resources.
2. Partner credited highly by the host-country banking sector/access to cheap capital.
3. Any other financial motive for selecting a partner.

1. Partner's facilities.
2. Partner's recourses.
3. Partner's status (brandname).
4. Partner's local identity.
5. Common strategic goals.
6. Partner of smaller size.
7. Partner of similar size.
8. Partner of bigger size.
9. Partner with sufficient client base.
10. Partner with complementary recourses.
11. Partner with proprietary technology and experience in its application.
12. Partner with established marketing distribution system.
13. Partner with skilled labour force.
14. Forced choice.

Figure 6.4.

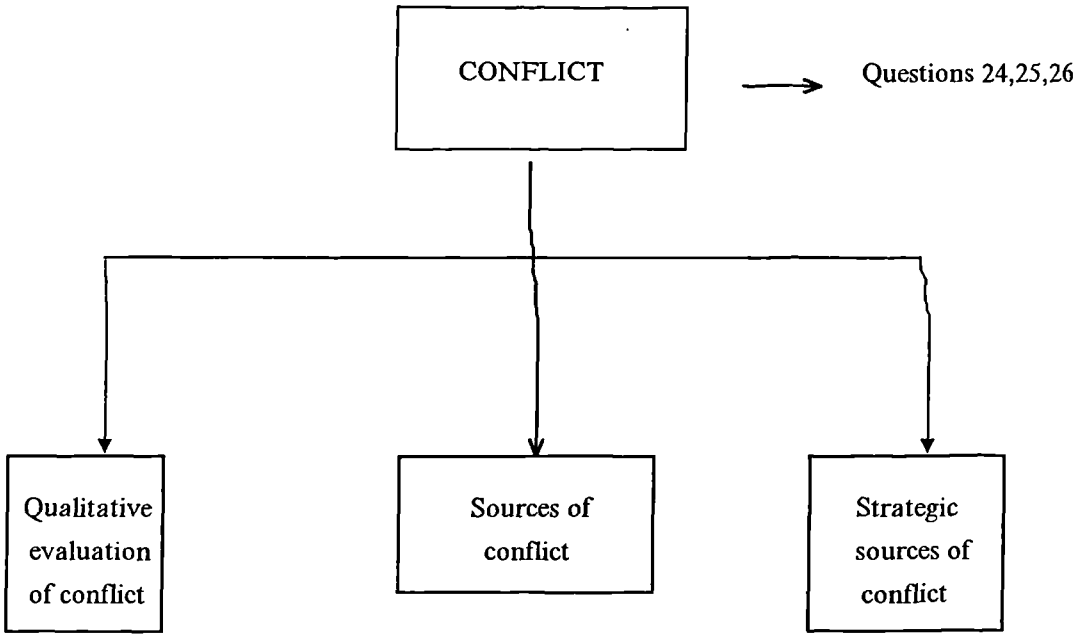
CONTROL - (+CONTRIBUTION)
(control can be achieved via contribution of inputs in the j.v.)



1. Key personnel appointments
2. Integration between parent firms and j.v.
3. High Voting Right
4. Training of personnel
5. Performance Appraisal
6. Veto rights
7. Imposition of minimum performance requirements
8. Selection of I.J.V. G.M.
9. Board of directors meetings
10. Being diplomatic
11. Evaluation of all legal provisions which affect the JV and may change
12. Development of certain organisational and structural framework
13. Contractual constraints which specify exactly the rights and responsibilities of each partner
14. Compensation, Reward Strategies
15. Provision of certain mechanisms for resolving disputes.

Figure 6.5.

CONFLICT



a. Intensity
b. Frequency

1. Achievement of personal goals
2. Different cultural background
3. Transfer of knowledge
4. Use of the same trademark
5. Disagreement for the distribution of profits
6. Different management styles
7. Personal relations inside the venture
8. Conflict between the general manager and the parent firms

1. Different strategic goals
2. Different time horizon strategy
3. Competition among parent firms and j.v.

Figure 6.6.

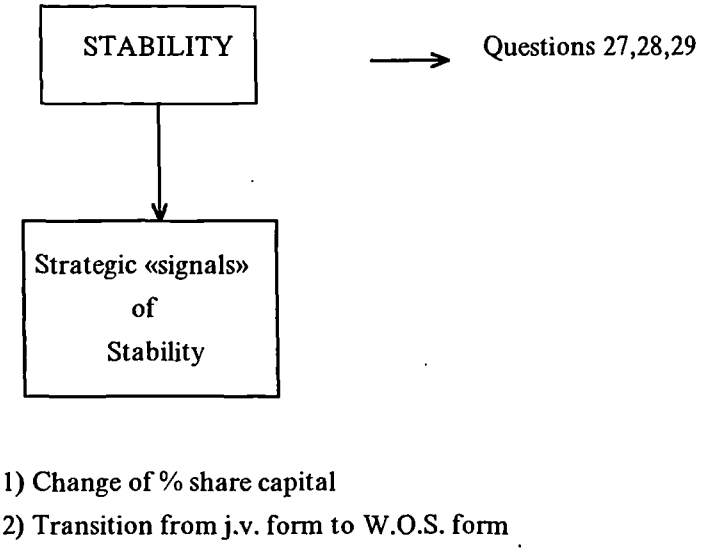


Figure 6.7.

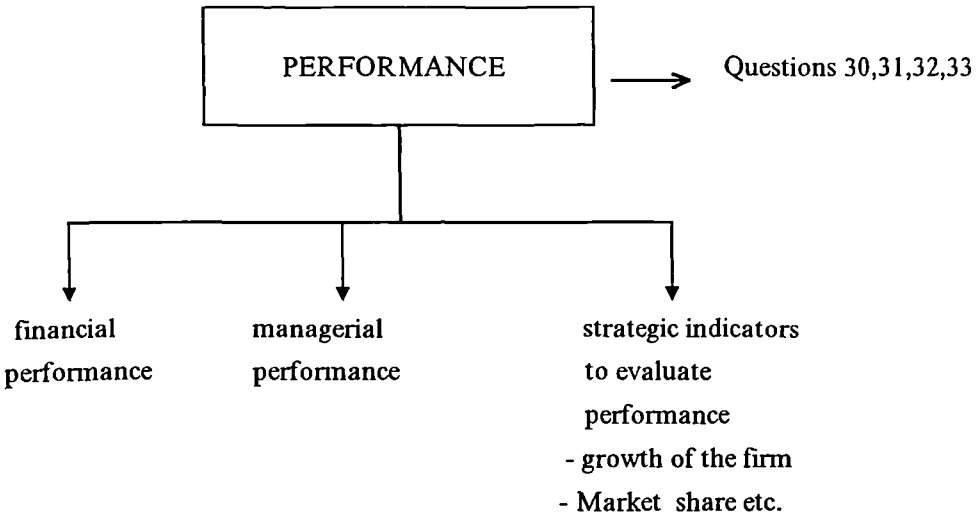


Figure 6.8

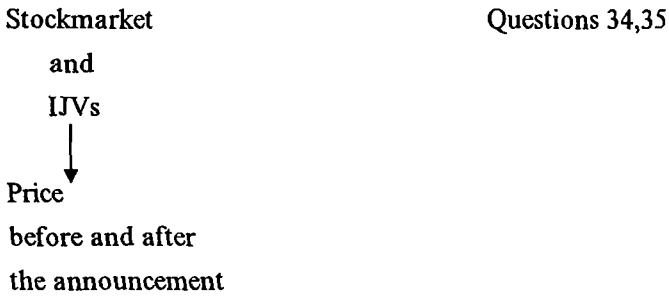
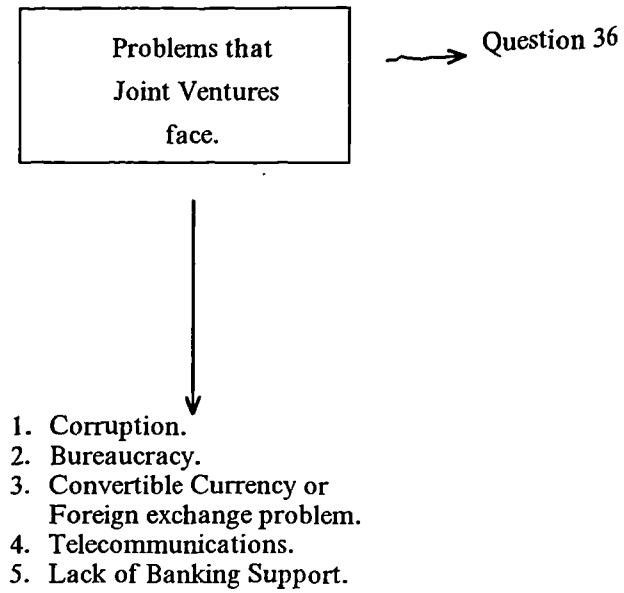


Figure 6.9



In Figure 6.1 we present the auxiliary issues of our research agenda, that is the motives which the Greek firm had for going abroad. Our aim was to test if the Greek firm had firm specific motives, strategic motives and/or home-host country specific motives. The first firm specific motive is that of access to cheaper financial capital. The intrinsic rationale behind this is that the Greek (Western) firm can borrow funds with a lower interest rate compared to the domestic East European firm. The other two firm specific motives test the assumptions that the Greek (Western) firm has better technology and managerial capability compared to the East European firms. This, gives the Western firm the ability to face the local competition more successfully.

The second category of motives is that of strategic motives. Here we apply the notions of Porter (cost leadership, differentiation and focus strategies) in the sense that we have already presented in chapter five. Finally in the third category of motives we try to test the assumptions that certain home and host country specific motives were essential for the expansion of Greek firms abroad. For example, the Greek firm can go into one of these countries because these markets can absorb labour, intensive products which, in general, Greek firms produce. They may also locate their production in these countries in order to take advantage of

the low labour costs, and so increase their competitiveness in the world market.

In Figure 6.2. we present the motives for I.J.V. formation, which constitute the first core issue of our research agenda. The portfolio diversification motive for I.J.V. formation suggests that a firm will establish a joint venture and not a wholly owned subsidiary, because the former option commits less financial capital and this gives the firm the ability to invest in other activities as well, that is, to extend its portfolio. We wanted to test this rationale in the Greek case. The second possible financial motive for I.J.V. formation is that of risk reduction. In a highly risky, volatile and unpredictable environment, such as the one which exists in Eastern Europe, risk reduction is achieved via the joint venture option, compared to the wholly owned subsidiary option, because in the former case the Western firm will commit less financial capital.

The second category of motives for joint venture formation is strategic. The Greek firm may, for example, seek to establish a joint venture because the partner can provide access to raw materials or to a distribution network. Other assumptions which we wanted to test were the possibility that the Greek firm preferred the international joint venture option because of the economies of scale or and scope this created. Furthermore, a possibility exists that the Greek firm prefers the I.J.V. option, because the entrepreneur can understand the culture of the East Europeans and their expectations in the new environment.

The final category of motives consists of country specific motives. Here we hypothesise that Greek firms decide to establish joint ventures, because of tax exemptions which domestic legislation may provide, or that they are obliged to do this because the law forbids the wholly owned subsidiary option as a way of entry. Furthermore, the bargaining power of the Western firm with the local authorities may increase via the IJV option. This is because the local authorities are aware of the fact that the possible imposition of bureaucratic barriers to the foreign investor will have an immediately harmful effect on the local partner as well.

The second core issue is that of partner selection criteria (Figure 6.3). The first dimension of this issue is the motives for partner selection. We distinguished between financial motives and strategic motives. Our aim here was to test the criteria which Greek firms used in selecting their partner. The partner, for example, may have adequate financial resources, which minimise the Greek firm's financial commitment to the venture, thus providing the motivation for selection. Strategic motives may also be essential. For example, the partner may bring to the venture specialised

facilities like buildings and storehouses. The partner may also provide complementary resources or technology. The size of the partner may be important. A partner of bigger size, compared to the Greek firm, may have greater bargaining power. That is, the Greek firm cannot control the activities of the venture. There is also the possibility that the partner was a forced choice for the Greek firm since it was the only one who could provide the relevant services to the venture. For example, the partner may be the only operational textile company in a certain geographical area. The second dimension of this issue is that of partner status. Here we wanted to test if the Greek firms prefer partners to be from the «old» state owned enterprises, or the small «new» private firms.

The third core issue is that of control of the J.V. (Figure 6.4). This issue has two dimensions which we wanted to test. The first consists of the mechanisms which the parent firm uses to exercise control on the ventures. We have identified fifteen mechanisms of control. The parent firm, for example, may control the venture using its veto rights, or by selecting the general manager (G.M.) of the I.J.V., or by establishing the frequency of board of director's meetings. The second issue is that of extent of control, as we have presented it in chapter five. That is, we wanted to test if the Greek parent firms impose a dominant, shared management control on the ventures or if they leave it to the venture's general manager. A minor issue, which is indirectly linked to control, is that of the parent's contribution to the venture. The contribution can be pecuniary, non-pecuniary or both. The implication is that the wider the contribution in terms of inputs, the more dominant the control will be.

The other core issue in our research was that of conflict (Figure 6.5). As we have already noted this issue has three dimensions: Intensity, frequency and sources. The intensity of conflict was evaluated by using the question: «Would you characterise the disagreement with your partner as being: 1)low, 2)medium,3)high». The respondents had to tick one of the three. This provided us a qualitative evaluation for conflict intensity. The frequency of disagreement was evaluated by the question: «How often did you have disagree with your partner; Were they:1)rare, 2)frequent,3)very frequent?». Again the interviewee had to tick one of the three options. The third dimension of this issue concerns the sources of conflict. Here we wanted to examine the causes which may lead the Western (Greek) partner to disagree (conflict) with his/her Eastern European partner. In total we have identified eleven potential sources of conflict, such as: achievement of personal goals; different management

styles; different strategic goals between the partners; and different time horizon strategy etc.

Figure 6.6 demonstrates how the issue of stability was addressed. The interviewee had to answer three questions. The first asked what % change of share capital was expected to be contributed by the Greek firm. The second question was similar to the previous one, but concerned the East European partner; that is did he/she intended to do any % changes in his/her share capital. The third question concerned the possibility of transforming the joint venture into a wholly owned subsidiary. Our aim in posing these questions was to detect the level of the venture's stability.

Figure 6.7 demonstrates features of the other core issue of our research, the performance of joint ventures. In order to evaluate performance we have used financial performance as this was perceived by the managers of the firms. The managers were asked to distinguish between poor, medium, and good financial performance. Here, we have to clarify a subtle point. The choice of measure used in performance evaluation has not appealed to an objective financial indicator, of the sort familiar to Western economists like profit or rate of return. That is, we have not set up for example, a certain threshold level of profits (e.g above 50,000 USD) as an indicator of good performance. Instead we have used a ranking of «good», «medium» and «poor» performance which is based on assessments of the managers which are subjective evaluations based on evidence and judgement. The use of a qualitative, rather than quantitative measure is dictated by at least two factors. The former, has to do with the general chaotic macroeconomic situation which exists in Eastern European countries. In economies which are under transition and are characterised by hyperinflation, a volatile legal framework and a total or partial absence of efficient market mechanisms, it is impossible to obtain «objective» measures of familiar western yardsticks of performance (e.g. profit level). They are often undefined, or even if defined, have subtle difficulties in meaning and marked measurement error. The latter, has to do with the managers themselves. They were reluctant to «nail their colours to the must» of performance evaluation using a so-called objective mechanism, which may be unreliable or misleading. This was partly because of confidentiality reasons, and partly because of the generally unstable macroeconomic situation (e.g. by price level) which exists in these countries and has a direct influence on performance, over a wide number of dimension. We have therefore relied upon informed business judgements of respondents which weighs carefully the various forms of evidence available to them in having an

overall ranking of performance. They were also asked to evaluate the performance of the international joint venture's general manager (I.J.V.G.M.), and the performance of the personnel, on the scale: poor, medium, good. We have not used strategic performance indicators such us growth of the joint venture, or market share, because there is no economical way of doing so, given the length of the questionnaire in the former case, and in the latter because these kind of data are non-existent for East-West joint ventures.

The final core issue, problems that the ventures face, was addressed in the last question of the questionnaire. We have distinguished five problems which could be of importance to the entrepreneurs. These can be seen in Figure 6.9. (For their evaluation we used again the 1-5 point scale).

6.2. Sampling problems and methodology

One of the recommendations that we followed was to «...get into the field as early as possible, even before completion of library search and instrument design...»[1], in order to have a picture of the field that would inform us about the questions worth asking. Following the above doctrine, we entered the field during the summer of 1993. At that time the problems started to emerge. The first problem that we had to face was the existence of financial and time constraints. Our physical presence in these countries would require a lot of money for trips and other expenses, which were not available. Furthermore it would require a lot of time. The second problem was that of governmental records. The Albanian, Bulgarian, Romanian and Russian authorities keep data on joint venture enterprises, formed between local and foreign firms; but the way that these are recorded was not helpful at all. The Greek authorities, on the other hand, could not provide a complete list of firms either. We attempted to gather data from all possible sources: Bank of Greece, Ministry of National Economy, Hellenic Exports Promotion Organisation, Ministry of Trade, Greek commercial attaches in embassies, Confederation of Industries of Northern Greece and from three Chambers of Commerce. In spite of the effort the results were not as anticipated. The data that the above Greek and foreign authorities could provide demonstrated what we have already pointed out in the previous

[1] See Reid G: «Applying Field Research Techniques to the Business Enterprise», International Journal of Social Economics, No14, 1987a, p:3-25.

chapter: That the majority of these firms had a trading character, and only a limited number of them was engaged in production activity. However, despite the above difficulties, we established some contacts with a limited number of Greek enterprises which were activate in the Balkan countries.

Because of the above problems, we decided to identify from Greece those firms which had established joint ventures in these countries; and to gather from them the data that we were interested in. The above decision did not have harmful effects, since the managers of joint ventures were in the majority of cases Greeks. Furthermore, the Greek parent firms imposed dominant control on the activities of the ventures. In many cases the respondents were the general managers of the ventures. The field work aspect of this research was conducted in the second half of 1994 in Greece. From the beginning we were obliged to locate firms and entrepreneurs partly through personal contacts for two reasons:

The first, was that it was impossible for us to have complete lists either from the Greek authorities or from the authorities of the other countries. The second reason concerns trust and confidentiality. There are not many Greek entrepreneurs who will speak about their activities if you are not introduced to them by a common friend. They very simply do not have trust in you and the majority of them would not reveal any financial data (balance sheets, invested capital etc). Furthermore there was the issue of time, since the overwhelming majority could not afford to provide more than an hour. However, we have to say, at this point, that there were also business people who from the beginning expressed tremendous interest in our research and they provided us with all the help they could concerning their activities. Their assistance was enormously helpful to us, and again we have to express to them our gratitude and appreciation.

Here we have to clarify a very sensitive point. We have already stated that we had to use personal contacts in order to locate firms and entrepreneurs. This, prima facie, may create the misleading impression that the sample is characterised by a bias. However, when we used personal contacts we did not impose any pre-condition; that is we did not know in advance what the size, or the activities of the firm, were. We only knew that the firm was activate in one of the four countries in which we were interested. There is no bias there since we did not ask from our contacts to locate a firm with certain characteristics (size, activity etc); that is our contacts could get us in touch with a small trading firm or with a big group activated in Bulgaria or in Russia. Furthermore the contacts

were individuals of different social status, occupation etc, so again there was no bias. Furthermore we did not impose any criteria concerning the joint ventures (for example size, duration etc).

A problem which was not general, though we faced it with some firms, was that one Greek enterprise may have established multiple joint ventures in one country or multiple ventures in many countries. These firms did not provide us with specific reports for all their ventures. They provided us with general responses, and during the interview discussions we tried to clarify as many issues as possible. Unfortunately, because of time restrictions and partly because of confidentiality, the businessmen did not provide us with all the data that we would have liked.

The methodology of our research was qualitative. The respondents had to answer our questionnaire using a 1-5 point scale.

One considered as very low motive level
Two considered as low motive level
Three considered as medium motive level
Four considered as high motive level
Five considered as very high motive level

We used the 1-5 point scale, instead of the 1-3 point scale for the following reasons: The first one has to do with the research standards which exist in Greece. Many researchers use the 1-5 point scale in demoscopies (gullops) and other research agenda's. From the above it is obvious that the Greek interviewee is accustomed to this research process. The second reason has to do with the accuracy of the answers. When we give to the interviewee the ability to distinguish between superlative (very low or very high motive level) and relative degree (low or high motive level), we obtain more accurate answers concerning the activities of the venture. This, makes the results more complicated, but more accurate simultaneously. This accuracy would not be obtained by the use of the 1-3 point scale (low, medium, high motive level). In the 1-5 point scale point three (3) represents the medium level of intensity. This means that the effect of this is «neutral» (neither negative nor positive). That is why we omit it in our analysis (see chapter twelve). However, only in a limited number of questions the interviewee had to use a 1-3 point scale. This was necessary because of the questionnaire's length.

We personally had a physical presence in every enterprise, and after having the formal responses the managers had a discussion-interview with us concerning the activities of the joint venture, and the problems that they had faced. In this interview discussion we let the respondents talk freely without posing specific questions in a formal way, as elsewhere

in the questionnaire. That method was used because of the psychology of the respondents; business people will provide more information in an open-ended interview. From adopting that method we were able to gather useful information for our research, of the form that does not naturally hit into three or five point scales. We can say that we used a mixture of formal data collection (questionnaire) and informal (interview discussion) in order to promote the desirable flow of information.

Our results, satisfy the scientific criterion of «replicability», in that any other researcher has sufficient information in the thesis to duplicate our work, because in the Appendix we have reproduced the questionnaire, and in chapters seven and eight the firms themselves are explicitly named (rather than referred to by code). With few exceptions these firms are listed in Greek directories edited by Chambers of Commerce as well as in the ICAP (Investment Capital-Market Research). Furthermore, we have physical records of all meetings, which were used to construct the cases and the arguments based on them. Interruptions during the interview discussions did occur in some cases, but their effect was negligible. (The most usual type of interruption was that of phonecalls). In gathering data, we used the Bertaux principle[2] of «informational saturation»: that is the point after which the researcher does not learn anything new about his research. In other words, after a certain point we can generalise our conclusions since the new information does not provide anything substantive. This process, of course, must be repeated many times, so that we are certain that we have passed the «informational saturation» point. At the end of every interview we dedicated some time to asking all the respondents to verify our understanding of their statements. That is to say, we repeated to them, in summary form the main points they had made in reply and we asked them to verify our interpretation of their statements, as embodied in our notes. By this process we established a form of «validity check» on the interviews and their proceedings. Furthermore, because the firms referred to in this thesis are named the respondents also wanted to fully participate in the above process (validity checking).

In general our field research consisted of approaches to 44 Greek enterprises a group of companies and in some cases individuals who have established joint ventures with Albanian, Bulgarian, Romanian and Russian partners. All these firms are situated in Eastern European Countries with the exception of one Greek-Russian firm, which is situated in Greece. These companies have in some cases established more than one

[2]See Bertaux (1980), Bertaux-Kohli (1984).

joint venture in one country or in many countries. The activities of these firms cover the areas of general trade, construction, textiles, tobacco, electronics, consultant services, tourist services, insurance, air transportation services. As we have already noted the majority of the ventures active in these countries have a trading character, or they provide insurance, tourist and other kinds of services. The joint ventures which the firms of our sample had established, are active in many areas such as: primary sector, industry, services, construction, energy, hotels and restaurants, trade, R&D. (In the appendix, see diagram No108, the activity profile of the ventures is presented).

6.3. General analysis of the sample

We identified 44 Greek firms, groups of firms, and individuals who had established 85 joint ventures. However, some of these firms concealed the actual number of their ventures. In addition, one more venture had been established, but it was not operational, in the last case of our sample. So the actual number was more than 85 ventures. Of that number, however, we have to point out that one case at the time of the interview had wholly owned subsidiary status. Furthermore, the venture of Case No 44 was situated in Greece and not in Russia. In addition to this, Case No6 was also peculiar since the six ventures had been established via a W.O.S. . We included Case No 25 since at the time of interview it had joint venture status and later became a W.O.S. . In spite of the above inefficiencies the number of ventures was around 85.

However our sample was made up of fewer responses (observations). The responses were only 47 since the majority of firms which had established ventures in more than one country gave us a general response, because of limited time and confidentiality. From a population of 85 ventures we had 47 responses (observations), including the former venture which at the time of the interview was transformed into a W.O.S. and the venture which was situated in Greece. That «covers» 55.29% of the total population. This number is not high; however, it demonstrates the difficulties of the research process. This percentage is better compared to other research projects[3] where out of a population of 20 firms the initial response was 12 (that is 60%) and eventually the study used just ten firms (50%). It is thought that a major contribution of this thesis is extending the scope of this very limited body

[3] See Hassid (1994).

of evidence. In the following table we provide the list of cases and responses (population-sample).

Table 6.1. Population - Sample in our research

Cases	Number of Joint Ventures (population)	Number of Responses (sample)
No1	2 j.vs. in Bulgaria 1 j.v. in Romania	1 for Bulgaria 1 for Romania
No2	6 j.vs. in Bulgaria 1 j.v. in Romania	1 for Bulgaria 1 identical for Romania
No3	2 j.vs. in Russia 2 j.vs in Romania 1 j.v. in Bulgaria (This group may have established more ventures)	1 general response
No4	2 j.vs in Bulgaria	2
No5	14 j.vs. in Russia	1 general response
No6	6 j.vs. in Russia	1 general response
No7	3 j.vs. in Russia	1 general response
No8	1 j.v. in Albania 1 j.v. in Romania	1 general response (diversified in certain issues)
No9	2 j.vs. in Albania	1 general response (diversified in certain issues)
No10	4 j.vs. in Romania	1 general response
No11	2j.vs. in Romania	1 general response
No12	3 j.vs. in Bulgaria	1 general response
No13-18	1 j.v. in Albania	1 response in each case
No 19-30	1 j.v. in Bulgaria	1 response in each case
No31-38	1 j.v. in Romania	1 response in each case
No39-43	1 j.v.in Russia	1 response in each case
No44	1 j.v. with a Russian partner in Greece (Another one expected) to become operational in Luxembourg)	1
	Total number of j.vs:85 (population) :85	Total number of responses (questionnaires) :47 (observations) :47

The distribution of the population can be seen in the following table:

Table 6.2.: Population's frequency distribution
(in absolute numbers and percentage)

Country	Number of j.vs.	%
Albania	9	10.6
Bulgaria	26	30.58
Romania	19	22.35
Russia	31	36.47
TOTAL	85	100.0

The distribution of the observations can be seen in the following table:

Table 6.3.: Frequency distribution of sample
(in absolute numbers and percentage)

Country	Questionnaires Number of j.vs.	%
Albania	7	15.0
Bulgaria	17	36.28
Romania	12	25.5
Russia	9	19.1
Unclassified general responses	2	4.2
TOTAL	47	100

By comparing Table 6.2 and 6.3 we observe that the sample is randomly representative of the population, with the Russian, sub-sample being the least representative.

If we combine the data from the two previous tables we have the following relationship between population and observations, which emphasises the previous point.

Table 6.4: Relationship between population and sample.

Country	Population	Sample	(%)
Albania	9	7	77.77
Bulgaria	26	17	65.38
Romania	19	12	63.15
Russia	31	9	29.03
TOTAL	85	45	

The above table demonstrates the «internal structure» of the research sample design e.g. from nine joint ventures in Albania we received seven questionnaires (observations); so this sub-population was «covered» by a sub-sample to the extent of 77.77%=(7/9) x 100.Similarly, for the case of Bulgaria, from 26 joint ventures we received 17 questionnaires (sub-population was «covered» by 65.38%); for the Romanian case, from 19 joint ventures we received 12 questionnaires (we have a «cover» of 63.15%) and finally in the Russian case, from 31 joint ventures we received 9 questionnaires (a «cover» of just 29.03%).

From the above it is obvious that we have a stratified sample. As Freund/Williams[4] remark: «...In stratified sampling we divide the population into sub-populations, strata... Such sampling can actually improve the accuracy of estimates and predictions since we are making sure that the various strata that make up the total population are all represented in our sample. If the items selected from each stratum constitute a simple random sample, this entire procedure, first stratification and then simple random selection, is called stratified random sampling...». This stratified random sample does not allow us to make a comparative cross-country analysis, because of the proportional representation which occurs between the population strata and the sample strata. So we used the data in a general qualitative analysis omitting however, the response of case No 44, since the venture is situated in Greece and not in Russia. In addition, we used the response of case No 41 since for a period of time the firm was under a joint venture status. The last thing that we have to point out is that general responses referring to J.Vs. in different countries, which were provided to us by a number of managers, were considered as a single response (e.f.Table 6.1).

[4] See «Modern Business Statistics», Freund/Williams, revised by B.Perles and C.Sullivan, Pitman Publishing, 1970, pages 279-282.

CHAPTER 7:
CASES OF GREEK FIRMS WHICH HAVE ESTABLISHED MULTIPLE JOINT VENTURES

CASE No1: DELTA DAIRY
TWO JOINT VENTURES IN BULGARIA,
ONE JOINT VENTURE IN ROMANIA
(TRADE AND PRODUCTION OF ICE CREAMS)

A: THE TWO BULGARIAN VENTURES

The Greek parent firm is one of the biggest Greek firms in the food sector and one of the biggest in Greece. The firm decided to expand in the markets of the Balkans and Eastern Europe with a very careful- and we have to say- successful step by step strategy. The firm decided to start from Bulgaria. The choice of Bulgaria, as the first experiment for a greater Eastern European expansionist strategy in the future, was not accidental. The geographical proximity with Greece and the fact that the Bulgarian market is similar to the Greek, in terms of size, were essential factors for the Greek company. Other essential factors were the absence of local or international competition, the possession from the Greek firm of superior technology compared to domestic firms and also the fact the Greek firm possessed superior entrepreneurial-managerial capabilities.

Other strategic motives essential for the firm to expand, were its motivation to achieve a first mover advantage and a geographical diversification strategy. The firm also engaged in a cost leadership strategy and a cost focus strategy simultaneously. The most important strategic motives for the firm were the big Bulgarian market and the experience that the firm expected to accumulate and use it in other future attempts. Home and host country specific factors were also important for the firm. The fact that interest rates were high in Greece was another important factor to expand the boundaries of the firm abroad. Also, taking into account the cheap labour force, the firm could-via exports-increase its competitiveness in Western markets or other Eastern

European markets. The «classical» factor conditions of land and natural recourses were also important; however infrastructure and skilled labour force were not very essential for the firm to expand in Bulgaria.

The firm started in 1991 to export ice creams in Bulgaria. That was the first test for its products. At that time the Greek firm had to compete with two Bulgarian factories, which produced ice-cream, of extremely low quality. As the manager pointed: «the microbiological tests were a nightmare. The Bulgarian ice-cream was very badly rapped; Kept in boxes with ice and not, in proper refrigerators !!!...». The «export-experiment» of 1991 had positive results, the market preferred the Greek ice cream compared to the Bulgarian. The second step was a big advertisement campaign which was the second in the TV after that of Coca-Cola. In 1992 the Bulgarian government, following a protectionist policy imposed quotas and tariffs on the ice cream. The tariffs were up to 40% . Because of this policy it was very difficult for the Greek firm to continue its exports, via a large scale distribution system.

At that time the company decided to establish two joint ventures in Bulgaria. There were quite a lot of motives for the firm to establish joint ventures and not wholly owned subsidiaries. The fact that the possibilities of domestic competition were minimised with this option, compared to the W.O.S. one was an important motive for the firm to prefer the joint venture. Furthermore with this option, the Greek firm minimised, in terms of time, its entry in the Bulgarian market since the local partner knew the needs and characteristics of the local market better, than the Greek firm. Other very important motives for the firm were the access to raw materials and cheap labour force, exploitation of economies of scale, risk reduction in an unstable environment, and absorption of the entrepreneurial culture of the local partner. Another very important motive was the fact that domestic consumers «accepted» psychologically better the joint venture option compare to the W.O.S. option. Financial motives were also significant for the Greek firm. Portfolio diversification, and risk reduction by committing lower level of capital were essential. The smaller payback period also had a role to play, not very significant however. From country specific factors the only essential factor for the firm was that the bargaining power with local governmental authorities increased with the joint venture option. The fact that legal provisions gave tax advantages to the joint venture option, compared to the W.O.S. option, did not have any effect at all in the decision of the firm to establish a joint venture.

The negotiations with the Bulgarian side were difficult and time consuming. It is important to point that the Greek firm established the two joint ventures with both the two big Bulgarian ice-cream companies. That demonstrates how important it was for the firm to minimise domestic competition.

The firm established two joint ventures. The former is a trading company, the latter is a production unit for the ice-creams. The share capital of the first firm is as follows:

	Greek partner:	57% of shares
First	Bulgarian partner:	20% of shares
Second	Bulgarian partner:	23% of shares

For the second firm the capital structure is as follows:

Greek partner:	26% of shares
First Bulgarian partner:	64% of shares
Second Bulgarian partner:	10% of shares

The initial capital of the first firm was 70 million leva and of the second firm was 150 million leva. In spite of the fact that in the second firm the Greek partner is a minority shareholder the management of the company is in its hands. The above strategy was not accidental. The Greek company really planned it steps very carefully. In spite of, the successful «export-experiment» of 1991, the Greek firm hesitated to commit enormous funds for the establishment of the ice-cream factory. It preferred to have the management in both joint ventures, but the share majority only in the trading company; that is it preferred to have the role of the merchant than of the producer, and simultaneously be the «conductor» of both «orchestras». Additionally it collaborated with both main domestic ice-cream producers in order to perish any potential domestic competition. This was a very careful and well-planned strategy, since they could control the market, step by step, without tremendous financial commitment in the sphere of production.

The other important motives that the Greek firm had to peak its partners were; the fact the they could provide buildings, they had a local brand name (status) and a skilled labour force. The most important of course was that their partners respected the Greek firm and vice versa. The Bulgarian side provided also some machines which were bought from Italy and France in 1983-84; however the Greek partner had to re-modernise them. The Greek firm contributed financial capital and know-how (managerial inputs). The two joint ventures have a mutually exclusive contract agreement, that is the first one distributes only the ice-

creams that the second one produces, and the second one sell its ice-creams only to the first one.

The Bulgarian side decided to form the joint ventures for a number of reasons. The most important were the common understanding and estimation, the fame (brand name) of the Greek firm and the shortage of other offers as good as the Greek one. The general manager is Greek. At the beginning the Greek parent firm controlled all the activities of both ventures, that is supply of imported and local raw materials, production process, quality control, distribution even the every day activity. After a certain period of time the production process and the every day operational activity passed to the Bulgarian partners.

The most important mechanisms of control are the selection of the general manager of the ventures by the Greek firm and the training of personnel. Another important mechanism is the development of an integrated organisation- structural framework. That is the two ventures, the trading company and the production unit, in spite of the fact that they are different, they are integrated into one company. As the general manager of the international business division stated: «...We use other control mechanisms like the imposition of minimum performance requirements. This is not only a control mechanism for the venture, but it is also a target for us, a self-commitment...»

In our question concerning the issue of conflict the manager stated that «...at the beginning there was a suspicion, a mistrust from the Bulgarian side. They understood that our proposals were serious, they understood that we wanted to establish a serious enterprise and collaborate with them for many years, in a long term basis, but simultaneously they were characterised by a xenophobia, a peculiar one...». He continued stating that: «...this made them many times to miss interpret our motives...». The manager continued with a simple example. He said that lunch hours are between 12^{30}-13^{30} in the afternoon. However a lot of them left the office «around 12^{30} and returned at three o'clock!!!...» «When I was asking them were have they been they retorted that they had not realised that time had pass so quickly...». He continued stating that: «...I knew that behind me they thought that I depressed them, but I was just trying to learn them to do their work correctly...» He continued stating that the different managerial background, the attempt to achieve personal goals, the differences in time horizon strategy and the xenophobia were at the beginning major sources of conflict. However the Greek managers were patient and using a «stick and carrot» strategy they established a very good relationship with their Bulgarian partners and

also ventures with rapid growth and successful performance. This can be understood by the following data: The total turnover of the two ventures for 1993 was 1.7 billion GDR, with profits of 330 million GDR. The production unit venture had 258 employees and the trading venture 140 with 70 lorry-drivers, 70 assistants, 70 trucks, 3,000 retail outlets and 3,000 display refrigerators and freezers. In 1993 the firm produced 25 million pieces of ice cream of 30 different types. (The total consumption in the Bulgarian market is estimated around 80 million pieces of ice cream. That is in its first year of operation the venture covered the 31.25% of the total market). As the manager of the firm pointed out: «...We plan to reinvest the profit in order to expand the activities of the ventures...». In addition he stated that the Greek side «thinks very seriously...» to increase its share in the production-venture. The Greek side stated that they are nowadays satisfied with the two ventures, their operations, the general manager and the personnel. It was pointed out to us that «...the initial difficulties with effort and mutual respect are an issue of the past. Now the situation is better; and we expect to improve further in the future...».

The above demonstrate a very successful case. A firm with no prior experience in international business established in a totally unknown environment two ventures with complete success. The Greek side collaborated with the Bulgarian partners; and did not allow at the initial stages conflict issues to pass a certain level which could jeopardise the whole process. The outcome of this strategy is a very successful story in international business. The Greek firm, had discussions with the EBRD in order to participate in the project. Eventually in 1994 the EBRD entered the venture. This act is not a sign of instability; however it demonstrates, as we were told, the strategy of the firm to minimise the risk in an unpredictable environment.

B: THE ROMANIAN VENTURE

Despite, that the Greek firm was preoccupied with its entry in Bulgaria, simultaneously- and that is another signal of correct entrepreneurial strategy-started by the end of 1992 an effort to penetrate in the Romanian market by establishing a representative firm. That representative firm created during 1993 a limited distribution network (around 450 refrigerators). At that year almost 3.5 million pieces of ice-cream have been exported in Romania. That positive result in addition to

that of Bulgaria made the Greek firm to decide and «transform» its representative firm to a joint venture trading company. There were a lot of reasons, which made the Greek firm to enter the Romanian market as well. The first reason is, of course, its international business strategy. Other important motives which made the firm to set up a trading joint venture in Romania were the higher entrepreneurial and managerial capabilities that the Greek firm had compared to domestic firms (in this case, the previous accumulated Bulgarian experience has given another advantage to the firm). Furthermore the firm was eager to achieve a first mover advantage in the Romanian market as well and further geographical diversification. However in this case the firm followed a differentiation-focus strategy instead of the cost focus strategy of the Bulgarian case. Classical country specific factors like land, natural recourses infrastructure did not play an important role. Important factors were the scale of demand (volume, size,) the fact that tax-release of two years existed and legislation allowed repatriation of profits in hard foreign currency. Furthermore some importance has been given to skilled labour force.

Financial motives (portfolio diversification, risk reduction, payback period) did not play an essential role for the firm to establish a joint venture. In addition the only strategic motives which were essential in this case were the contacts of the partner with local governmental authorities and the absorption of partner's experience of the Romanian market in general. The most important criteria which made the Greek firm to select the particular partner were that he had good government contacts and he was less opportunistic compared to other potential choices. Other important motives were the facts that he had a small size and, partly, the fact that he could communicate in Greek. We have to point out that this partner has never before been activated in the ice-cream market. His activities were in computers and petrochemical industry and he wanted to enter the ice-cream market using the knowledge of the Greek firm, and of course its brand name. On the other hand the Greek firm wanted his personal contacts. The Greek firm contributed pecuniary and non-pecuniary inputs to the venture while the Romanian partner provided some building facilities. The Greek partner has 80% of shares, the rest belongs to the Romanian partner. The general manager of the venture is Greek.

At this initial stage of the venture's life cycle[1] the Greek firm controls every activity of the venture that is planning, sales, pricing, storage. The Romanian partner offers only the labour force. However, as the manager stated: «...the 20% capital share of the Romanian partner is big stake for the Romanian standards and this stake was granted to the partner in order to give him an incentive to work hard and productively for the venture...». The Greek firm knew that the partner did not have any experience in the ice-cream market and that they should not expect a lot from him, however they gave him the incentive, the opportunity to learn a lot, so that they will be-after a certain period of time- in a position to relax the control over the venture, by transferring authorities to the Romanian partner. Until then the Greek parent firm imposes strict control over the venture. The most important mechanisms of control are the selection of the general manager, the high voting and veto rights, the imposition of minimum performance requirements. Other important control mechanisms are considered the performance appraisal and the training of personnel, which was taking place at the time of the interview.

The disagreements (conflict) with the Romanian partner have been characterised as rare and of low intensity. The only important differences are due to the different management style, cultural background, and partly because of different time horizon strategies. This is attributed, according to the Greek manager, to two factors: «...The partner was not activated in the past in the ice-cream market. He knows the Romanian market in general, but he can not express a view about the ice-cream...». In addition it was stated to us that: «...we used the experience from the Bulgarian market. It was very helpful for us since we could understand the expectations of the partner...» These two reasons created a nice climate in the venture and minimised the conflict from the beginning...».

The Greek firm expressed satisfaction for the performance of the venture, the general manager and the personnel. In addition no instability signs have been observed. As it was pointed out: «...the venture is operational for less than a year since it was established in 1994; however we are satisfied with our partner and generally with the general manager and personnel. The general manager is not so experienced and made some minor mistakes, however the overall performance is good and according to our estimations...».

[1] Information on the activities of this firm are also provided by Mc Donald (October 1995).

CASE No2: HELLENIC BOTTLING Co. (3E)
SIX JOINT VENTURES IN BULGARIA
ONE JOINT VENTURE IN ROMANIA
(TRADE AND PRODUCTION FO COCA-COLA AND OTHER REFRESHMENTS)

A: THE BULGARIAN VENTURES

This group of Greek firms, one of the biggest in Greece, decided to expand in Eastern Europe using Bulgaria as the «pilot country». The firm is the biggest juice-producer company in Greece and under licence produces and distributes the products of Coca-Cola, Sprite and Fanta. The group had already accumulated experience in international business from its activities in the U.K., in the Republic of Ireland and in Nigeria. As the manager pointed out to us: «...We knew from the beginning that Eastern Europe, and particularly Bulgaria, would be different compared to our previous experiences, however that was important for us; it was an advantage compared to other firms which go in these countries with no experience in international business at all...».

An important motive for the firm to select Bulgaria was the high per capita consumption of refreshments. We were told that «...in 1992 the annually per capita refreshment consumption in Bulgaria was 40 litres compared to 56 in Greece, and for 1993 the numbers were 45 and 60 respectively...» Other important factors for the firm to invest in Bulgaria were: the small distance from Greece which could be interpreted in low transport and monitoring costs, the low labour cost, the size of the market, the good political relations between Greece and Bulgaria, the satisfactory level of infrastructure, compared to other Eastern European countries. Additional motives were the first mover advantage and the geographical diversification. The firm had made some exports before investing in Bulgaria; however not large quantities.

The firm established a joint venture with the «Central Co-operative Union of Bulgaria» the share capital has been distributed as follows:

53% for the Greek side
47% for the Bulgarian side

This venture established five smaller ventures in different towns with local co-operative unions as partners. These ventures were set up in the towns of Sofia, Plovdiv, Burgas, Tragoviste and Pleven. The first was

established in May 1992 in Plovdiv and until the end of that year three additional ventures were operational. In 1993 the venture in Sofia became operational (in this venture the US Coca-Cola has also a share). In 1994 another venture was established for the production of plastic boxes. The company did not reveal the stakes that has in its venture for reasons of confidentiality; however it revealed that the initial investment was around 20 million USD and the total number of employees exceed 1,400 people. This is actually, the biggest Greek investment in Bulgaria at the moment. According to Mc Donald, until the end of 1995 the total investments of the firm in Bulgaria were 75 million USD.

Financial motives were not important for the firm to establish joint ventures, with the exception of risk reduction. The most important strategic motives that the firm had in order to establish joint ventures were the fact that this was the quickest, in terms of time, way to enter the Bulgarian market. In addition to this, domestic legislation concerning land ownership prohibited the ownership by foreigners (in the case of the W.O.S). After these two, the most important strategic motive was the access to distribution channels that local co-operatives could offer, the existence of cheaper labour force and risk reduction in an unstable environment. Other strategic motives like exploitation of economies of scale and scope did not play an essential role for the decision of the firm. Country specific factors like overcoming of government imposed barriers, increased bargaining power with local authorities etc. influenced up to a point the decision of the firm to establish joint ventures, however they were not crucial. Another important factor for establishing joint ventures with local co-operative unions was the fact that they new the needs of local-periphery market. (The Central co-operative Union possessed all he food and beverages factories). By creating joint ventures with both these types of partners the Greek firm had access to the installations and simultaneously to peripheral-local markets.

The partners were selected because they could provide a certain level of infrastructure; buildings and some machinery, furthermore they knew the Bulgarian market. However the Greek manager stated that: «In spite of their contribution we were obliged to invest tremendous amounts of money in order to upgrade and replace the machinery. Additionally we had to spent a lot of money and time in order to train the personnel. They had to start from the basic accounting principles like balance sheet and from the basic economic principles such as the law of demand and supply...». At the initial stage, that of 1992, the production process had a lot of difficulties. The first one, according to the manager, was that:

«...The Bulgarian consumer was unfamiliar with Coca-Cola, since the firm had attempted in the past (1965) to enter the market, however with very limited sales. So we had first of all to spent a lot of money in a very intensive advertising campaign...». The second problem according to the manager was that: «...The boxes that our partners could offer for Coca-Cola had no trademark and their quality was tragic, since they could brake down very easily. We had to invest a lot of money in order to improve the quality of the boxes and produce them according to the Western standards. This target was achieved just in four months time, however the production cost for each box was doubled...». The third problem was coming from competition. According to the Greek manager: «We had to face two different kinds of competition. The first one was that of Pepsi-Cola. The second which was the most dangerous was the illegal domestic competition. A lot of Bulgarian producers using very low-quality inputs produce a low quality product similar to that of Coca-Cola. In a market were boxes had no trade mark it was possible and easy that the consumer could not distinguish the real product that we offered and the fake one... The problems with the other two products Fanta and Sprite were similar and an advertisement campaign had to occur for them as well...». The fourth problem, according to the manager, was that of the refrigerators. He stated that «...you understand what it means to consume refreshments which are not cold, but we faced this problem again successfully and only during the first year we installed 2,000 refrigerators...» Other problems mentioned to us were the shortage of trucks and the need to upgrade the distribution network.

In spite of these problems the Greek side with the assistance of the Bulgarian partner, especially in the bureaucracy of the public sector, faced the problems successfully. We were told that «...during 1992 we controlled the 40% of the total market. In 1993 our volume of sales increased by 42% and our total market share increase by 10%, and we controlled the 50% of the market. In 1993 the total sales were 1.2. billion leva (4.5. million USD) and the net profits were 135 million leva...» We were told that the profits are reinvested in Bulgaria in order to finance the expansion of the ventures. The intensity of conflict has been characterised as low and the frequency was characterised of medium level. Three major sources of conflict have been identified. These were the different management style, the different cultural background and the different time horizon strategy. The control is relaxed since there are two manager directors one Greek and one Bulgarian. Other important control mechanisms are the imposition of minimum performance requirements,

performance evaluation, training of personnel, flexibility by the Greek side. The Greek firm controls the strategic activities, such as budgets and business plans, marketing and pricing. In the initial stages the Greek parent firm controlled more activities however we were told that: «...our aim is to transfer as many activities as possible and with the biggest possible rate of speed to the partner...». No signals of instability were reported and the Greek side expressed satisfaction for the performance of the ventures. In addition it was stated to us that: «We are satisfied with our partners and with the authorities and in spite of the initial problems we succeeded, with their collaboration and with our hard work...».

B: THE ROMANIAN VENTURE

The Greek firm in Romania established a joint venture which produces metallic cups for bottles. This was established in 1993 and the Greek firm has the 60% of its share capital. Indirectly the Greek firm participates in two more ventures which produce beverages in the Romanian towns of Iasio and Orandea. No details were provided to us about these firms and we were told that «what stands for Bulgaria, stands for the case of Romania as well». According to Mc Donald the total investment capital in Romania is 81.3 million USD.

Before closing this case we have to say that very recently the Greek firm established a venture with another Greek firm. This venture acquired one of the biggest brewery enterprises in Bulgaria. This acquisition, is the first reported. (Information on the activities of this group in Bulgaria and Romania are also provided by McDonald).

CASE No3:	INTRACOM GROUP OF COMPANIES TWO JOINT VENTURES IN RUSSIA, TWO JOINT VENTURES IN ROMANIA, ONE JOINT VENTURE IN BULGARIA
(GENERAL TRADE, LUCKY GAMES, PRODUCTION OF HIGH-TECH PRODUCTS)	

This large group of companies started its activities in Russia. The group is activated not only in Bulgaria, Romania and Russia but also in Kazahstan and Moldova. The main motive was not the fact that Russia is the biggest market in Eastern Europe. The primary motive was that the owner of the group had personal high level ranking links from the era of the USSR. This group also provided us a general response of its activities without disclosing specific information for each joint venture. The group has decided to expand in Eastern European countries[2] for the following reasons. The group certainly possessed superior managerial and entrepreneurial knowledge compared to domestic firms and in some cases more advanced technology as well.

The main strategic motives were the desire to achieve a first-mover advantage, exploit the low labour cost by following a cost leadership strategy, in general and a cost-focus strategy in particular cases. Differentiation strategies did not play an important role for the firm. Geographical diversification however, was an important motive for the group to go abroad. The most important strategic motive is considered to be the long term prospects of these markets. As the manager pointed out: «...nowadays these markets are characterised by enormous political and economic risks, however their long term prospects are very promising and positive...». Country specific factors were important for some types of the entrepreneurial activities of the group. In some cases the group has taken advantage of Russia's infrastructure and skilled labour force (scientific personnel, not administrative). Before entering these markets the group had been exporting goods there.

- **THE RUSSIAN CASES:** The Greek firm established two joint ventures in Russia. The first one installs lotto's (lotteries) in Russia. The Greek firm has 45% of shares, the Olympic Committee of Russia has 30% of the shares the Lottery Organisation of Moscow has 10% and the rest 15% belongs to a Greek-Cypriot entrepreneur. The Greek firm alone

[2] Additional information on the activities of the group is provided by Mc Donald. (October 1995).

committed to the venture more than 7 million USD (only the advertisement campaign cost was 1.5 million USD). Initially the firm employed 200 employees, 2,000 agents and had 1,000 sale points. Nowadays the firm is expanding in all urban and rural areas of Russia. The second joint venture has been established with the Institute of Computers. The aim of the venture is the production of software and other high-technology products which can be used by banks, industries and for lucky games. For reasons of confidentiality no further information has been provided to us about this venture.

- **THE ROMANIAN CASES:** In Romania the firm has also established two joint ventures. Again, the former installs lotteries and has been established with the Romanian state lottery firm, whereas the latter, which have been established with the biggest Romanian technical company, produces high technology products and electronics. Again no further information has been provided to us for these ventures, because of confidentiality.

- **THE BULGARIAN CASE:** Until the end of 1994 the firm had also established one joint venture in Bulgaria which again installs lotteries. No information has been given to us about this venture again for confidential reasons.

- **OTHER CASES OF VENTURES:** The group has also established trading joint ventures in these countries engaged in import/export activity of basic consumer goods, raw materials and heavy industry products, all of which are exported to Western countries. Again no further information has been provided, not even the number of the ventures. The group decided to enter these markets by establishing joint ventures for the following reasons: The access to raw material that the group has via its partners was a very important motive for the case of trading ventures. On the other hand access to cheap labour force was an important motive for the production-oriented ventures that the group established. The technical know-how and skill of the partners were also important. Furthermore the fact that partners knew the local market, was important. The fact that domestic legislation in these countries offered motives for joint venture creation, has not influenced the decisions of the group.

The most important prerogatives that the Greek group required in order to select its partners were:

1. The potential partner must possess a leading position in its country and in the particular industrial sector.
2. The potential partner must prove that have no opportunistic motives for collaboration.
3. The potential partner must have a high status (brand name) in the local market, a sufficient client base and must possess high technology.

Generally companies with smaller size compared to the Greek group are more probable to become partners. Other important selection factors were partners with complementary recourses, infrastructure and distribution networks. Sometimes the partner was imposed by external events and circumstances. A typical example was the Romanian high technology venture. The Greek group was obliged to collaborate with that firm, since no-other firm could meet the requirements of the Greek group. We were told that in all cases there are more than one partners, which is a mixture of private and state owned firms. This is a «divide and rule strategy» which allows the Greek firm to control the ventures easily. That is why the general managers are always natives and not Greeks. The Greek group selects the best local managers, trains them according to the Western standards and then appoints them as heads of joint ventures, these general managers are influenced from all partners. The Greek group controls only some of the activities of each venture, mainly the strategic. The rest are pursued by the local partners. The most essential mechanisms of control are the imposition of minimum performance annual requirements, performance evaluation, training of personnel, specific contractual provisions. Other important mechanisms are the board of directors meetings and key personnel appointments.

The Greek firm is in some cases a minority and in some others a majority shareholder and contributes pecuniary and non-pecuniary inputs into the ventures (capital, know how, machinery etc.). The frequency and intensity of disagreements (conflict) have been regarded as of medium level. The main sources of conflict which have been identified are the differences in management style, the different cultural background and in some cases the opportunistic motives of the partners, in spite of the efforts that the Greek group makes to select partners with no opportunistic motives. Signs of instability have not been reported. It was pointed out to us again that the Greek side has a long term horizon strategy. (The Greek parent assess the performance of the ventures with the same standards that applies in its internal divisions and firms).

Before closing this case we have to point out that the Greek firm at the beginning of 1995 announced the plans for another venture in Bulgaria. This is a five million USD investment not included in our estimations concerning Greek investments in Bulgaria.

CASE No4:	VARDINOYANNIS GROUP (Bulvar Enterprises) TWO JOINT VENTURES IN BULGARIA, (TRADE OF OIL, CAR TYRES AND REPRESENTATIVE FIRM OF AUTOMOBILES)

This big group created a lot of W.O.S. and J.Vs. in Bulgaria, Romania, Ukraine, Russia, Poland. Their total number at the time of the interview was 21 enterprises. The group has granted us limited access to the two Bulgarian ventures without disclosing any information concerning the rest of its activities in Eastern Europe[3].The two ventures are trading companies. The aim of the first one is to trade and distribute oil and it was established in 1992. In that venture the Greek parent firm has 90% of shares. The second venture is an automobile representative firm, which simultaneously trades car tyres. This venture was established in 1991 and the Greek firm possesses 51% of its shares. No data concerning the capital or number of employees have been revealed.

The most important motives for the group to expand abroad were the fact that it possessed superior managerial entrepreneurial capabilities, it aspired to expand its activities and pursue a geographical diversification strategy. Demand factors were essential for the group's expansion. The fact that these countries are characterised by a demolished infrastructure was not a barrier of entry to the group, but a very important motive. As the manager stated: «...it is correct in static terms to think that infrastructure shortage is a barrier; however in dynamic terms this shortage minimises the bargaining power of these countries and of their enterprises and simultaneously maximises our bargaining power. So under a cost-benefit analysis it is correct to say that we have additional cost, since we operate in places with no infrastructure, however we have additional benefits, which surpass this cost since we can impose our rules...». The above, we have to admit, is a very interesting idea. However, it has not been repeated to us by any other entrepreneur in spite of the size of his/her activity in these countries. Additionally this group of companies stated that achievement of first mover advantages were not essential factors for the firm to expand abroad. The group has revealed that before entering the Bulgarian market had made some exports.

[3] Additional information is provided by Mc Donald (October 1995).

♦ THE CASE OF THE OIL TRADING COMPANY

Financial motives have not played any role in order to create a joint venture. Strategic motives, on the other hand, were essential for the Greek group. The first important motive was that the partner had a distribution network. Other important factors were that he had good knowledge of the local market, the Greek partner could «absorb» that knowledge and could overcome government barriers. The Greek group selected, that certain Bulgarian partner, above all because of his excellent contacts with the Bulgarian government and simultaneously with local, peripheral authorities. Other essential motives were the storing facilities that he could provide for oil, the local status (brand name) that he had and eventually that he was a serious partner with less opportunistic motives compared to those of others. The partner has been described as an excellent private firm with state contacts, which provided favourable state contracts. The general manager of the venture is Greek. The Greek side controls every activity of the joint venture (storage, pricing, sales, distribution) and its contribution to the venture is both pecuniary and non pecuniary. The Bulgarian partner contributed its storing facilities, good governmental contacts which bypass local bureaucracy and labour. The Greek parent firm does not use many control mechanisms over the venture. The fact that it possesses 90% of share capital gives the right to veto any decision. In addition to this the Greek side has imposed the general manager of the venture, and appointed other key personnel as well. Furthermore the organisational and structural framework is clear.

Both the intensity and frequency of disagreement (conflict) have been characterised as low, a fact which was attributed to the small participation of the Bulgarian partner in the venture. The only major source of disagreement are the differences in management style. In terms of stability we were told that: «...it is possible in the future to increase our share in the venture from 90% to 95% and eventually transform the joint venture into a wholly owned subsidiary». This initially was attributed by the manager to strategic reasons. He said that: «...You enter the market with a partner but you cannot leave this strategic product in the «hands» of a joint venture. The joint venture option is useful for a limited period of time; until you establish personal contacts and understand the needs of the local market. When this occurs you do not need any partner; you trade this strategic product alone...» However the same manager in a telephone conversation told us that the performance of the venture is not the expected one: «...We have set-up petrol stations

in a smaller pace compared to the initial timetable...» According to the manager the Bulgarian side was responsible for this development.

- **THE CASE OF THE AUTOMOBILE REPRESENTATIVE, CAR TYRE TRADING VENTURE**

Financial motives were not essential for the establishment of the venture; however, strategic motives were. The distribution network of the partner, its knowledge of the local market, the increased barraging power which can be achieved and the reduction of risk were all essential. The main partner selection criteria in this case were the common strategic goals, partners' status in the local market and its distribution network. Once more the general manager is Greek, influenced by both partners. That is because the stakes in this venture are 51% for the Greek partner and 49% for the Bulgarian partner. Again the Greek firm controls all venture's activities and the control mechanisms are the same with those of the previous venture. We were told that the ratio 51 to 49 has been imposed by the government. The Greek partner's contribution to the venture is pecuniary and non pecuniary (Financial plus managerial inputs), while the Bulgarian partner contributes labour and fixed assets (mainly buildings). The frequency of conflict has been characterised as high and its intensity medium. This was attributed to the in-experience of the partner on trading issues. Major sources of conflict that have been identified are the different management style, the differences in time horizon strategy between the partners and the fact that some times the Bulgarian side, tries to achieve personal goals, which contradict the goals of the venture. Another reason which creates conflict is the low level of personnel (human capital) which can not absorb easily the western managerial practices.

Sings of instability have been identified since the Greek side stated that it is possible to change its share of capital, by pulling out of the venture and re-establish a wholly owned subsidiary or buy the stake of its partner. This time the issue is that the financial performance of the venture is not the expected one and the same stands for the performance of the ventures' manager and personnel.

CASE No5:	METON ETEP GROUP OF COMPANIES FOURTEEN JOINT VENTURES IN RUSSIA (AGRICULTURAL PRODUCTION, CONSTRUCTION, ALUMINIUM INDUSTRY, GENERAL TRADE, OIL, CATTLE RAISING)

This group of companies has been engaged in Russia. The group has established 14 joint ventures in the sectors of general trade (import-exports), construction, aluminium production, production of agricultural and cattle raising products[4].The firm has a joint venture factory for aluminium products in Volgograd (not fully operational at the time of the interview) and factories for pig raising, pork meat and sausages'. Additionally a flour industry and an industry of oat and soya exist, together with an oil company, all in Volgograd. Additionally there are two construction firms one in Moscow and the other in Volgograd as well; the rest are trading companies. For reasons of confidentiality this group too hesitated to reveal other information concerning its joint ventures. A general description, however, has been given to us.

The group expanded in Russia because of superior technology and managerial capabilities compared to local firms. Other important motives were the size of the Russian market and the willingness to achieve a first mover advantage. Another very important motive was the existence of cheap labour force, which enabled the firm to follow a cost leadership strategy. Geographical diversification influenced the decision of the group. However we were told that: «This was not a crucial factor». The exploitation of land and natural recourses (especially in the cases of agriculture and oil) played a very important role for the decision of the group. As the manager pointed out: «...We did not export in Russia before, we had no contacts, no idea about the market. So we started carefully, first with agricultural products, then with construction and cattle raising products. Eventually we became activated in the oil and now aluminium business...».

Financial motives did not play an essential role for the firm to establish joint ventures. Strategic motives however, were important especially access to raw materials. Other motives which influenced the group's decisions, were the exploitation of economies of scale, access to cheap labour, absorption of local partner's know-how. However the most

[4] Additional information is provided by Mc Donald (1995).

important factor for the group to establish joint ventures at the beginning was the legal barriers. «...Domestic legislation allowed only the establishment of joint venture enterprises, we had no other option...» were the words of the manager. The group had the following general criteria for selecting its partners. The partner should offer buildings and storehouses. They also had to have serious goals, no opportunistic motives, and smaller size compared to the Greek group. For the «industrial» ventures should possess complementary resources, advanced technology, experience in its application and highly skilled labour force. As the manager stated: «...The partners in the industrial ventures of oil and aluminium are state owned firms, since they provided the additional partner selection criteria that we wanted. However the partners in the other ventures are private firms». In all the ventures the Greek partner has 50% of the shares plus the management, and the general managers are all Greeks.

The group controls all major activities (strategic decisions, pricing, sales, distribution, storage, business evaluation etc.) The Russians have no actual control over the ventures, since they are preoccupied with operational every day matters, and all strategic decisions are imposed by the Greek partner. (The Russians play the role of consultant). The most important control mechanisms are the training of personnel, the selection of general manager and other key personnel appointments. Other important mechanisms are the association with low level personnel in some ventures and imposition of a certain, very specific contract in every case which makes the obligations and the rights of each partner clear. However *the most important method of control which at the same time* constitutes an «obligation-incentive» for the firm to achieve positive financial results is the finance policy, which the Greek firm imposes on the ventures. The policy, according to the manager, is the following: «...If we assume that a venture needs to start its operation a capital of 100 drachmas we as a parent company contribute 5 drachmas (5%) and impose to the Russian partner the same rule, that is also to contribute 5% of the initial capital. That is a rule and the Russian partner must either «take it or leave it». Then the other 90% of the capital that the venture needs to become operational is provided again by us as a loan to the venture...». The above is the most «secure» way according to the parent firm to achieve control and good performance. Furthermore this is a way to cover country risk, that is if something goes wrong the Greek firm can assert that it had given a loan to the venture and claim it back with its

interest. The contribution of the parent firm is pecuniary and it can be non-pecuniary as well (machinery, managerial know-how).

Both frequency and intensity of conflict have been characterised as low and the only major source of disagreement has been attributed to the different time horizon strategies between the Greek firm and the Russian firms. Especially the state owned firms have a short-term strategy. However the disagreements are not critical since the role of the Greek partner is dominant. No sign of instability has been surfaced since no change in share capital is expected in the near future; however we were told that in terms of financial performance the picture is mixed since some ventures have profits and others have losses. The Greek parent firm expressed satisfaction for the performance of its general managers, but not of the personnel. Additionally it stated that the performance evaluation of personnel differs between its internal divisions in Greece and in the Russian ventures.

The most important problem the group has identified is the lack of business ethics and the fact that the ventures operate in a business environment where illegal activities take place. As the manager put it: «...when the aeroplane landed in Russia we were surrounded by the Russian Mafia...» The manager expressed dissatisfaction stating «..how can you do business in this environment?...» However he expressed the hope that the situation will change in the future.

CASE No6:	KAY INVEST SIX JOINT VENTURES IN RUSSIA (GENERAL TRADE)

This Greek firm established a wholly owned subsidiary in Russia. This subsidiary created six joint ventures, all general trading companies in wholesale and retail trade. The W.O.S. was established in 1992, and the joint ventures during 1994. Before entering the Russian market the firm had a developed trading activity with former USSR by exporting baúxite, and decided to expand its activities in wholesale and retail trade of furniture and other consumer goods of superior quality compared to the local one's. The firm decided to expand abroad, because it possessed superior entrepreneurial managerial capabilities compared to those of domestic firms. Furthermore the firm sought to achieve a first mover advantage and exploit the vast Russian market as other firms do. Geographical diversification was also another important factor for the firm. For the initial expansion country specific factors like skilled labour, exploitation of land and natural resources did not play an important role; however the future plans are to establish a factory and engage in productive activity.

The firm decided to establish a W.O.S. as the quickest way of entry in the Russian market (flexibility), however, as the general manager stated: «...We understood that in order to achieve local geographical diversification the best way was the establishment of joint ventures, since the partners knew the local market, could provide a building for the shops, and of course they could play the role of the shopkeeper...». Until know the firm has established six joint ventures (shops) and expects to set up two more. In all these ventures the Greek firm (that is its W.O.S. Russian) provides more than 75% of the capital (between 75% and 87,5%). All the partners are private firms or individuals. (with one exception). In all the cases the criteria for selecting the partner were the lack of opportunistic motives and the smaller size compared to that of the Greek firm. Of further importance were the fixed asset inputs that partners could provide locally. In one case the brand name of the partner (which is a scientific institution) was also an important factor. The managers in each venture are Russians; however the general manager of the W.O.S. is Greek and they report to him. The Greek firm control all the activities of the ventures, that is export of products from Greece to

Russia, storage, sales, and development of ventures; The Russian side provides labour and copes with every day operational issues. The control mechanisms which are imposed on the ventures consist in sale reports, imposition of performance requirements and performance evaluation, veto rights, voting rights, and general manager selection. Both intensity and frequency of disagreement have been characterised as of medium level. However the majority of disagreements are focused on every day decision making and rarely on strategic issues. A major source of disagreement lies in the differences in time-horizon strategies, and in some cases in the attempts on the part of the personnel to achieve personal goals.

The firm has not identified any particular signs of instability. It was just stated to us that «some of those ventures may in the future become W.O.S. if the firm gains in experience and knowledge of the local market». In terms of personnel and managers performance, the firm expressed its satisfaction, stating that imposes the same criteria for personnel evaluation with those in Greece. However the general manager noted that: «It is too early for an overall evaluation since the ventures are operational for less than a year...». The biggest problem is, according to the manager, the inexperience of personnel, and the inability to absorb rapidly the entrepreneurial and managerial principles of the West.

CASE No7:	KINISI UNITRADE EXODOS PUBLICITAS THREE JOINT VENTURES IN RUSSIA (SERVICES)

This firm has established four enterprises in Russia. Three of them are joint ventures. The three ventures offer aircraft refuel, aircargo services, publication, advertisement services and they organise exhibition fairs for Greek products in Russia and other CIS countries. The wholly owned subsidiary offers tourist services. All joint ventures were established after 1989. However as the manager pointed out: «...the domestic evolution in USSR delayed their activation so actually they became fully operational after 1992 in the last one and a half year....».

Firm specific motives generally did not play an important role for the firm to expand abroad. Strategic motives however like first mover advantage, cost and differentiation focus as well as overall differentiation and geographical diversification were important. As the manager stated: «...Furthermore the size of the Russian market, the access to the markets of other CIS countries, the long term future prospects were all important motives. The market itself was also important and no Western firm can disregard the developments in these countries. However, the personal sentimental links with USSR were the most important motive...». Home and host country specific factors such us infrastructure, Greek domestic evolutions were also essential for the firm to go abroad. Quite a lot of barriers of entry have been imposed. However we were told that: «...the barriers were not governmental but they were erected from customs officers in an attempt to gain personal benefits. For example they did not allow to the exhibitors, and our venture to send back to Greece products which were exhibited in trade fairs. They wanted to keep them for themselves. On other occasions we had to face the opposite situation: that is they wanted to keep for themselves wine and other product samples before the exhibition starts».

The firm had previous association with USSR. We were told that: «We have been offering tourist services since 1982». The financial motives on the whole did not play an important role for the firm to establish joint ventures; strategic motives, however, were essential. For example it was essential for its publications since the partner could provide access to raw material (paper), in the organisation of exhibitions and advertisement, since it could provide a distribution network and instalments. Access to

cheaper labour force was also an incentive to prefer the joint venture option. Other important motives were the absorption of partner's know how, critical governmental contacts especially in the cases of air cargo and aeroplane refuel. Tax reasons have also played a crucial role since they favour the joint venture option. The partners in air cargo, publications and aircraft refuel are state owned firms; in advertisement the partner, is a private firm. The most essential criteria for the firm to select its partners are their brand name, their distribution network the share of common strategic goals, their infrastructure, their skilled labour force but above all the correct partner in terms of character and ethics. We were told that: «...There were cases where potential partners were rejected not because they did not have good governmental contacts or resources, installations etc., but because in spite of having all the above they did not have the integrity which is needed in business...». The state owned partners were selected, because they provided good government contacts access to information channels and favoured contracts, but above all they provided the element of security. As we were told: «...Aeroflot will always exist in spite of who rules Russia...».

The general managers are Russians, influenced by both partners. The Greek side controls all the activities of the ventures that is pricing, personnel, profits of the ventures, distribution. However all the decisions are jointly taken with the Russians. The control mechanisms that the Greek parent firm uses to monitor the activities of the ventures are: selection of general manager, training of personnel, performance evaluation, key personnel appointments and establishment of a specific contract among the partners. The Greek firm has a 50/50 shareholder position in the ventures and in one it is a minority shareholder. Its contribution to the ventures is pecuniary and non-pecuniary. Both intensity and frequency of disagreement have been characterised as very high. However that is up to a point attributed to the character of the Greek partner who expects everything to be in order. Disagreements occur in every day decision making and concern the rate of speed and implementation of business plans. Other important factors which lead to disagreements are the differences in management style, the personal goals that occasionally the Russians attempt to achieve, and the personal conflict which erupts between the managers of the ventures and the parent firm.

The performance of general managers have been characterised as medium. On the contrary the performance of personnel in many cases has been characterised as very good. That made the Greek partner to

intervene by rewarding personnel with promotions or bonuses. The Greek partner wants to evaluate the personnel of the ventures with the same criteria with those inside its domestic divisions however it has not done that until now because of the different mentality of the Russians. As far as financial performance is concerned it was characterised as medium. However it was pointed out that: «...for us it is the growth of the ventures that matter, their market share and not their financial performance...». No signs of instability have been revealed since the firm has no plan to transform the ventures or pull out from them.

The biggest problem identified is the absence of Greek banks which makes any payment in foreign hard currency difficult. The firm has to use German and Austrian banks in order to send and receive money; that of course, is time consuming and costs a lot in commissions and other banking expenses. The second biggest problem is the mentality of the Russians.

ASE No8:	INVESTA ONE JOINT VENTURE IN ALBANIA, ONE JOINT VENTURE IN ROMANIA (TRADE-SERVICES)

This firm established two trading ventures: one in Albania and one in Romania. Both firms were established in 1993. The firms in both countries trade commodities like sugar, chemical products, food products, steel and iron. The firms also provide investment consultant services an activity which, comparatively speaking, is more developed in Albania than in Romania. Firm-specific factors were important for the firm too mainly because it possess superior managerial abilities and better know-how. The only strategic motives which were essential were geographical diversification and achievement of first mover advantage. Demand conditions played also an important role. In spite of the fact that the Albanian, market is smaller (in size) compared to the Romanian market, it absorbs products and investments more rapidly. The firm had no previous experience of these or any other Eastern European country, however they had some experience from Western countries. Financial motives were not important for the firm to establish joint ventures. On the other hand, strategic motives were: the distribution networks that partners could offer, the fact that they knew the local markets and they could provide, good government contracts. For the Romanian case we were told that: «We were obliged from domestic legislation to establish a joint venture...».

In both cases the partners are private firms private individuals. They were considered good choices because of their local status, good government contacts, contribution in fixed assets (buildings) good distribution network and integrity. The general manager in the Romanian venture is Greek while the general manager of the Albanian venture is an Albanian, but of Greek origin. In the Romanian venture the Greek parent firm controls every activity (that is strategic and administrative decisions, pricing, storing) except distribution; This is under the control of the Romanian partner. (The general managers are influenced by the Greek partner in both cases. In the Albanian venture the Greek firm controls only some activities, that is the strategic decisions and pricing, and allow the Albanian partner to control the activities of sales, distribution, and storing. The Greek side imposes an annual budget and

business plan on the ventures. The main control mechanisms are: board of directors meeting, training of personnel, high voting rights, performance evaluation, key personnel appointments and monthly reports from the ventures to the Greek firm. The Greek firm has contributed pecuniary and non pecuniary inputs to the ventures.

The frequency of disagreement has been considered low. The intensity however was characterised in both cases as medium. The main sources of disagreement are focused on the different cultural background and management styles, the efficiency of joint ventures in terms of growth, the negotiation abilities and tactics. The financial performance has been considered poor compared to the expected one. Signs of instability have been reported in the Romanian case and we were told that the Greek firm would establish a W.O.S. if that was legally possible. The performance of both managers and personnel was characterised as of medium level in both cases and we were told that the criteria for assessing the personnel in the ventures, differ compared to those which the Greek firm imposes in its domestic divisions. The biggest problem has been identified the inexperience and slow pace decision making of both the managers and the personnel in the ventures compared always to the Greek standards.

CASE No9:	KAPNIKI MICHAILIDIS TWO JOINT VENTURES IN ALBANIA (PRODUCTION PROCESS AND EXPORTATION (TRADE) OF TOBACCO

This Greek firm established two joint ventures in Albania for tobacco procession in 1992. The main motives, for the firm to go abroad were the possession of better technology and superior entrepreneurial and managerial capabilities. The achievement of first mover advantage was essential for the firm which followed a cost leadership, focus and differentiation strategies simultaneously. Cost leadership and cost focus strategies, because it exploited fully the cheap labour force. Differentiation, because the tobacco produced in Albania is of different quality compared to the Greek tobacco. As the manager stated: «...the ventures gather, process and export the tobacco to other parts of the world. We are not interested in the Albanian market...» The most important strategic motives for the firm were the exploitation of land and natural resources (particular type of tobacco) and the increased competitiveness which can be achieved in the world tobacco markets by supplying this particular type of tobacco at low prices. Financial motives had no importance for the firm to establish joint ventures. On the other hand important motives were the access to cheap labour force, raw materials and the exploitation of the economies of scale. Furthermore domestic legislation prohibited the W.O.S. option.

The criteria for selecting the partner were the installations he could provide, i.e. the building and the land. There has been no other additional criterion since, the Albanian side, could not provide anything else as the factories were closed down and there was no production activity in both Albanian towns where the factories stood. So, practically the Greek side could not expect more from its Albanian partner. The partner is a state enterprise. The Greek firm controls all the activities of the ventures in many ways. The first one is that it is a majority shareholder in both ventures (60% and 65% of shares respectively). Furthermore the Greek partner has a free hand in selecting the general managers and other key personnel, evaluates performance, and imposes minimum performance levels. In addition he uses board of directors meetings to monitor the ventures. The control is complete, but not authoritarian since the general managers are influenced by both partners and the opinion of the

Albanian side is always taken into consideration. The inputs that the Greek venture has provided are both pecuniary and non pecuniary and their total value is 2.8 million USD. Because of their ignorance concerning western economies and entrepreneurial methods the Albanian partner expresses views which are beyond any rationality, with no long time horizon or strategy. Additionally they try to achieve personal goals. In some cases the personal relations among the employees in the ventures are not the proper. As the manager put it: «...Once I had to criticise some workers for their performance. After some time we heard that a row was going on the factory floor. We rushed down there since we were responsible for the physical condition of our workers. We were told that other workers had attacked them. The first thing we suspected was that the attackers had personal differences with the victims, only to find out that their real motive was to punish them for ill-performance... We made clear to everyone that we would never again tolerate such incidents and next time they would all be dismissed... Thank God, no one was injured...». In spite of the conflicts the ventures can be characterised stable since the Greek partner has no intention to change its share or pull out. In term of financial performance the Greek side expressed dissatisfaction, which however is attributed to general monetary factors, that is the lek appreciation against the USD. This had a harmful impact on the exports of the venture. The performance of the Albanian general manager was characterised as awful. That made the Greek firm to dismiss him and find a new one. The personnel performance however has been characterised as good since in spite of the ignorance and low productivity they have the desire to adapt themselves into the new conditions.

CASE No 10:	EMME FOUR JOINT VENTURES IN ROMANIA (GENERAL AND SPECIALISED TRADE, CONSTRUCTION)

This Greek firm established four joint ventures in Romania. The first is a trading and construction company. The second is a general trading company. The third is a trading company specialised in imports and exports of machinery's and electronics. The fourth is a construction company. The firms were established after 1991. The owner of the Greek parent firm is a Romanian educated mechanical engineer. His wife comes from Romania and she is also an engineer. At the time that he was a student in Romania he had made friends, which later became partners in the ventures. The above explains why he decided to expand abroad and especially in Romania. The culture, language and environment are not unfamiliar to him. Of course there were purely economic motives for the decision as well. His firms possess, better entrepreneurial and managerial capabilities and technology (especially in construction). He was also eager to utilise first mover advantages and the low labour cost by implementing a cost leadership strategy, and exploit the demand of the market. His decision to establish joint ventures was not motivated by any financial or strategic considerations, with the exception of economies of scale motivation. We were told that he was obliged by domestic legal framework to establish joint ventures, however he explained that: «..even if I had not this legal barrier, I would again create joint ventures with my old and good university friends...». He continued stating that: «...My friends were unemployed, so I made them partners in the ventures in order to offer them a job. Of course they could not provide any financial capital to the ventures, but I covered their share. This is not a loan which I expect them to repay; it is a donation...» This demonstrates the level of the personal linkage between the partners . Almost all the inputs to the ventures financial, machinery, furnitures, p/cs, faxes, establishment of distribution channels have been provided by the Greek partner. The Romanian partners only provided a building and their personal labour. The share of capital in its ventures is as follows:

1. In the general trading company there is a 50%-50% stockholder ownership.

2. In the construction company there is a 70%-30% ownership

3. The same ratio is in the machinery trading company, which imports in Rumania central heating facilities, pumps, cast iron, boilers, burner injectors and other machinery, related to construction, of factories.
4. In the trading and construction company for houses the Greek partner has only 33% of share ownership and the rest is to the Romanian partner.

However it was pointed again to us that shareholder ownership is a trivial issue for the Greek side, because of the personal relationship between the partners. Both intensity and frequency of disagreement have been characterised as low, attributed to the different entrepreneurial background and management style. No major source of conflict has been identified and the Greek side expressed its certainty that this situation will remain, because of the good personal relations and also because of the excellent financial results of the ventures. The Greek side expressed its satisfaction about the performance of personnel and general manager (that is for himself and his wife who are the managers). The bureaucracy of the Romanian state is held responsible for the most serious problems of the ventures. We were told for example that «...at the beginning in order to take a quality certificate for some cast-iron boilers we had to wait for eight months, because the Romanian authorities refused to provide the document...».

CASE No 11:	ALTIS FOOD (VENICE SHIPPING) (KOYROYVANIS) TWO JOINT VENTURES IN ROMANIA (TEXTILE AND FOOD INDUSTRY)

This Greek firm established in 1993 and in 1994 two joint ventures. The first one has been activated in food industry (snacks, croissant production). The second one in textile industry (production of clothes). Two more joint ventures are expected to be established. The possession of high level entrepreneurial, managerial capabilities was important for the firm to expand abroad. However the possession of better technology was not a crucial factor for the firm. Strategic motives, were essential, since the firm wanted to achieve a first mover advantage, impose a cost leadership and cost focus strategy simultaneously in both sectors. A diversification-focus and a geographical differentiation strategy were also essential motives for the firm. The size of the Romanian market and the access, which can be secured to the markets of other BSEC countries, because of geographical proximity were the most important motives for the firm to expand in Romania. Home and host specific factors, such as, natural resources, land, increased competitiveness by exporting to western markets, tax releases for three years were of major importance for the firm. Before investing the company exported oranges and juices. Eventually it decided to establish a textile and a food factory. The reasons for this shift (from oranges and juices, to clothes and croissant) have not been disclosed to us. Financial motives were not of importance for the firm to establish joint ventures. The only important strategic motive was the exploitation of economies of scale; however some other motives played an influential, but not crucial role. These were: the partial access to distribution channels, the building facilities that the Romanian partner could supply and the knowledge of the local market. Additionally, through the joint venture option, the bargaining power with local authorities is increased, and the risk is minimised. The most important motives for selecting the partners were the infrastructure that they provided the common strategic goals, and their integrity.

The partners are persons with a university education, open minded and committed to establish a successful enterprise. That is the reason why the general managers are Romanian. However, the Greek partner controls every activity of the ventures, strategic decisions, storing, sales

and pricing, leaving to the Romanian partner the operational everyday decision making. Many control mechanisms are used by the Greek partner. First of all it is the 65% share of ownership that the firm possesses in the ventures. This majority ownership gives high voting and veto rights to any decision. Additionally minimum performance requirements are imposed, a very specific organisational framework has been developed, and key personnel appointments (with the selection of the general manager) provide adequate security to the Greek partner. Furthermore, board of directors meetings and monthly reports are also used as control mechanisms. The Greek parent firm contributes pecuniary and non-pecuniary inputs such as financial capital, machinery, sets of furniture etc.

Both frequency and intensity of disagreement were characterised as low. The firm identified no particular source of conflict. Additionally no sign of instability has been confided to us. In terms of financial performance, the Greek side expressed general satisfaction for the venture which is operational from 1993 and added, for the second venture, that any evaluation would be premature, because of its short lifetime. General satisfaction has also been expressed for the general manager performance and personnel performance. For the latter case different evaluation criteria were imposed compared from those employed in Greek firms. In spite of the fact that no financial data were provided the manager stated that the daily clips production was 50,000 items at the beginning of the venture life, and at the time of the interview it was around 150,000 items per day. The above should be regarded as an indication of good performance.

CASE No 12:	NORTH HELLAS TRADING & INVESTMENT Co. S.A. THREE JOINT VENTURES IN BULGARIA (GENERAL TRADE)

This firm established three joint ventures in Bulgaria after 1990. The ventures import chocolates, biscuits, sugar and other food products in Bulgaria. The firm has also established two wholly owned subsidiaries. The firm decided to trade food products because as the manager stated: «...The constant decrease in agricultural production as well as the delay in privatisation of agricultural land has negative effects on the production of agrarian products, which are the raw material for the food industry. Having that in mind, as well as the fact that food industry covers vital consumer needs, we decided to establish ventures which trade food products...». Furthermore, the manager explained that they decided to expand in Bulgaria, because they wanted to achieve a first mover advantage, pursue a geographical diversification strategy and profit from the local market. Furthermore the company expanded following a domestic competitor. The only motive for the firm to establish joint ventures was the knowledge of the local market, which the partner provided. In two of the cases it was also important that the partner could provide limited distribution network facilities. Furthermore, the increase bargaining power, achieved via the joint venture option, against the local authorities was another motive for the firm's decision.

The partners, private firms or individuals, have been selected because of their ability to provide buildings and resources to the ventures. Furthermore, they could easily sell the products, since they had a ready consumer base to absorb them. The general manager is Greek in two ventures and Bulgarian in the third venture. The Greek partner holds a majority ownership in two of the ventures, and a minority ownership in the other one. This decision was the outcome of the nature of business since as the manager pointed out: «...We thought that we should have majority ownership in the core ventures and leave the less-essential venture in Bulgarian hands...». The Greek partner controls the activities of pricing, sales, storing and budget. The Bulgarian partner is responsible for every day decision making and controls the distribution process. The Greek partner controls the venture with a variety of formal and informal mechanisms. These are: Board of directors meetings, key personnel appointments, performance evaluation and imposition of minimum

performance requirements. Furthermore, the rights and obligations of each partner are clearly circumscribed. The Greek contribution into the ventures is pecuniary and non-pecuniary.

Both intensity and frequency of disagreement have been characterised as medium and are attributed to everyday decision making. No essential sources of conflict have been identified, other than the different cultural background and managerial style. Additionally no signs of instability have been provided. Financial performance has been characterised as «good, but not at the expected level». As the manager stated: «...Inspite of the large market (number of consumers) the purchasing power is small, so the demand proved smaller compared to our expectations...». The performance of personnel and general managers was characterised as generally good, however we were told that the personnel is not familiar yet with western business practices.

The manager identified a number of problems. He stated that: «...First of all there is a problem of infrastructure, that is a volatile legal framework, an inefficient banking sector and bad telecommunications. This problem also encompasses problems such us refrigerators for storing ice-creams, capacity of store houses etc... The second problem is that of tariffs on the consumer goods. The third problem is the shortage of foreign currencies... Other problems are the quotas, the time consuming customs checks, the inadequacy of distribution channels... All these are problems that we face to a greater or lesser degree in our business. However we try to tackle them and solve them...»

CHAPTER 8:

CASES OF FIRMS WHICH ESTABLISHED ONLY ONE JOINT VENTURE IN ONE COUNTRY

8.1 Introduction

In this chapter we present the firms which have established single joint venture enterprises in these countries. There was a necessity to distinguish between the enterprises which have established multiple ventures (chapter seven) and those which have established single ventures (chapter eight). In the former case (chapter seven) we have Greek firms of big or medium size; in the latter case we have small and medium size firms, with the exception of Cases No36,44, where the Greek parent firms are big groups of companies. Here the cases have been classified according to the country where the venture operates, that is Albania, Bulgaria, Romania and Russia.

8.2. *CASES IN ALBANIA*

CASE No 13:	DYNAMIC EPE ONE JOINT VENTURE IN FOOD TRADE

This Greek firm has established in 1993 a joint venture in Albania. The venture is a trading company, which imports food products from Greece to Albania. The firm had a number of motives to expand in Albania. One of them was the possession of superior managerial capabilities compared to those of the Albanian firms. Another was the desire to achieve a first mover advantage in the Albanian market. A product differentiation strategy has been followed, not in Porter terms, but in the sense that the Greek firm is activated in the trade of spare parts for cars and decided to trade food products in Albania which according to the manager: «...are the only products which the local market can absorb in large quantities». The company had no past association with the Albanian market. Financial motives were not important for the firm to establish a joint venture. Important was the fact that the Albanian partner had good governmental contacts.

The selection of the partner was the most important issue for the Greek firm and it proved a successful one. The partner, a university professor with good government contacts, is respected in the local community and had no opportunistic motives. In the contract he has provided the 50% of the venture inputs (pecuniary and non-pecuniary). However, as the Greek manager stated: «We contributed money and machinery for the venture (refrigerators, trucks, furniture) and we also established the distribution network...» He continued stating that: «...The Albanian partner provided some ice-refrigerators which were totally inappropriate for storing meat products. However we decided to give him the 50% of shares, because we needed him for his good government contacts and reputation in the local community...». It was the «first-best» choice for the Greek firm. The Albanian, on the other hand, could not resist a proposal which gave him the 50% of shares of an enterprise where his contribution was actually minimal. The general manager of the venture is the Greek partner and controls every activity: exports from Greece, storing, pricing, sales, distribution. The Greek partner uses a variety of control mechanisms, such as: His physical presence as general

manager of the venture, performance evaluation, imposition of minimum performance requirements and integration with the Albanian partner. Both intensity and frequency of disagreements have been characterised as of medium level and the only major source of disagreement has been the different management style. However we were told that the Albanian partner becomes «tedious», because he always wants to know the economic rationale of every decision of the Greek partner. At that point the Greek manager gave us the following example: «... I have been a merchant for more than thirty years. Doing business for so long enables me to calculate any losses or profits; I do not need a computer or an accountant. At the end of the year I told my partner, without the use of an accountant, that we had profits of a certain level. He did not believe me and started asking how I ended up with that amount. I explained that it was quite normal for a man of my experience. He did not trust me and he wanted an accountant to verify my statement. I had no objection to that. He subsequently wanted to do the same calculations himself... Eventually he came up with precise the same figure that I had given him... He knew that I was not trying to abuse any profits, after this result...». In conclusion the Greek manager observed that his partner was characterised by a shortage of confidence. However he stated that the venture was stable. In addition he expressed limited satisfaction with the financial performance of the venture and the personnel.

CASE No 14:	KOURTAKIS S.A. ONE JOINT VENTURE IN WINE TRADE

This wine producer company established a trading joint venture in Albania, in order to export wine. The only motive that the firm had for expanding in Albania was the achievement of a first mover advantage in the Albanian market. Furthermore, as the manager pointed out: «...The venture is part of a greater export oriented policy of the firm...» The venture was established in 1992. The only motive to establish a joint venture was the fact that the Albanian partner knew the domestic market, could provide a distribution network, and some buildings for the storing of the wine. The partner is an individual and surprisingly he is the majority owner of the venture. This was the exchange that the Greek side had to offer in order as we were told: «...to secure ourselves from any opportunistic behaviour on the part of the partner...» The way this has been achieved is very smart indeed. According to the Greek manager: «...We have to supply to the joint venture a certain number of bottles of wine. The venture on the other hand has to pay us in advance and in hard currency for the value of the wine before distributing and selling it to the local market. In this way we minimise the risks. In exchange the Albanian partner has the majority ownership... This in dynamic terms favours us because with the minimum level of financial resources we entered the Albanian market. If for any reason the venture does not pay us, then no wine deliveries, (exports) will be made from us to the venture...». That is why the general manager of the venture is Albanian, and the Greek side does not control the activities of the venture. Furthermore, no conflict has emerged between the two partners. The only reason for conflict is the fact that the venture sometimes absorbs more wine than it can sell and/or sometimes does not pay or postpones the payment for a later stage (after a month for example). The Greek side expressed dissatisfaction with the financial performance of the venture stating that «the sales are below our expectations...» Additionally, the firm expressed limited satisfaction with the performance of the personnel and the general manager.

CASE No 15:	FANCO S.A. ONE JOINT VENTURE IN TEXTILE INDUSTRY

This firm is a textile company which established a joint venture in 1993 in Albania. The venture became operational in August 1993 and produces sportswear. The company decided to expand in Albania because it possessed superior technology and management compared to local firms. Furthermore there was no domestic competition. Besides the firm wanted to achieve a first mover advantage and exploit the low cost (it is the 1/10 compared to the Greek cost), following a cost leadership strategy. The company followed the steps of domestic Greek competitors. Lastly, this was part of a greater geographical diversification strategy. As the manager stated: «...At the beginning we wanted to establish a factory in Bulgaria and we made some efforts, in that direction... Eventually...we decided to establish a joint venture in Albania. The original idea occurred in 1992. It took us quite a lot of time and effort to overcome certain barriers and eventually start operating...» Other factors important for the firm were the exploitation of natural resources and the overcoming of trade barriers, that is tariffs and quotas. However we were told that the factory in Albania has as primary orientation the exports to Greece and other countries and not the domestic Albanian market. The latter is a secondary target. The firm had no previous association or experience in Albania.

Financial motives were not essential for the firm to establish a joint venture. Some strategic motives, such as, partial risk reduction and imitation of a strategy followed by a domestic competitor, had a limited influence on the decision of the firm. On the other hand, the access to a cheap labour force and the exploitation of economies of scale were important. Also of importance was the fact that the joint venture option gave access to local governmental authorities (city council). Furthermore, it was stated that legally the only option was that of the joint venture. The main criteria for selecting the partner were that he could contribute a building (12,000 m^2) he could communicate in Greek and he offered a skilled labour force for the Albanian standards. However the manager pointed out «...We had to train the personnel for a period of two months, since they had no experience in sportswear manufacturing...». Additional influential factors were:

a) the fact that the partner possessed some good machinery pieces and some financial resources, and
b) the fact that in that area it was the best available partner. The partner is a state-owned enterprise.

The Greek firm has contributed to the venture 200 million GDR (130 in financial capital and the rest is the value of new machinery). The venture has 100 employees. The initial number was 30. The Greek parent firm controls every activity of the venture, by using a variety of mechanisms. First of all the Greek partner possesses 95% of the share capital of the venture, which allows him to impose his own decisions and veto those who believes are not beneficial to the venture. Furthermore the general manager is Greek. Other essential mechanisms are the training of personnel the imposition of minimum performance requirements and performance evaluation. The association with the employees has also been acknowledged as important for «cultural» reasons. Both frequency and intensity of conflict have been characterised low and no essential source of disagreement has been identified, other than the different cultural background. Additionally no sign of instability has been shown. In terms of performance the Greek manager pointed out that: «I can not evaluate the financial performance because the venture has been operational for a small period of time. However, I can say that in the few months of operation the productivity has reached 65-70% of the equivalent Greek level...».

The most important problem that has been identified is the bureaucracy in Greece and in Albania which delayed the operation of the venture. In addition to this the frequent changes of the legal framework in Albania were characterised as a major obstacle. Eventually concern was expressed in regard to the bilateral political relations which at the time of the interview were at a very low level.

CASE No 16: FILAN AEVE
ONE JOINT VENTURE IN TEXTILE INDUSTRY

The Greek firm is a textile company and decided to establish a joint venture in Albania in 1994. The firm possessed superior technology and entrepreneurial abilities compared to those of the local firms. Additionally it wanted to have a first mover advantage and exploit the low labour cost by following a cost leadership strategy. The firm also wanted to take advantage of the skilled human capital, and increase its competitiveness in the Greek market. As the manager stated: «...The main target of the venture is textile production for the Greek market and not for the Albanian market...». She added that: «...the firm had no previous association with the Albanian market nor any export activity».

Financial motives were not essential for the firm to establish a joint-venture, with the exception of risk reduction. On the other hand, important strategic motives were: The access to cheap labour force, the exploitation of economies of scale, the enhanced bargaining power with local authorities and the knowledge of the domestic market that the partner could provide. The partner, a state enterprise, has been selected, because it *is one of the biggest textile factories in Albania and could* provide the venture with buildings, reputation and skilled labour force. Other factors which had a limited influence over the selection of that enterprise were the partner's ability to speak Greek, to provide some good pieces of machinery and some limited financial recourses. In addition and despite its *inefficiencies a distribution network exists. The Greek partner* controls every activity of the venture (production process, storing, sales, pricing etc.) and the Albanian plays a consulting role. The general manager is Greek. Furthermore, the Greek parent firm has high voting rights, because of majority ownership. The contract between the two parent firms specifies the rights and obligations of each side. The Greek side expressed with certainty that the partner will continue to honour its commitment. «That is why we selected a state enterprise», she said. Despite the fact that the intensity of conflict has been characterised as low, the frequency has been characterised as high. As the manager stated: «We provided pecuniary and non pecuniary inputs to the venture. We trained the personnel. However they are still unfamiliar with high technology machines. They used to work with Chinese equipment of the 1950s, or in the best case, of 1960s. This situation creates problems».

In spite of the above no sign of instability have been shown and in general the Greek manager expressed satisfaction with the performance of the personnel and general manager. As concerns the financial performance of the venture it was stated that since the operational time was short, it was impossible to provide an assessment.

CASE No 17:	REKOR S.A. ONE JOINT VENTURE IN RUBBER, LEATHER AND SHOE INDUSTRY

This is the biggest Greek investment in Albania. The Greek firm established a joint venture with 600 employees, in 1992 which produces rubber, shoes and leather. As the manager stated: «...From the beginning of the 1980s we were facing an increased competition in the international market from Brazilian competitors. Since they could supply the market with cheaper products, our firm started to lose its market share. The situation deteriorated every year and the collapse of the communist regime was a miracle for us. We decided to invest in Albania because we possessed superior managerial capabilities and technology compared to those of the domestic firms and because we wanted to exploit the low labour cost. Furthermore the achievement of first mover advantage was essential for us...». Facing increased competition in the Greek market by Italian firms and in the international market by Brazilian firms, the company retaliated by establishing that venture in Albania, and as the manager stated: «We invested whatever we had». The firm invested 14 million USD in pecuniary and non-pecuniary inputs as well as personnel training. The firm had no previous association with Albania.

Financial motives had no influence on the decision of the firm to establish a joint venture. Some strategic motives, however, were essential. These were access to raw materials, exploitation of economies of scale and enhanced bargaining power with local authorities. Also at that time the legislation of the Albanian state prohibited the W.O.S. option. The Albanian partner is a state owned enterprise. This selection was partly the outcome of external factors, since as the manager stated: «It was impossible to find a private firm in the size that was needed for such a big venture. Furthermore the state enterprise provided some security compared to the risks that we would have to take with the selection of an individual or a small private firm as a partner...», Furthermore the partner could provide the venture with buildings and skilled labour force. However the manager stated that: «...We had to train the personnel since they were not familiar with western technologies...» He also stated that: «...We do not consider the Albanian domestic market as a primary target; but everyone's sales are always welcomed... In that sense the partner had also contributed with a ready client base».

The Greek firm controls every activity of the venture with a variety of mechanisms. First of all as a majority ownership partner (85% of shares), the firm can impose and veto any decision. In addition the general manager of the firm is Greek (influenced by both partners). Furthermore the Greek firm evaluates the performance of personnel and imposes minimum requirements. The frequency of disagreement has been characterised as high, but the intensity as medium. This has been attributed to the fact that the personnel is not familiar with new technologies and western entrepreneurial standards. The major sources of disagreement which have been identified are: the different cultural background and management style, the different time horizon of the Albanian partner, the personal goals that he tries to achieve and up to a point the personal relations inside the venture.

The financial performance of the venture is *not the expected one*. The venture has losses. This is attributed, according to the manager, to a variety of factors: « It is correct that Albania attracts the foreign investor because of the low labour cost. On the other hand there are factors which act in the opposite direction; that is to increase the cost of the products. First of all transportation of machinery, raw materials etc. is not an easy procedure. This, because of two reasons: the infrastructure which is at a very low level and the fact that you may be robbed during the trip... In addition you have to spend a lot of time and effort to overcome bureaucratic barriers and train the Albanians... Furthermore you have to spend a lot of money in frequent trips so that you can monitor them carefully... All these are factors which increase the cost and you have to consider them carefully before investing in Albania...».

CASE No 18:	MAGRIZOS ONE JOINT VENTURE IN TEXTILE INDUSTRY

This is also a Greek textile company which established in March 1993 another textile joint venture in Albania. The company decided to expand in Albania for many reasons. First of all, compared to local firms it possessed superior entrepreneurial and technological capabilities. In addition it had access up to a point to cheaper financial capital in the international markets. Other important motives were the ability of the firm to achieve first mover advantages and follow a cost leadership and cost focus strategy. As the manager stated: «...Labour cost in Albania, at that time was estimated at 40 USD per month compared to 800 USD per month in Greece. In addition energy costs were also small 0.01$ per KWH compared to 0.08 $ USD in Greece. Geographical proximity was also another important factor since the Albanian joint venture is located only 290 km from the Greek company's headquarters-a distance which can be covered in four hours by car, Keeping-therefore-transportation costs at low levels...» Home and host specific factors like high Greek interest rates which prohibit the domestic investments, barriers of trade imposed by the Albanian government, enhanced competitiveness in Western European markets were also essential factors which led the firm to invest abroad. Other less important factors were the skilled labour force and the market itself, in the sense that in the previous years many western enterprises had invested in these countries.

Financial motives were not important for the firm and the same stands for strategic motives with the exception of access to cheaper capital, exploitation of economies of scale and scope and in this way retaliation in the Greek market against competitors from Pakistan and other countries. Additionally the entry time is reduced via the joint venture option. The partner, a state-owned enterprise, owned a 8,600 m^2 factory engaged in the production of cotton yarns, with a production of about two tons of thread per day. Initially it employed approximately 1,500 people. Its products were traded only in the domestic market due to extremely low quality standards. That because, although the Albanian labour force is highly motivated and productive, the firm was using old machinery of Chinese and Russian origin. This situation was further aggravated by the constant shortage of raw materials, since the company could not raise the foreign exchange required for the purchase of raw material (cotton). Because of that the company faced severe financial

problems and it was forced to reduce production to one ton per day. In an initial phase 800 employees were redundant so the Albanian side wanted also to establish a joint venture. For the Greek firm the financial and general economic situation of his partner was not the essential thing. All that the Greek partner wanted was building facilities, the brand name of the domestic firm, a firm with no opportunistic motives and with skilled labour force (for the Albanian standards), prerequisites which the Albanian partner did offer. The Greek firm had no exploitation motive of the Albanian partner and the most convincing proof is the fact that it contributed to the venture 1 million USD in cash and 3,2 million USD in machinery, upgrade of building facilities, training of personnel etc. Part of the financial capital was provided by the EU, Pharre/Jopp programme. The Greek partner controls only the strategic activities of the venture, that is the decisions in production sphere and finance and leaves the everyday decision making to the Albanian partner. The firm uses a variety of control mechanisms. First of all is the majority ownership of the venture (85%) which allows the firm to veto and, or pass any decision. Furthermore it is the selection of the general manager, the integration with the other partner, the specific legal factors which accurately define the rights and obligations of each partner, the board of director meetings, the development of a certain organisational framework, the imposition of minimum performance requirements, the association with low level personnel and the respect for the domestic culture which is appreciated by the Albanian side. The frequency of disagreement has been characterised as medium, while the intensity has been characterised as low. However the manager pointed out that: «...at the negotiation stage the most serious conflict was about to occur. The Albanian side initially insisted that we should keep the old machinery in the venture. This was Chinese made in the 1950s and 1960s. Of course we could not accept that. This created a serious conflict which could jeopardise the whole effort. Eventually... we convinced our partner and the whole issue was resolved...».

After that initial phase the manager identified as sources of conflict the differences in management style, the differences in strategic goals, and the attempts to achieve personal goals. Despite the above, no immediate instability signs were reported. However the manager stated that: «...if the Albanian economy improves and simultaneously the bilateral relations improve, then we will try to buy the share of our partner». The financial performance and the performance of the general manager were characterised as good. The evaluation of personnel performance was negative. The manager identified several problems.

These were: the volatile and inadequate legal framework, the bureaucracy the cost of staying in the country, the inefficiency of personnel and the lack of business ethics.

8.3. *CASES IN BULGARIA*

CASE No 19:	STELMA GROUP OF COMPANIES ONE JOINT VENTURE IN GARMENTS AND SHOES TRADE

This Greek firm established three enterprises in Bulgaria. From those one is a joint venture. The venture trades clothes and shoes and was established in 1991. The manager stated that: «...The products that we export to Bulgaria are superior compared to the domestic ones. In addition to this we possess better entrepreneurial capabilities compared to the local enterprises. Furthermore we wanted to achieve a first mover advantage in order to exploit the demand, for basic consumer goods». There is a product differentiation strategy, not according to Porter's notion, but in the sense that the Greek firm domestically is activated in construction industry while in Bulgaria it is activated in trade.

Financial motives were not essential for the establishment of a joint venture, but some strategic motives were: the access to distribution channels, risk reduction and enhanced bargaining power with local authorities. No other motive was essential for the firm. In terms of partner selection criteria the most essential were that the partner could speak Greek, possessed some financial capital, a distribution network and had no opportunistic motives. The partner is a private individual; the general manager is a Bulgarian accepted by both partners and influenced by the Greek partner.

The Greek partner controls every activity of the venture (sales, pricing, storage etc). The Bulgarian side is responsible for the distribution of the products in the local market and for the administrative decisions; however he is obliged to brief the Greek partner in advance. The Greek side imposes an authoritarian control over the venture using a wide variety of mechanisms. First of all the majority ownership (80% of the venture) allows the Greek side to impose any decision and veto any other which it considers wrong for the interests of the venture. In addition minimum performance requirements are imposed and performance evaluation is conducted by checking revenues and expenses, reserves, stock, sales ets. Furthermore the selection of general manager, the frequent boards of directors meetings are all mechanisms which impose control on the venture. However, we were told, that they try to impose

not a formal control, since this would annoy the Bulgarian partner, but an informal one. The Greek firm contributed financial capital and fixed assets, like equipment and trucks, to the venture. The Bulgarian side contributed some buildings some money and his personal labour to the venture. Both intensity and frequency of disagreement are characterised as of a medium level. As the manager stated: «Disagreements occur in issues like the timing of delivery and payment for products and the correct process of orders which the Bulgarians accept; for example they may deliver product with no or low level advanced payments...».

No important sources of conflict have been identified. However some issues such as personal goals, different strategy and management style, personal relations in the venture, generated some disputes between the partners. No sign of instability has been identified in the short-run. However we were told that if the developments in the local market lead to bigger demand, that is bigger profits, the Greek firm would buy the 20% share of the Bulgarian side and transform the venture into a W.O.S. The current financial performance has been described as poor, since in spite of the existence of profits they are not of the expected level compared to the invested capital and taking also into account that the venture has been activated for more than two years. The performance of both general manager and personnel was considered as medium. Especially for the general manager, although his integrity and will to expand the activities of the venture have been acknowledged, it was pointed out to us that because of his inexperience he had taken some harmful initiatives without briefing the Greek partner in advance. In terms of personnel it was pointed out to us that its performance is evaluated by applying different criteria compared to those that the Greek, firm imposes in its internal divisions in Greece. The most essential problem that has been identified is the inexperience of human factor and its inability to adapt quickly to the western economic mentality.

CASE No 20: TALOS MELETITIKI ONE JOINT VENTURE IN CONSULTING SERVICES

This Greek firm is a consulting company which decided to expand in Bulgaria. The firm established a joint venture in 1991. The main motive for the firm was to achieve a first mover advantage in the Bulgarian market which according to the manager: «... is promising for an investment boom in a later phase». The firm wanted to take advantage of this expected boom. Furthermore, geographical diversification was another motive for the firm. Some country specific factors were essential; like the skilled labour force which exists in Bulgaria and the lack of domestic infrastructure which, as we said, is translated in future investments. Another motive was that other Greek firms started to operate in Bulgaria and that according to the manager: «means an extra source of demand for consulting services and investment projects». The firm started to seek an early entrance into this new and promising market. In order to minimise the time of entry the Greek firm decided to establish a joint venture. An additional motive was the financial support provided by the European Community through the Phare/Jopp programme. The third and final motive for the firm was its inexperience in the Bulgarian market, and the knowledge that the domestic Bulgarian firm could contribute. The Bulgarian partner is a small private consulting company established in 1990 by a team of architects, civil engineers, mechanical and electrical engineers and topographers, activated in several investment projects like the creation of a thermal power station in Stara Zagora, a meat processing plant, a heating station in Haskovo, a car plant building in Riga etc.

For the Greek company it was essential that the partner was already engaged in several projects in Bulgaria and also in other countries like Russia with the establishment of the Bulgarian Commercial Centre of Moscow and in Iraq, Libya, Nigeria, Syria and the Ukraine. It was also important that the firm had a skilled labour force, common strategic goals and it was up to a point a brand name. Furthermore there were no opportunistic motives- the Bulgarians were serious partners. The Greeks contributed financial inputs to the venture (5,320 ECU). The general manager of the venture is Bulgarian who is influenced by both partners. The Greek firm control some of the venture activities like the budget draw up and the venture's strategy. The control mechanisms which are used are the majority ownership of the venture (55%) which gives veto

rights and the general manager selection. Both intensity and frequency of disagreement have been characterised at a low level and we were told that no essential source of difference exists.

The Greek partner expressed its satisfaction with the performance of the general manager and the personnel; however the financial performance has been regarded as poor. This was attributed to the fact that the expected investment boom in the neighbouring country has not occurred yet.

CASE No 21:	CENTURY OIL ONE JOINT VENTURE IN THE TRADE OF OIL

This Greek company is a trade company that established a trade oil venture in Bulgaria in 1992. The most important motives for the firm to expand abroad were the possession of superior managerial capabilities and the geographical proximity, which made it easy for the firm to supply the local Bulgarian market and profit from the oil shortage in Bulgaria. In addition the firm wanted to secure a first mover advantage. The firm followed a product differentiation strategy in the sense that in Greece its activated in lubricants and in Bulgaria it decided to trade oil, of a certain type because of the cold weather. In addition there is a focus strategy in the sense that the firm does not cover all the Bulgarian market; because of its small size it covers only local markets, in southern Bulgaria.

The Bulgarian partner was for many years a friend, an associate of the Greek entrepreneur. It was this mutual trust which played the most crucial role in the decision to establish a joint venture. Other motives which were important was the fact that the local partner knew the needs of the local market and could contribute money and installations to store oil. The partner was also respected in the local community of South Bulgaria and had a distribution network available. Risk reduction (by committing smaller amounts of financial capital) was also an essential motive. Above all, however, was the mutual trust between the two friends which made the Greek firm establish a venture and select the particular partner which is a private firm. The mutual trust is highlighted by the fact that the Greek firm does not control all the activities of the venture and the general manager is a Bulgarian, accepted by the Greek side as well. The share ownership is equal between the two partners (50-50) a decision which is also the outcome of good personal relations. The Greek partner possesses a variety of control mechanisms, however it never felt the need to impose them. In addition no conflict exists between the partners; both frequency and intensity of disagreements have been characterised as very low, because of the good personal relations. The only difference which has been reported concerns risk evaluation between partners, since there were times when the Bulgarian side proposed activities which were considered as highly risky by the Greek side. No signs of instability have been expressed and the financial performance has been characterised as excellent with a lot of profits.

Concerning the general manager the Greek partner pointed out to us that he is an honest person; however he is characterised by slow decision making and many mistakes, because of his inexperience of western trade culture. For the personnel the Greek partner again expressed satisfaction with their moral commitment and dedication to the goals of the venture, however it was pointed out that they also suffered from low productivity and unfamiliarity with western standards.

CASE No 22: FLORINA S.A.
ONE JOINT VENTURE IN FRUIT JUICES TRADE

This Greek company is a juice producer and has established a trading joint venture in 1992 in Bulgaria. The most important motive for the firm was to achieve a first mover advantage in a big market with no domestic competitors. The firm has also been confident about its success because it provided the local market with superior quality products compared to the domestic ones. Furthermore it possessed superior managerial capabilities compared to those of the domestic firms. Geographical diversification was also an essential motive for the firm to expand abroad. Eventually we were told that the future plan of the firm is to establish a factory in Bulgaria producing juices for the local market. The trading venture which is operational at the moment is the beginning of the project.

The firm decided to establish a joint venture because as the manager stated: «...We had no experience of the Bulgarian market. Furthermore we could not buy land and that was another motive for us to establish a joint venture. An additional motive was the minimum entry time required in that case compared to the W.O.S. option...». The partner, an individual, has been selected because he had no opportunistic motives and had common strategic goals with the Greek firm. The general manager is Bulgarian, influenced by the Greek side.

The Greek partner controls some of the ventures activities mainly strategic plan, budget, sales, pricing and leaves the storing, distribution and operational every day decision making to the Bulgarian partner. The Greek partner controls the venture through a variety of mechanisms. First of all the majority ownership (90%) of the venture allows the Greek partner to control any activity and impose any decision. In addition the parent firms use other formal and informal control mechanisms, such as, board of directors meetings, training of personnel, specific rights and obligations for each partner and monthly reports from the Bulgarian partner. The Greek firm has contributed to the venture both pecuniary and non-pecuniary inputs (know-how brand name etc.). The Bulgarian partner has contributed a building, his personal labour and knowledge of the domestic market, and limited financial capital.

Both frequency and intensity of disagreement have been characterised as low, and no major source of disagreement has been identified. Additionally no sign of instability has been expressed, partly

because of the general economic environment. As the manager stated: «We assess the economic evolution in Bulgaria very carefully; the economic stagnation and hyperinflation are the factors which make any further investment very risky. That is why do not want to increase our share in the venture. The 90% is already too much for a country with high risk and we committed this amount of capital, because of the partner's financial inability to invest more...».

The financial performance has been characterised poor since the venture operates with losses. This was, however, attributed to the general macroeconomic evolution in the Bulgarian economy and the depreciation of the leva. The Greek partner expressed general satisfaction with the performance of the general manager and dissatisfaction with the performance of the personnel.

CASE No 23: HARITOS
ONE JOINT VENTURE IN GENERAL TRADE

This trading Greek company established a trading joint venture in Bulgaria in 1992. The firm imports from Bulgaria to Greece coal, glass, ceramics and paperbags for cattle raising products (coat soya etc.). As the manager stated: «...We decided to expand in Bulgaria because of superior managerial capabilities, geographical proximity and partly because of the railway infrastructure which provided efficient and cheap transportation from Bulgaria to the Greek borders. We tried also, via the joint venture, to export to Bulgaria oranges; however that was not possible, because of bureaucratic barriers and tariffs of 30% which were imposed. Thus the firm (the joint venture) instead of having an import-export activity simultaneously, is activated only in importing goods from Bulgaria to Greece. We had no previous association with the Bulgarian market...».

The firm decided to establish a joint venture because of the local partner who knew the market and additionally because the time of entry was minimised via the joint venture option. Furthermore tax reasons favoured the joint venture option compared to the W.O.S. option. The partner, an individual, was accepted by the Greek firm because of his common strategic goals and non-opportunistic motives. That was the initial idea of the Greek partner. What happened later demonstrates the fact that the most essential step in a joint venture is the selection of the correct partner. The Greek partner established control mechanisms over the venture and controlled every activity of the venture. Having a Greek general manager and controlling the 95% of the venture's financial capital, that is having high voting rights, the Greek partner felt secure about its venture. The Greek firm contributed to the venture 7 million GDR in financial capital, and also trucks and office equipment. The Bulgarian partner contributed the building and limited financial capital.

Everything was going O.K. until mid 1993 then the first «bad» incident occurred and at that time the Greek partner understood that something wrong was going on. As the manager stated: «...The venture had placed an order for glass at 100 leva per item. After one month a second order for glass had been given and the price had become 120 leva. At that time we complained to our partner since a 20% increase of price in one month was extraordinary. The Bulgarian partner said that it was the outcome of hyperinflation and assured us that this was a good price

and the venture should accept the offer. We decided to comply to the suggestion of our Bulgarian partner and the offer was accepted by the venture. One and a half months later a third order for glass was given and this time the cost was 150 leva per glass. That price was totally unacceptable for us since the price had been increased in just two and a half months by 50%. Again the Bulgarian side tried to convince us about the bargain offer. However this time, I decided that I should make an investigation into the issue, myself... So I went personally to the glass supplier factory and asked them why in less than three months they had increased the glass price by 50%. The answer was that no price increase had taken place and the factory continued to supply the venture with glass at a cost of 100 leva per unit!!!... It was only then that I realised that the Bulgarian partner had overvalued the price of the glass in order to abuse funds... After that incident I protested strongly to the Bulgarian partner and started not to trust him. After some time the venture wanted to buy coal in order to export it to Greece. The Bulgarian partner told the board of directors that after extensive market research he had found coal at a bargain price of 500 USD per ton. At that time. I thanked him and decided to postpone any decision. Indirectly I was doing my own market research and found out that there were offers from 120 USD to 150 USD per ton !!!...». The mistrust became bigger. «...The next incident took place in 1994, and concerned the paperbags for animal food. The venture made an order for 100,000 paperbags of 40 Kgr each. (These bags are different from those manufactured by Greek standards which follow E.U. regulations and have a capacity of 50 Kgr each). The Bulgarian partner claimed again that after market research the best offer was one with a price of 1.19 USD for each bag...» The Greek side accepted the price since it sounded reasonable. However: «...after three months I found out that the real price was 1.14 USD per bag. It was clear that the Bulgarian partner had abused 5 cents per bag that is 50,000 USD...».

That was the final incident. The Greek partner realised that the venture had losses not because of low productivity, or the personnel unpunctuality, or because the Bulgarian side needed time to adapt itself to the western standards; but because the Bulgarian side continuously abused funds from the venture. It goes without saying that in terms of instability this case was the most unstable since as the Greek partner stated: «I will either pull out from the venture and establish a new one or I will buy the share of the partner and transform the venture into a W.O.S...» In terms of performance the Greek partner expressed dissatisfaction with the general manager and with the personnel.

This is the most interesting case. The Greek partner established one small trading joint venture with a Greek general manager. Practically this was the only control mechanism. The Greek side was relaxed and gave the authority for operational and administrative decisions to the Bulgarian partner. Furthermore the Greek partner overvalued the general manager's ability to control and monitor the Bulgarian side. Using this as the only control mechanism the venture ended in a terrible situation. This case demonstrates clearly the importance of control over the ventures.

CASE No 24: POLYCEM S.A. ONE JOINT VENTURE IN CONSTRUCTION MATERIALS TRADE

This Greek firm produces insulation and construction materials and decided to expand in Bulgaria by establishing a trade joint venture. The venture was established in 1994. The firm decided to expand there because of its superior managerial capabilities, its aim to achieve first mover advantage and geographical diversification. The firm followed a focus strategy since the exports in Bulgaria are high-quality materials which can be absorbed only by 20% of the local market. The other motive of course for going abroad was the market itself which leads to the East after the collapse of the Communist block.

The motives that the firm had in order to establish a joint venture were that the local partner could provide its experience and knowledge of the domestic market. Furthermore it was the enhanced bargaining power with local authorities. The partner, a private enterprise, was selected because of its small size and the common strategic goals. In addition to this he possessed some marketing experience and had no opportunistic motives. The general manager of the venture is a Bulgarian accepted by both partners. The Greek firm controls every activity of the venture: strategic decisions, pricing, storing, sales, advertisement, budget, market development. The every day decision making is under the authority of the Bulgarian partner. The company controls the venture through its majority ownership (51%) and the personnel training. As the manager pointed out: «...The venture is very small, with only three employees. No other mechanism of control is needed since it is not difficult to monitor three people...». Both frequency and intensity of conflict have been characterised as of low level. No major source of disagreement has been identified and no sign of instability has been reported.

Financial performance has been characterised as very good, since the Greek company expected lower revenues compared to those that it achieved in these months of operation. The performance of personnel and general manager have been characterised satisfactory. The firm does not face any particular problem; however the Greek partner knows that it will take time to develop this small venture into a medium size firm.

CASE No 25:	BELINDA ONE JOINT VENTURE IN CLOTHES MANUFACTURING

This company established in Bulgaria in 1993 a joint venture which produces ladies stockings. The firm decided to expand abroad because it possessed superior technology and managerial capabilities compared to those of the local firms. The manager described the most essential motives as follows: «... the increased cost of production in the Greek market has made our products less competitive, and our sales in domestic (Greek) market are falling. In Bulgaria we have the opportunity to produce cheap, but good quality products and export them back to Greece in order to re-gain our competitiveness. The monthly labour cost in Bulgaria is the equivalent of the daily labour cost in Greece, which was a very important factor to us...».

The most important strategic motive that the Greek firm had in order to establish a joint venture was economies of scale exploitation. In addition to this the manager stated that: «...At the beginning we also thought that our partner had serious motives for collaboration and we thought that we could profit from his knowledge of the local market. Eventually it turned out that he was not serious... and we should have preferred the wholly owned subsidiary option...». In the venture the Greek partner contributed pecuniary and non-pecuniary inputs. According to the manager: «...We send to the venture office equipment, ironing machines and sewing-machines...». The Bulgarian side had a very limited pecuniary contribution, but contributed fixed assets (building). The Greek firm has 75% of the venture; the Bulgarian side has the rest. The venture has 150 employees. According to the manager: «...We send the textiles and all the other necessary raw materials to the venture. The goods we produce are ladies stockings and clothes...».

The venture's general manager is Greek. The Greek parent firm controls not only the provision of raw materials but other activities as well: quality control, budget and exportation decisions. The Bulgarian side controls the supervision of production and the distribution. Having a Greek general manager and the majority of the financial capital, that is high voting rights, the Greek firm felt secure. Furthermore other control mechanisms were used such as: minimum performance requirements and performance evaluation.

However, after some months of operation, it became clear that the venture was facing serious problems. As the manager put it: «...First of all the Bulgarian partner did not supervise the production process in the way he was told to. The result was low quality products, which were produced outdated and they could not be sent to Greece. So production had to restart. At that time the Bulgarian partner blamed the general manager of the firm for misleading him in the sense that he had been given wrong instructions or his instruction had not been made clear. After that he insisted that he should take the responsibility of the venture and manage it, since the Greek manager had not proved equal to the task...».

The Greek side protected the venture's general manager and refused to let the Bulgarian side to take over the management of the venture. Production continued, but the time deliveries were not accurate and the personnel's productivity was not the expected one, despite the training they had been given. The manager went on: «...The intensity of conflict increased when the Bulgarian side insisted on criticising the general exportation policy of the venture as wrong, and also expressed disagreement over the split of profits between the two partners. That was his primary objective and had nothing to do with the venture or the general manager which were just excuses...». The manager added stating that: «...We had other problems as well. For example since we had decided to increase our production capacity we needed more space. The place where the venture is located there are four more factories, one next to the other. Of those only two are operational; our own venture and another company. The other two buildings were closed. We wanted one of the buildings in order to locate extra ironing and sewing machines. The two closed down factories were state owned, so a civil servant was there to survey and protect them against looting. When we approached him to inform him of our intention to buy it mentioning a certain amount he turned down the offer for being too small. When the offer was increased he told us that the factories would resume production. Time passed but nothing happened, so when we made a new offer he said that the local authorities did not permit the reopening of the factories!!! That was of course, nothing but one more excuse...». The manager continued: «... His motive for refusing us to expand to the neighbouring building was very simple. This man was a civil servant who had a monthly salary for doing nothing; that is he did not have to work, but he just had to inspect empty buildings and report that no one had set foot in them. This man knew that if we bought the one building, sooner or later someone would take

the other one as well so he would have nothing to do and consequently lose his salary..».

The manager continued stating that: «...In customs we had a lot of bureaucratic problems. For example once the custom officer on duty had left his post and we had to wait five hours in order to enter with the textiles...». He added that: «...the biggest problem is the Mafia which threatened us several times. They warned us that they would blow up the factory of that we would have a car accident if we did not give them money...». In spite of the above difficulties the manager stated that: «...once you go in Bulgaria you have two choices: The first is to leave the country immediately; this is the easy option. The second thing that you can do, and this is the difficult option, is to stay there, face all he problems and do business. Despite the problems we have made our decision, which is to stay there and expand...». In a later re-interview, we were told that the venture was transformed into a W.O.S. in spring 1995. The Greek manager stated that: «...The Bulgarian partner absorbed our know-how and established his one enterprise... After this experience we have no intention to re-establish the venture status of the enterprise...».

CASE No 26:	HOURDAKIS AEVE ONE JOINT VENTURE IN CASH MACHINES TRADING

This Greek firm established a joint venture in 1993 which provides all kinds of services concerning cash machines (i.e. installation, service, software, etc.). The company after an extensive market research, found that Bulgaria had enormous needs for cash machines. That was a big opportunity for the Greek firm. As the manager stated: «Our company could offer cash machines of superior technology compared to the domestic ones so we decided to enter as soon as possible the Bulgarian market in order to achieve a first mover advantage». He added that: «...We expect a general demand increase for electronics and electrotechnics. For us the cash machine venture is the first experiment, before marching into the entire electronic market of Bulgaria».

The firm decided to follow the joint venture option because the entry time to the unknown local market is minimised and because the domestic tax legislation favours the option (imposing smaller tax rates compared to the W.O.S. option). The partner was selected because, as the manager stated: «...he had access to the Bulgarian government and via his contacts the venture could sell thousands of cash machines to the Bulgarian public sector especially to revenue offices and customs authorities...». The venture «targets» the private sector as well, that is the new shops, restaurants, cafes which open in Bulgaria.

The Greek partner controls every activity: budget, sales, strategy, reserves, storing. The Bulgarian partner controls the distribution. The Greek partner uses a lot of control mechanisms over the venture. First of all he has the majority of the shares (90%) and the ability to veto and pass any decision. Additionally the Greek partner imposed a Greek executive, as general manager, and signed a contract with the Bulgarian partner which specifies the rights and obligations of each one of them very clearly. Furthermore minimum performance requirements and performance evaluation were imposed. Eventually the firm relates wages to productivity setting a bonus to any member of the venture who works harder.

Both intensity and frequency of disagreement have been characterised as medium concerning operational every day issues rather than strategic decisions. The only major source of conflict was the

different management style. No sign of instability has been manifested and we were told that the financial performance of the venture is most satisfactory and achieves the goals of the business plan. However the company has no intention of transforming the trading joint venture into a production unit, since the production capabilities of the Greek factory cover the Bulgarian demand. In terms of general manager and personnel performance the evaluation of the former was excellent and for the latter was «generally good but not what was expected of them».

CASE No 27: STEEL MET (VIOCHALKO) ONE JOINT VENTURE TRADING CONSTRUCTION MATERIALS

This firm established a trading joint venture in Bulgaria in 1994. The venture imports construction materials from Greece. The firm decided to go abroad because Greece produces better quality construction materials compared to the Bulgarian ones. Thus the company felt certain that exports to Bulgaria would be successful. The firm also wanted to achieve first mover advantage. Furthermore as the manager stated: «We are targeting at all the markets of Eastern Europe so Bulgaria is just the beginning, the initial experiment...». The firm decided to establish a joint venture, since the partner could provide a distribution network. Furthermore he had the knowledge of the local market and could provide access to other Eastern markets. The Greek partner intended to use the connections of the Bulgarian side to achieve access to the other East European markets by himself. Eventually there were the motives given by the Bulgarian legislation which comparatively speaking favoured the joint venture option compared to the W.O.S. option, and the fact that via the venture option the bargaining power with local authorities invariably increases. The partner was selected carefully. One of the main criteria was the fact that he should have good contacts with other East European countries so that these could be exploited by the Greek partner at a later stage. The partner is a state-owned enterprise, of the same size as that of the Greek firm, a brand name in Bulgaria and has the facilities needed for production activity in a later phase. In addition he possesses a distribution network and experience. Again, in this case, the search for the correct partner encompassed the moral issue of business ethics. The general manager is Bulgarian. The Greek partner however controls all he activities of the venture (storing, sales, distribution, budget etc.) and allows the partner to control the everyday operational issues.

The Greek side controls the venture using formal and informal mechanisms. These are, first of all, the majority ownership share (70%) which gives the ability to impose or veto any decision. The training of personnel, an informal mechanism of control, is used in this case as well. Other methods are the imposition of minimum performance requirements, performance evaluation and the establishment of a specific obligation and rights charter. In addition every week the Greek partner sends a number of managers to monitor the venture's operations.

The Greek partner contributed pecuniary inputs to the venture while the Bulgarian partner contributed non-pecuniary inputs. Both frequency and intensity of disagreement have been characterised as of low level and no major source of disagreement has been identified. In addition no instability sign has been manifested. In terms of financial performance the Greek partner refused to provide any evaluation since the venture was operational for less than a year at the time of the interview. The performance of personnel and general manager has been characterised as «generally good».

CASE No 28:	SOLDATOS ONE JOINT VENTURE IN TRADE AND PRODUCTION OF CLOTHES

This Greek textile company established a trading joint venture in 1993 and from the end of 1994 decided to transform the venture into a production company; organising clothes production in Bulgaria. The firm was activated in the Bulgarian market before 1989 by exporting clothes. After some time it decided to establish a trading venture when it realised that in spite of the 1989-1992 collapse there were tremendous possibilities for recovery in the Bulgarian economy. So in order to achieve a first mover advantage the firm decided to establish a trading venture. The aim of the venture would be to expand in the Bulgarian market as quickly as possible. The firm had also other motives. The long run motive was the exploitation of the low cost labour force by a cost leadership (and focus) strategy and the increased competitiveness which can be achieved by exporting the venture's products to the Greek market. Geographical proximity and past association with Bulgaria were also essential reasons for the Greek company. Further firm specific factors like possession of superior technology and managerial capabilities were also important.

The firm decided to establish a joint venture for a number of reasons. The first one was that it could have access to financial capital provided by the E.U. under the Phare/Jopp programme. In addition the firm could pick as partner former associates that the Greek owner knew and trusted. By this option access was also possible to distribution networks and cheap labour force. Additionally exploitation of economies of scale was also essential in the second phase of the venture (when it would be transformed from a trading to a production oriented company). The partner is a private company of a smaller size compared to the Greek one, and was selected because of the above reasons. The Greek side owns 80% of the venture's shares and the Bulgarian side owns 20%. The Greek partner contributed pecuniary and non-pecuniary inputs to the venture and the same stands for the Bulgarian side, although they could not provide big building facilities which could be used as storing houses in a mass production process. As the manager stated: «...Our partner could not provide big storing facilities and we had the additional problem of inadequate trained personnel, we could not find experienced tailors. Because of these two problems, the pace of transformation into a production unit is slow...».

The general manager is Bulgarian, an old friend. The Greek side has under control most of the activities: pricing, sales, budget plans and the plans for production development. The Bulgarian side controls the distribution process and the everyday decision making. The control mechanisms which the Greek partner imposes are formal and informal such as performance evaluation, training of personnel, general manager selection, high voting rights and specific contractual arrangements. Frequency of conflict has been characterised as of medium level, while intensity has been characterised as of low level. The issues concern some actions which the Bulgarian side takes. For example the Bulgarian partner has sold with credit many times in order, as he said, to expand in the local market and establish a «brand name» on the consumers. This was something that the Greek partner could not tolerate. Other sources of disagreement have not been identified with the exception of different management styles. No sign of instability has been reported and the Greek firm expressed satisfaction with the financial performance of the venture, taking into account the venture's operational time and the low level of productivity of the labour force. In addition the Greek partner expressed general satisfaction over the performance of the general manager and personnel stating that they represent the average Bulgarian standards.

CASE No 29: VIOMELL ONE JOINT VENTURE IN PETROCHEMICAL INDUSTRY

This Greek firm established in 1992 a factory joint venture in Bulgaria producing plastics, films, artificial leather, wooden floors. The firm decided to enter the Bulgarian market for many reasons. First of all because it possessed superior managerial capabilities, and up to a point technology, compared to domestic firms. The second reason is that it wanted to achieve a first mover advantage and exploit the low cost of labour with a cost leadership strategy. In such a way the firm could enhance its competitiveness in the Greek and other western markets. Geographical proximity was an essential motive to select Bulgaria. Furthermore as the manager stated: «...Bulgaria is the gate to other East European markets especially Russia...». Some country specific factors like the existence of a developed petrochemical industry were also essential motives for the firm to invest there. The venture's primary strategy is export orientation rather than the Bulgarian market per se.

Financial motives were not essential for the firm to establish a joint venture, other than the E.U. contribution under the Phare/Jopp programme. However the exploitation of economies of scale and the enhanced bargaining power with local authorities were essential motives for the firm to form a joint venture. Another factor was the tax exemption of the joint venture option compared to the W.O.S. option Additionally the risk was smaller in the joint venture option compared to the W.O.S. option.

The Bulgarian partner, a private enterprise, is smaller compared to the Greek firm. The partner can speak Greek, has a skilled labour force, no opportunistic motives and had been highly credited in the domestic Bulgarian banking sector; in addition he has good contacts with local authorities. The Greek side has contributed both pecuniary and non-pecuniary inputs to the venture; the Bulgarian side contributed non pecuniary inputs. The general manager is Greek and the Greek partner controls every activity of the venture: production, pricing, quality control, distribution, exports etc.

The Greek partner uses a variety of control mechanisms such as performance requirements and evaluation, training of personnel, key personnel appointments, board of directors meeting specific contractual

arrangements. Both intensity and frequency of conflict have been characterised as of low-level attributed mainly to the differences in managerial standards and strategy of partners in the sense that the Bulgarian side has a short term strategy. No sign of instability has been provided to us and we were told that the W.O.S. option is possible only if the Greek side establishes good contacts with other East Europeans (mainly Russians) and learns the domestic Bulgarian market so well that he will not need a partner any more. No sign of immediate change of ownership has been provided. In terms of financial performance the Greek partner expressed satisfaction, The same, however, did not occur with the performance evaluation of the general manager and the personnel since these remain the basic problems for the firm. We were told that at the initial stages of the venture problems emerged because of low quality inputs (raw materials) which made the Greek partner export from Greece materials of better quality. In addition there was a problem concerning the machinery and the general level of petrochemical industry. These two problems have been solved; however the problem with personnel productivity has not. «In spite of training they still do not work as we expected» and that is the problem for the Greek partner (The performance of personnel is evaluated with the imposition of the same criteria which are used inside the divisions of the Greek firm).

CASE No 30: KLAUDATOS
ONE JOINT VENTURE IN TEXTILE INDUSTRY

This Greek firm established in 1994 a joint venture in textile industry. The dominant character of the venture (at the time of the interview) was trading. However, the firm, at that time, had started the process of transforming the venture from a trading to a production oriented company. The Greek company had a past association in Bulgaria since as the manager stated: «...We used to export to Bulgaria since 1987...». The firm invested there because of geographical proximity, superior managerial capabilities and technology and geographical diversification. Furthermore another important motive, according to the manager, was the fact that: «...Bulgaria is the gate to the Russian market, because of the close bonds that these countries had during the communist regime...». The firm follows a cost leadership strategy (exploitation of low labour cost) and a differentiation strategy as well, since according to the manager: «...In Bulgaria we want to produce sportswear for ski athletes, an activity which we do not perform in Greece...».

The firm through this option could have access to the economic assistance which the E.U. provides under the Phare/Jopp programme. This, however was not an important motive. However, some strategic motives were important. These were the language barrier, which forced the firm to establish a joint venture, the knowledge of the local market that the partner could provide as well as the access to cheap labour force. The partner, an individual, was selected because of her educational standards, since according to the manager: «...She is a university graduate with some marketing experience, she can speak Greek fluently and she shares the same strategic goals with us...». The Greek manager stated that: «...At the moment the production of the factory is at a low level. This is not the outcome of our policy or of our partner. Practically we face a difficulty, because we can not find experienced workers... The labour force is totally inefficient. The majority of them are unskilled workers and this has harmful complications in the production process. Their main concern is to get their salary every month and not to work efficiently. Sometimes one or more workers can disappear from the factory without providing an explanation. Furthermore the lack of labour laws which specify exactly the relationship between employer and employees make the issue more difficult...».

The general manager of the venture is Greek, and the Greek partner controls every activity of the venture: sales, distribution, pricing and storing. The Greek partner also controls the supervision of the production process and the quality of the final product. The Bulgarian partner controls the every day operational issues and anything that may emerge between the Bulgarian authorities and the venture. The Greek partner is a majority shareholder (80% of the shares), the rest is under Bulgarian control.

Performance evaluation is based on reports sent from Bulgaria to Greece every fortnight. In addition, at the time of the interview, a training course for the personnel has been introduced. Both frequency and intensity of conflict have been characterised as of low level, and the only essential source of disagreement are the differences in management style. No sign of immediate instability has been reported. However the Greek partner stated that: «...In the future we may minimise the share of our partner, because we want the biggest possible «portion» of the venture's profits...». In terms of financial performance no evaluation has taken place, because of the venture's small operational time.

8.4. *CASES IN ROMANIA*

CASE No 31:	PAN GROUP S.A. ONE JOINT VENTURE IN BUILDING MATERIALS TRADE

This Greek firm established in Romania, in 1992, one joint venture which trades building materials. The company has established three more W.O.S. in Romania, and as the manager stated: «The venture has just an auxiliary role to play...». The firm decided to expand to Romania because it possessed superior technology and entrepreneurial capabilities compared to those of domestic firms. Furthermore the firm wanted to exploit the Romanian market, achieve a first mover advantage and a geographical diversification strategy. Additionally there is a focus-differentiation strategy in the sense that the trade in Romania is more wholesale oriented, compared to the retail orientation in Greece. Other motives which influenced the firm to expand to Romania are according to the manager: «...the geographical proximity to the markets of other East European countries, especially Russia. Another factor was the presence of a Greek minority and the good bilateral political relations...».

Financial motives for establishing a venture were not important with the exception of risk reduction. The same stands for strategic motives. The only essential motives were the knowledge that the partner could provide for the domestic market and the reduction of risk. In addition the enhanced bargaining power with local authorities was also a motive for establishing a joint venture. The partner was selected, because it provided, installations (building, stores), was a local brandname and had bigger size compared to other Romanian firms. Furthermore as the manager stated: «...The particular firm had identical strategic objectives. In addition there was no language barrier, since the partner could speak Greek...» The issue of business ethics has once again been mentioned since as the manager stated: «...We can trust our partner...». The partner is a state owned enterprise; that was another motive for the firm to select him since they may have access to governmental contracts and information channels and provide a client base for the partner.

The general manager is a Greek-Romanian. The Greek partner controls every activity of the venture: pricing sales, distribution, storing facilities etc. The Greek partner uses many control mechanisms. The most essential are the selection of the general manager and majority ownership.

Other essential mechanisms are the imposition of key personnel appointments, High voting rights, specific organisational structure and integration among parent firms. For confidentiality reasons the company did not reveal its share ownership. It was stated to us that the inputs it provides are of pecuniary and non-pecuniary nature.

In terms of conflict (disagreements), it was stated that at the beginning the frequency of disagreement could be characterised as of medium level; however as time passed it decreased. The intensity of conflict was characterised as medium. A typical issue of conflict, for example, was the use of profits. The Greek side insisted on investing them to enlarge the ventures activities, the Romanian side insisted on distributing them among the partners. Another source of conflict was the different time horizon strategy of the partners, and the personal goals of the Romanian partner. Additional factors have been the difference in management style and personnel relations in the venture. As the manager stated: «There is some sort of xenophobia among them...». Signs of instability have been observed. As the manager stated: «... If the Romanian government decides to privatise the firm that we selected as partner then we will buy it and the venture will become a W.O.S. ...». This was attributed to the strategy of the firm and as the manager stated: «...this has nothing to do with the performance of the venture...». The financial performance has been characterised as medium. On the other hand, for the performance of the venture's general manager the Greek expressed satisfaction stating that: «...under the circumstances his efforts must be acknowledged...». The personnel performance evaluation on the other hand was evaluated as *poor.*

CASE No 32: ELEFTERIADIS KYRIAKOS EXAGOGES-ISAGOGES ONE JOINT VENTURE IN GENERAL TRADE

This trading company established a joint venture which trades consumer goods, such as clothes, shoes, pillows etc. The firm decided to expand to Romania because it possessed superior entrepreneurial capabilities, compared to those of local firms. Furthermore the owner of the Greek firm is a University of Bucharest graduate so the Romanian environment was not unfamiliar to him. The firm also decided to enter the local market in order to exploit it and achieve a first mover advantage. The firm follows a differentiation focus strategy since, according to the manager «...Our venture sells two kinds of products. In the first category we have products of low quality consumed by the 70% of the Romanian consumers. In the second category we have luxury products, absorbed by the 15% of the Romanian consumers...».

The firm established a joint venture because of risk reduction and tax exemption reasons. In addition as the owner of the Greek firm stated: «From the time that I was a student I made a lot of friends, so it was very easy for me to establish a joint venture...». The partner, an individual - and friend- from the time the owner was a student in the University of Bucharest, has been selected because of his association with the Greek side. The general manager is Romanian. The Greek side controls some of the venture's activities. These are: Exports from Greece to the country, pricing, sales and storing. Distribution is controlled by the Romanian partner. No control mechanism is used except the contractual arrangements, which specify rights and obligations of each party. The shortage of control mechanisms is the outcome of the small size of the venture and of the personal association between the partners. However, some other mechanisms are acknowledged as important, but as the manager stated «not necessary to be implemented» The 10,000 USD share capital is equally split between the partners (50-50). Both frequency and intensity of disagreement have been characterised as of low level attributed to the differences in management style. In addition no instability sign has been reported. In terms of performance no evaluation has been provided for the financial aspect because of the small operational time of the venture (less than a year at the time of the interview) and as for the general manager and personnel performance they have been characterised as generally good.

CASE No 33: KOLARIS S.A.
ONE JOINT VENTURE IN RESTAURANT SERVICES

The firm established a fast food restaurant in Bucharest. This was actually the second restaurant of this type in the city. The firm expanded to Romania because it wanted to achieve a first mover advantage and also exploit the cheap labour force. (In Romania wages are between 10,000-12,000 GDR compared to 120,000 in Greece). The firms established a joint venture with the municipality of Bucharest. The decision was triggered by the fact that the municipality could offer cheaper access to raw materials and rent and could also provide cheap labour force and distribution network. The Greek firm has 84% of the venture and the Romanian partner 16%. The Greek firm contributed to the venture 500,000 USD in cash and machinery, the municipality on the other hand contributed the building. However the legal framework is bizarre since in spite of the fact that the municipality is a member of a joint venture, the venture has to pay rent to the municipality!!! This of course is the outcome of external environmental factors, that is high level of rents, so as the manager stated: «...I had the option of either establishing a venture with another partner and pay rent to the municipality, or establish the venture with the municipality in exchange for a lower rent. In addition the area where the building is situated makes the offer more attractive than any other...». The venture has 46 employees, and the general manager is Greek. The venture is controlled by the Greek partner through the majority ownership and the general manager.

Both frequency and intensity of disagreement are characterised as low and no source of conflict has been identified other than the differences in managerial style and cultural background. No instability signs have been mentioned. In terms of performance the evaluation has been generally good.

CASE No 34: SMLK S.A.
ONE JOINT VENTURE IN CONSULTANT SERVICES

This venture, established in 1992, provides consultant services with specialisation in finance. The firm decided to expand to Romania because of superior know-how and because it wanted to achieve a first mover advantage in the Romanian market. The company expects an investment boom in Romania and wanted to be in the market in order to benefit from that boom.

The firm established a joint venture especially for tax exemption reasons. The partner, an individual, has been selected because of his educational standards, his integrity and coinciding strategic goals. The Greek firm has 80% of the venture's capital and has contributed to the venture office equipment and money. The Greek partner controls every activity of the venture via majority ownership, the general manager of the venture who is Greek, and the board of directors meetings. The big share of the Romanian side is attributed to the strategy of the Greek firm which was to give a big stake to the Romanian partner as a motive to increase his productivity.

Both frequency and intensity of disagreement have been characterised as of low level and the only source of disagreement is the low level of profitability of the venture according to the Romanian partner. These of course are attributed to the general macroeconomic situation (small amount of FDI). In general the performance of personnel and general manager have been characterised as good.

CASE No 35:	KATERINI TOURS SRL ONE JOINT VENTURE IN GENERAL TRADE

This firm established a general trading joint venture in Romania in December 1992. The venture trades carpets and office equipment. The company decided to expand abroad, because it possessed superior managerial capabilities compared to domestic Romanian firms and provided carpets of better quality to the Romanian market. The firm followed a differentiation focus strategy in the sense that office equipment «targets» only the Romanian public sector. The Greek firm wanted to achieve a geographical diversification strategy and first mover advantage.

The firm decided to establish a joint venture in order to have access to a distribution network, and because the local partner could provide knowledge of the market. In addition tax exemption reasons and risk reduction were essential for the firm. Furthermore the ability to negotiate with local authorities is increased via the joint venture option. The partner is not just a friend, but a relative, and that was the most important reason to establish a venture. The personal relationship makes the venture most stable. The general manager is Greek and the Greek partner controls every activity of the venture: sales, pricing, exports from Greece and distribution. The venture is controlled by the majority ownership of the Greek firm, the general manager and by the board of directors meeting. The Greek partner contributed pecuniary inputs to the venture and the Romanian partner contributed non-pecuniary inputs. Both intensity and frequency of conflict have been characterised as of medium level attributed to different managerial styles. No instability signs have been reported and all kinds of performance have been characterised as satisfactory.

CASE No 36: INTERAMERICAN ONE JOINT VENTURE IN INSURANCE SERVICES

This Greek group established a joint venture in Romania at the beginning of 1994 which provides insurance services. The firm decided to expand abroad, because it possessed superior know how in insurance policy and because it wanted to achieve a first mover advantage in the Romanian insurance market. In addition the firm wanted to take advantage of the low labour cost of the country (cost leadership strategy). Other factors such as geographical diversification and human capital were also influential.

Financial motives were essential for the firm to establish a joint venture especially risk reduction, by committing smaller financial capital and the smaller payback period. Access to distribution channels and exploitation of economies of scale were the most important strategic motives for the group. Other motives, of limited influence, were the partner's knowledge of the domestic market and risk reduction. In addition country specific factors like tax exemption and enhanced bargaining power with local authorities were essential reasons for the firm to go abroad. The partner, a private firm, was selected, because it offered many advantages; infrastructure, brand name, adequate level of financial resources, distribution channels and marketing experience, integrity, and access to cheaper capital in the domestic banking sector. The Romanian partner has the same size with the Greek firm. The general manager of the venture is Greek. The Greek partner controls every activity of the venture with the exception of every day operational issues. The Greek partner has 50% of the venture plus the management. Additional control mechanisms are the association with low personnel level and monthly reports, from the venture to the Greek partner.

Both frequency and intensity of disagreement have been characterised low attributed to different management styles. No instability sign has been expressed. Evaluation of financial performance has not occurred because of the short operational time of the venture. The performance of the personnel has been characterised as very good, but not that of the general manager since he makes hasty decisions. The venture's financial capital is 126,000 USD. (This piece of information was provided to us by Mc Donald's survey).

CASE No 37:	BILLPA HELLAS ONE JOINT VENTURE IN REFRIGERATORS PRODUCTION.

This Greek firm established a joint venture in Romania, in October 1994 for refrigerators production. At the time of the interview the venture was not operational (At that time the venture was expected to become operational in May 1995). The firm decided to expand because it possessed superior technology and entrepreneurial capabilities compared to the only domestic firm, which produced refrigerators. In addition the firm wanted to exploit the big Romanian market since as the manager stated: «...Five million households have no refrigerators at all. A similar situation exists in the markets of other neighbouring countries...». In addition the firm wanted to achieve a first mover advantage and profit from the low labour cost by following a cost leadership strategy. Geographical diversification was also an important factor for the firm. The firm, up to a point, follows a differentiation strategy: The quality of refrigerators will not meet, in any respect, the western standards since they can not be absorbed by domestic consumers given their low purchasing power.

Some country specific factors such as skilled labour force and increased competitiveness in Western market were also important for the firm to establish a production oriented venture in Romania. Generally, financial motives were not essential for the firm to establish a joint venture. What was important was the fact that through the joint venture option the firm had access to raw materials, cheap labour force and a distribution network. In addition the firm expects to achieve economies of scale (when the production phase starts) and absorb the partner's knowledge of the domestic market. Another important motive is the fact that the firm could enhance its bargaining power vis a vis domestic authorities. Above all of course the legal framework prohibits the W.O.S. option and provides tax exemption motives for the establishment of joint ventures. The partner, a state enterprise, was the only factory in Romania which produces refrigerators, so practically, there was no possibility of choice. The partner possesses experience, distribution channels, «demand base», shares the same strategic goals, has a brand name, and provides building facilities and technology, which, is useless, because it is old fashioned. Furthermore it has access to governmental information channels.

The general manager is Romanian. The Greek firm controls every activity of the venture except distribution and everyday decision making. The most important mechanisms of control are the majority ownership of the venture which allows the firm to veto any decision, the training of the personnel, performance evaluation and imposition of minimum performance requirements. In addition the contractual agreements define clearly, the rights and obligations of each partner. At the time of the interview there was no assessment of the performance of the venture or of any conflict situation, because it was not operational. The manager stated that until that time the most critical problem was the bureaucracy of the public sector. This was attributed not only to the previous situation which as the manager stated «...inherits its culture to the new...», but also because it has proved convenient to achieve personal goals. As the manager stated: «...We all know that the previous system was bureaucratic. We also know that they have a xenophobia, an outcome of the propaganda against, the West...however... if I go there without contacts it will take me more than three months to obtain a document. Now, when I go there with contacts and gifts-let's say some packets of cigarettes, some bottles of whisky or offer them some meals at an expensive restaurant- then the bureaucratic barriers, and their xenophobia are overcome. So it is quite simple to «demolish» a culture of forty years if we assume that it has ever existed...».

CASE No 38: BEAKON
ONE JOINT VENTURE IN INSURANCE SERVICES

This Greek firm established an insurance joint venture company in 1993. The venture is part of a greater group of companies, which also provide services. The activities of the Greek firm are different compared to those of the Romanian venture (The Greek firm is a shipping company). The firm decided to expand in Romania because of easier access to financial capital and superior know-how compared to the Romanian firms. In addition the firm wanted to achieve a first mover advantage and follow a diversification strategy.

The only motive that the firm had to establish a joint venture was the fact that the domestic legal framework does not allow foreigners to possess land. Furthermore, the firm wanted a partner with good governmental contacts, in order to have access to information channels. The Greek partner controls every activity of the venture and the Romanian partner provides secretarial and technical support only. The Greek partner uses a variety of control mechanisms. First of all his majority ownership share (95%) is an adequate mechanism. In addition the general manager of the venture is Greek. Furthermore personnel training is another useful mechanism.

The frequency of conflict has been characterised as low, the intensity, however, has been characterised as high. This has been attributed to the differences in management style, time-horizon strategy, bad personal relations between the Romanians in the venture and attempts to achieve personal goals (opportunistic behaviour). In addition the venture faces many problems which are attributed to the general macroeconomic environment. According to the manager: «...The bulk of insurance rates has been reduced since 1988 by 50% in real prices (the same stands for Russia and Bulgaria)... The company provides any kind of insurance... ...However the status of civil liability is unknown. No one can say what is the maximum amount of money adjudicated to the insured... Moreover no-one can say what is the maximum time duration for repairs of machinery. Earthquake and construction insurances are also unclear. Furthermore insurance rates which cover fixed assets can not be easily estimated, because of hyperinflation, and because of the lack of any trust to the adjusters. Tax indemnity is also unclassified... So because of inadequate legal framework and adverse macroeconomic situation the performance of the venture is poor (the venture operates with losses) ..», however this is a trivial issue for the Greek shipping

company. The performance of personnel has also been characterised as bad.

Inspite of all the above the venture is stable and no sign of instability has been expressed. This however is attributed to the fact that for the Greek parent the activities of the venture are trivial since as the manager stated «...I have this shipping company which goes back to the previous generation I do not intend to became a millionaire from a joint venture in Romania which has four to six employees... This is not a primary entrepreneurial activity for me...».

8.5. *CASES IN RUSSIA*

CASE No 39: ODETTI
ONE JOINT VENTURE WHICH TRADES TOBACCO

This firm has established a venture in Russia which cultivates and trades tobacco, exported from Greece to Russia. The firm decided to expand to Russia because it possessed superior managerial capabilities compared to those of the local firms and it wanted to exploit the huge Russian market. In addition the firm wanted to achieve a first mover advantage, exploit the low labour cost (cost leadership strategy) and follow a geographical diversification strategy. The type of blend that the firm cultivates and trades created some difficulties at the beginning of the life time of the venture. As the manager stated: «In Greece we trade and cultivate Eastern type of blends, however, in the former USSR these types of tobacco were imported but not cultivated, so we had to train the personnel. Furthermore, a lot of training had to take place on managerial issues since the employees were not familiar with western entrepreneurial culture...».

The fact that the domestic Russian tobacco production had collapsed and, no quotas existed, gave the firm another incentive to establish a tobacco cultivating venture. Financial motives for establishing a venture were very important: the smaller financial capital committed (that is smaller level of risk) and the smaller pay back period. What was also essential was the access to cheap labour force, risk reduction, knowledge of the local market by the partner, enhanced bargaining power vis a vis local authorities. Other important motives were the access to raw materials that the partner could offer; the exploitation of economies of scale, and tax exemption reasons which favoured the joint venture option compared to the W.O.S. option. The partner, a private firm, was selected because it had a skilled labour force, despite the afore-mentioned problem could provide installation buildings and storage, had an adequate demand base, shared the same strategic goals and was a brand name in the local market. In addition no opportunistic motives tempted him to collaborate with the Greek firm. The general manager of the venture is Russian and, in collaboration with the Greek partner, controls all the strategic decisions of the venture: sales, pricing, storing,

distribution. The only activity which is not collectively controlled is the exports of tobacco from Greece to Russia.

The Greek partner controls the venture via the majority ownership share that it possesses, via the general manager who has been characterised as impartial and honest, and via a detailed contract specifying the role of every partner in the venture. Both frequency and intensity of disagreement have been evaluated as of a low level and were attributed to differences in management styles, cultural background and also in the opportunistic behaviour of some personnel. The financial performance of the venture has been characterised as medium because of the competition from large multinational enterprises. The performance of the general manager has been characterised as good because he tries to expand the activities of the venture in a highly competitive environment. The performance of the personnel has been characterised as of medium level because of their low productivity. No instability sign has been reported to us and we were told that the venture could become a W.O.S. only if the Greek partner «understood» the local market.

CASE No 40: NEOSET
ONE JOINT VENTURE IN FURNITURE TRADE

This Greek firm established in 1993 a trading venture in Russia, which provides office equipment and furniture. The firm decided to expand to Russia because it had superior quality products to offer to the Russian market and superior managerial capabilities. Furthermore the firm wanted to achieve a first mover advantage in order to benefit from the future development of the Russian market. Additionally, the manager expressed his desire to transform, in the future, the trading venture into a production oriented factory in order to exploit the low labour cost. In this way the Greek firm can avoid domestic quotas and tariffs and enhance its competitiveness in the Western markets. Eventually the firm wished to achieve geographical diversification. Financial motives such as risk reduction and a smaller payback period were essential for the firm to establish a joint venture. In addition the legal framework favoured the joint venture option compared to the W.O.S option. The only strategic motive for the firm to establish a venture was the partner's knowledge of the local market. Of limited importance was the reduction of risk. Furthermore the manager acknowledged that in the future, when the venture is transformed into a production factory, other issues such as access to raw materials, economies of scale and scope will also be important. Another important motive which made the firm select the joint venture option was the increased bargaining power with local authorities. The partner, a private firm, has been selected because it possesses building facilities, has adequate financial recourses, shares the same strategic goals, has similar size compared to the Greek firm, access to cheaper financial capital and no opportunistic motives.

The general manager of the venture is Russian. The Greek partner in collaboration with the Russian partner controls every activity of the venture, that is: pricing, distribution, storing. The Greek partner controls the venture with a variety of mechanisms such as imposition of minimum performance requirements, performance evaluation, monthly reports, key personnel appointments etc. The ownership of the venture is equally distributed among the partners. This decision was partly the outcome of country risk and partly because of the insistence of the Russian partner. Both frequency and intensity of disagreement have been evaluated at a medium level. The disagreements are focused on issues concerning

organisational structure and pricing. No other source of conflict has been identified. The Greek firm refused to disclose any information concerning the financial performance of the venture. So actually we do not know if the venture operates with profits or losses. The Greek parent firm simply stated that it is indifferent to the issue since what really matters is the exports. The performance of personnel has been characterised as very good, in contrast to the general manager performance.

CASE No 41: IATRIKO KEDRO ATHINON (ATHENS MEDICAL CENTRE) ONE (EX) JOINT VENTURE IN MEDICAL SERVICES

This firm established a hospital providing medical services in 1990. Until 1992 the hospital was under a joint venture status, between the Greek partner and a Russian partner. After 1992 the venture was transformed into a W.O.S. At that time the Greek firm wanted to enter the Russian market, following a differentiation focus strategy-that is providing medical services only to the Russian upper class as well as the tourists, foreign diplomats etc. The firm possessed superior technology and managerial capabilities and there was no competition from other private clinics. In addition the firm wanted to achieve geographical diversification and accumulate experience, knowledge which could be useful for the expansion to other Eastern European countries in the future. The firm wanted to achieve a first mover advantage and exploit the low labour cost as well.

Financial motives were not essential for the firm to establish a joint venture. However at that time the joint venture had been considered as the device which provided fast entry into the foreign market, had a local partner who knew the market and could overcome bureaucratic barriers because of his connections with the public authorities. The partner, a private enterprise, was selected, because of his good governmental contacts and because, prima facie, had given to the Greek side the impression that he had had no opportunistic motives for entering the venture. The general manager was a Greek of Russian origin. The Greek side controlled every activity of the venture using a number of mechanisms: board of director's meetings, training of personnel, key personnel appointment, high voting rights, majority ownership and clear contractual arrangements. The frequency of conflict has been characterised as medium and the intensity as low. According to the manager: «...At the beginning the differences had to do with operational every day issues...». However, after a certain period of time, the conflict rose in a variety of issues such as: competition between parent firms, different strategy, personal goals and financial mismanagement...». The Greek side refused to give more details on the issue stating that it would be harmful for the reputation of the firm. However it gave the impression that the Russian side was abusing funds concerning medical equipment as well as personnel training. This of course is our impression since as we

said the Greek firm refused to provide us with any specific information. The result was the transformation of the venture into a W.O.S. The initial investment was 273,000,000 GDR. (This was made publicly available by Mc Donald).

CASE No 42: IMPETUS
ONE JOINT VENTURE IN P.Cs TRADE

This firm established a trading venture in Russia in July 1994 which sells and maintains P.Cs. The firm decided to expand to Russia because it trades high quality products and because it possesses superior managerial capabilities. In addition the firm wanted to exploit the big Russian market and especially the future prospects of the market. Furthermore the firm wanted to take advantage of the skilled labour force which exists in Russia.

Financial motives were important for the firm to establish a joint venture, especially risk reduction and portfolio diversification. In addition the firm wanted a distribution network in order to achieve a fast entry into the Russian market. The Russian partner is a private firm, selected because of adequate financial resources, distribution channels, government contracts, and its similar size to the Greek firm. The firm follows up to a point the same strategy that we observed in case No14. That is the Greek partner asks from the venture to pay in advance and in hard currency the value of the computers and then the Greek partner exports them to the venture. The difference in this case is that the Greek side is a majority shareholder in the venture (60%) and not a minority as it was in the previous case. The general manager of the venture is Russian and is, the Russian side that has the management. As the manager stated: «We are not familiar with the local circumstances. We knew nothing about the Russian market so it would be difficult for us to run the venture. Furthermore, with the advance payment policy we minimise any potential risk, so it is a trivial issue for us who manage the venture...». However, the Greek side does control some strategic activities concerning the growth rate of the venture, market expansion etc.

The Greek side controls the venture with a variety of mechanisms. These are high voting rights, due to majority ownership, performance evaluation, specific contractual agreements and, up to a point, with personnel training. Both frequency and intensity of conflict have been characterised as of low level attributed to differences in management styles. The Greek side was reluctant to make any comments concerning performance issues because of the small operational time of the venture. In a later re-interview we were told that the financial performance of the venture is poor. As the manager stated: «...We face competition from people who illegally enter the market and sell cheap imitations of discs,

computers etc... These people have even threatened us... that is why we reduced the number of employees from ten to six or seven...».

CASE No 43: HELLENIC AGRICULTURAL PRODUCTS ONE JOINT VENTURE IN PRODUCTION AND TRADE OF TOMATOPASTE

This Greek firm established in 1989 a joint venture in the former USSR (south Russia). The venture produces and trades tomato juice. According to the manager: «...We decided to expand to Russia for a number of reasons. The first is the vast Russian market. The second is the labour and energy costs... In order to produce concentrated tomatopaste a lot of steam is needed so we have to have boilers.... In order to boil the water we use natural gas, which is a cheap source of energy. Actually our energy cost was at the beginning the 1/10 of that in Greece, and inspite of the increases during the years the energy cost is still lower compared to the Greek one...». The firm follows not only a cost leadership strategy; but a differentiation strategy as well. The tomatopaste that is produced in Russia, is different from the Greek one. Furthermore in Greece the firm is activated in other agricultural products; as the manager stated: «.... In Greece we produce and trade tomatopaste. We buy tomato seeds from Italy, and not from Greece, and we send them to Russia. There the seeds are cultivated and then the tomatoes are sent to the factory. The cultivation of seeds takes place in April or May every year, the tomatoes are gathered during September and October. Then, during the winter the process of producing and packing follows. At the beginning we pack the tomatopaste in barrels of 200 Kgr each. Then according to our customer's orders we use cans of various capacity. This can be half a kilo, one kilo and five kilos...». Other motives for the firm to expand abroad were the lack of any domestic competition, the increased competitiveness in the Western markets and the exploitation of land (for tomato cultivation) and natural resources. As the manager stated: «...We aim at the domestic as well as the international market...».

Financial motives for establishing a joint venture were not essential for the firm with the exception of a smaller payback period and the engagement of lower financial capital. Concerning the tax incentives which are provided, in order to attract foreign investors the manager stated that:«...Theoretically there is a tax exemption for a period of two years' time. However the joint ventures have to pay other kinds of taxes which can «blow up» the venture. For example we have to pay a 9% tax to the roads construction fund. We have to pay a 1.5% tax for the police.

Furthermore we have to pay VAT which can be up to 23% and import taxes as well. Import taxes are a big obstacle for us. We wanted for example to import some machinery from Italy. The cost would be 80,000 USD. For us however because of transportation costs, taxes and other expenses the estimated cost would be 200,000 USD. When an Italian firm can buy the machinery for 80,000 USD, install it and start immediately to produce, and we have to spend 200,000 USD it is obvious that we cannot make the investments that we would like to make...» The manager continued stating that they had to pay other kinds of taxes as well in pension funds for example as well as other local taxes and concluded that: «the tax incentives is just a myth...».

The manager acknowledged the fact that strategic motives were essential for the joint venture's formation. The most essential were risk reduction and the knowledge of the local market, which the partner had. He added that at the time of the joint venture's establishment domestic legislation prohibited the wholly owned subsidiary option. The manager also noted that: «...The partner is a state owned enterprise, and was selected because it was the best choice in the territory. The partner provided the building and refrigerator towers. The towers productivity is low, but we accepted them because of their size. We contributed new machinery to the venture imported from Greece and Italy such us : selection slips, heaters etc... We also had to train the personnel and make them familiar with the use of western machinery. Furthermore we had to provide equipment and know how to the farmers in order to teach them how to cultivate the seeds that we provided them...».

The Greek manager continued stating that: «...During the negotiation stage we had no problem with the Russian partner, with the farmers or the personnel... We could understand and we expected difficulties but our experience is really a nightmare... We provided the farmers with tomato seeds which would bring us back 50,000 tons of tomato. After fifteen days we gave them the necessary fertilisers and insecticides... In September we expected 50,000 tons; however we received only 8,000 and there was no excuse... We came to realise that the farmers had sold the rest tomato production... The next year of course we changed the farmers, but the same thing occurred... Every year the faces of the farmers change, but the story remains the same... In order to minimise the losses we put guards on the tomatoes, but we know in advance that they will profit as well...». For the labour force the manager stated that: «... The workers in the factory had expressed their desire to learn new methods of production... This was the only positive

contribution that they had made. Even if we deduct this, other problems started to emerge. The first problem with the personnel is vodka... They consume a lot of vodka and eventually they either come to the factory drunk or they get drunk during the production process. This has implications on the factory's productivity and production. Many times the production had stopped because we could not find some workers or technicians...». The manager continued stating that: «...We could not dismiss them on the spot because the Russian partner would veto that decision and we could not enforce our will as the two partners have an equal share in the venture. In order to achieve some dismissals we threatened the Russian side with pulling out from the venture... When we dismissed the workers new problems emerged. The Russians started to press us to hire relatives, friends and even... girlfriends, something that we could not accept...».

The problems however come from the external environment as well. As the manager stated: «...The banking system does not allow us to have daily cash revenues which surpass the two million rubbles limit. If we have extra revenues we have to deposit them in the bank. If we do not follow this directive we have a to pay a fine which is twenty times bigger the amount. You understand that in a country with hyperinflation the above daily cash limit that we have is worthless... Once I wanted to make a withdrawal of 500,000 rubbles in order to pay for some essential spare parts. I went to the bank, where the previous day I had deposited more than two million rubbles, and expressed my request to the clerk. He asked me what I wanted the money for and when I told him the reason he refused to give me the money, stating that the bank gives money only for the payment of worker's salaries!!! ... I asked to see the bank manager immediately, but he refused to see me because he was very...busy!!! ...». The manager continued stating that after this incident he decided to hide cash in order to be able to make his necessary payments pointing out that: «...This decision has a risk for my physical security as well...». He continued stating that: «...We face several additional problems. We can not find the spare parts that we want, and when we find them the deliveries are not accurate. Once we made an order for some spare parts and we were told that we would have them in one week. Eventually the equipment arrived 45 days later, and they were not of satisfactory, good quality !!! ... On another occasion we had to send to the nearest town 2,000 can-boxes of tomatopaste; I personally inspected the whole process. In front of my eyes the cans were put on train-wagons, one thousand cans for each. When the train got to the next station and our customers

received the cans 320 boxes (of cans) were missing and there was no sign of theft, because the wagons were sealed exactly as they were, when the train had left the railway station... I apologised to our customers and gave them the additional boxes from our stock supplies free of charge... However, I told them that after that incident I would never again send them any tomatopaste; they should instead come and take it from the factory...». He continued stating that: «... We cannot plan our production because the production cost increases... For example the transportation cost in 1991 was 80 USD for a distance of 800 km. Nowadays the cost is 1,000 USD!, but we still operate and expand our activities...». The manager stated that: «...At the beginning we had one production line with a daily capacity of 400 tons of tomatopaste per day. Then we installed a second production line and our total daily capacity increased to 700 tons. Nowadays we have three production lines with a total daily capacity of 1,000 tons. We have 100 workers, 30 technicians and a few managers...».

In spite of the above differences and difficulties the venture is performing well and this was attributed, according to the manager, to two different factors: «...The first one is that in the international market the price of tomatopaste increased from 600-640 USD in 1991 to 800-820 USD in 1994... The second reason is that we know the Russians, we know their advantages and their inefficiencies... we know how much we have to work and how...». The manager stated that the frequency of disagreement inside the venture is very high, while intensity is medium. The most important sources of conflict are the differences in management style and cultural background. Furthermore the manager stated: «...Initially the problems the workers caused were a serious issue of conflict; however we understood that the issue is pointless...». Another issue of conflict was some entrepreneurial initiatives that the Russian side had taken without prior consultation with the Greek side. The venture's general manager is Russian; however the Greek parent firm controls every activity of the venture with a variety of control mechanisms such as: board of director's meetings, specific contractual agreements, minimum performance requirements, training of personnel and performance evaluation. In addition the Greek parent firm has three Greek managers inside the venture and the Greek owners travel to Russia quite often.

In spite of the internal and the external problems that the venture faces no instability signal has been reported. The Greek side expressed satisfaction for the performance of the venture, and stated that: «...with the profits, which were re-invested, the venture nowadays has the three

production lines...». It goes without saying that the Greek side expressed dissatisfaction with the Russian partner, the personnel, the general manager, as well as, the general external environment. As the manager stated: «...inspite of internal and external difficulties we are successful. The proof for that is the fact that when we started to operate, at the same time with us or some months earlier, four more joint ventures from different nationalities were established. Nowadays we are the only one which still operates and our aim is to continue despite the difficulties...».

CASE No 44: COPELOUZOS GROUP OF COMPANIES ONE JOINT VENTURE IN NATURAL GAS INDUSTRY

This joint venture is established in Greece and not in Russia. However because of its significance for the overall economic evolution in the region, it was very important to be included in our sample. We are really grateful to the general manager of the Greek company who provided us with ample data on the issues. The first essential issue, that of natural gas, goes back to the 1980s. At the beginning of the 1980s Western European Countries decided to buy natural gas from the Soviet Union. Greece considered the option for the first time in 1985. Eventually in 1987 a Greek-Soviet intergovernmental agreement was signed (protocol), according to which the USSR would supply the Greek market with natural gas, until the year 2016 (protocol with DEPA 1988). However, because of bureaucratic barriers and political instability which occurred in Greece in 1989-1990 a Greek-Russian joint venture enterprise which would supply the Greek market with natural gas was set up in 1991.

The Greek partner has been activated in the natural gas sector in Greece from 1980 as well as in the high pressure sectors and distribution sectors. The Greek firm had an association with Soviet enterprises many years before. The Russian partner, Gazrom, is a state owned enterprise (partly privatised nowadays) and is the exporting company of a Russian giant firm which «is the owner of 60% of the world natural gas reserves, manages 36% of the world production and exports, 40% of world wide natural gas trade». The Russian firm has established similar ventures in Germany, Italy, France, Poland, Austria and Slovenia. The production of the Russian firm is bigger compared to the COMBINED production of all western firms together (Royal Dutch/Shell, Exxon, Mobil, British Petroleum). In 1993 the Russian firm had 1.4 billion USD of net profit and 320,000 employees and natural gas reserves up to 49,5 trillion cubic meters (m^3) !!! The two firms established a 50-50 joint venture. This Greek-Russian joint venture has also the ability to sell natural gas to third countries through Greece via transit. So the joint venture has already signed a preliminary agreement with Albania in order to supply natural gas to this country as well, and the venture hopes that it will also sell natural gas to other countries. It is essential to point out that 75% of the value of the natural gas will be paid to Russia not in hard currency, but with exports of Greek products. Natural gas deliveries to Greece were

expected to start by the end of 1995 at the beginning of 1996; however some delays have occurred.

The joint venture specialises «in the construction of transmission pipelines, in the development of city distribution networks, in the research and construction of storage facilities, in the promotion of natural gas use, in the market of domestic and industrial equipment etc...». The venture has been established in order to execute the intergovernmental agreement, and the good past relations of the two partners is a sign of stability. Furthermore the Greek side selected its partner because of the infrastructure, brand global name, size which is bigger compared to the Greek firm, technology, financial recourses, access to world financial markets, distribution network, strategic goals etc. The Russian partner on the other hand selected this particular Greek firm, because of favourable past association, mutual trust and its brand name. The chairman of the venture is Russian and the vice president Greek. There is a six member board of directors, three from each side.

The Greek partner controls some activities of the venture concerning strategic decisions and issues like balance sheets, investments and hiring of personnel. The good personal relations between the partners and the common strategic goals make any control mechanism unnecessary. The only control mechanisms which are used are key personnel appointments, specific contractual agreements and in case of disagreement in the board of directors a super intending supervisory committee exists, which will provide the final answer. No instability signals have been reported and no conflict. Frequency and intensity of disagreement have been characterised as of low level. Personnel and general manager performance have been characterised as excellent. The venture operates with a loss, since the natural gas has not started to flow in yet. This does not create any problem for the venture.

b) <u>The case of Oil</u>

Since the world oil consumption is expected to increase in the next years the issue is to increase global supply. The oil reserves which exist in the central Asian republics of the former USSR can provide a lot of oil to the world markets. The oil reserves in these countries can, if they are delivered in the West, assure that an energy crisis will not take place for many years. The way, that these reserves should take in order to reach the West has been the issue of concern for quite a while. Eventually in the second half of 1994 the governments of Greece, Bulgaria and Russia signed an agreement for the establishment of an oil pipeline from the

Bulgarian port of Burgas to the Greek port of Alexandroupolis. Oil tankers will connect the pipeline (port of Burgas) with the Russian port of Novorossiysk where pipelines today end. The 300 km pipeline will be constructed by a joint venture company which will be established by the Greek-Russian joint venture that we just mentioned, the parents of the venture as a separate enterprise and another group of Greek shipping companies (Latsis group). The total amount of the investment is estimated to 635-700 million USD. In the area of Burgas two Single Point Moorings will be built with «tank docks» with a capacity of 600,00 m^3 for oil reserves and additional port infrastructure of 115 million USD. The underwater pipelines will have a diameter of 48" and 4 km length each. The oil pipeline will be 42" diameter and will work under 40 atm. pressure. In the Greek port the total investment will be of 175 million USD with the establishment again of two Single Point Moorings «docktanks» for capacity of 1,200,000 m^3 for oil reserves, auxiliary port facilities, ballast, underwater pipelines of 48" and 8 km long. (These were finalised in the end of November 1994 with the protocol which was signed and provided to us in a second conversation that we had on this issue in December 1994). The venture was established in the mid 1995 and it is based in Luxembourg.

8.6. THE ATTITUDE OF THE CONFEDERATION OF INDUSTRIES OF NORTHERN GREECE.

In Thessalonika, we had an extensive discussion with Dr Alexandridis on the macro as well as microeconomic dimension of the issues that concern us. Here we present the results concerning the microeconomic dimension of the issue. We asked Dr Alexandridis the same questions as those we put to every entrepreneur. The answers he gave us, are the outcome of the confederation's experience on the issue. Many entrepreneurs, members of the confederation, have established joint ventures and wholly owned subsidiaries, mainly in the Balkan countries. Our aim was to use the confederation's experience as a comparative element, to our research. The discussion with Dr Alexandridis, concerning the microeconomic dimension of the issue, started with his critical remark that the core entrepreneurial orientation that Greeks exercises in the Balkans and other Eastern European countries is trade and not production. He continued by pointing out that: «...the core firm specific motive for Greek enterprises to expand abroad is the superior managerial and entrepreneurial capabilities that they possess compared to those of local firms...». For the superior technological advantage he stated that: «... This advantage exist in some cases, however it is not of primary importance...». On the issue concerning strategic motives for expanding abroad Dr Alexandridis identified as of great importance the first mover advantage, the exploitation of low labour cost which is the core element of a «cost leadership» strategy and the geographical diversification. Many home and host country specific factors were identified as important motives for the Greek firms in these countries. He stated that: «...In the western markets we face increased competition. In addition to this the situation deteriorated after the UN embargo on Yugoslavia, because of the increase in transportation costs... In Eastern European markets the demand for labour intensive product is high and at the same time the local competitors are «weak»... Furthermore the Greek market of the ten million consumers is small and becomes smaller, because of the restrictive income policies...».

He continued stating that in Eastern European countries the Greek entrepreneurs can profit from certain country specific factors, such as land and natural resources as well as specific human capital. He added that: «...a major barrier of entry are quotas and especially tariffs, however with the implementation of the association agreements, signed between

these countries and the E.U., these barriers will gradually fall...». Turning to joint ventures, Dr Alexandridis, stated that: «...financial motives, such us: portfolio diversification, risk reduction, because of smaller financial capital commitment and smaller payback period are theoretically important. In practice, however they are not essential at all. What is important, and only in same cases, is the tax incentives exploitation that these countries offer to foreigners, who will establish joint venture enterprises...».

Concerning the strategic incentives that Greek entrepreneurs have in order to establish joint ventures he identified as important the access to distribution networks, cheap labour force, and raw materials. Concerning economies of scale and scope he stated that «...it is not very important, because it takes a lot of time to come to this level. The employees have to learn to be productive, to operate new kinds of machinery etc.; so this takes time and this shifts any economies of scale exploitation to the future...». A similar view was expressed on the potential motive of absorbing partner's know-how. Furthermore Dr Alexandridis expressed the view that at the initial phases the legal framework in these countries imposed the joint venture option. This, however «...is not so important any more...» He added that: «...because of a corruption climate, which up to a point, exists in these countries the joint venture can be a «weapon» to bypass local bureaucratic barriers only if the partner has personal links with the civil service...». The most important criteria for selecting the partner are the infrastructure that he or she can provide to the venture, the labour force quality and the partner's ability to speak Greek, especially in the case of small trading ventures. He added that for manufacturing ventures the partner's brand name, complementary resources and technology are welcome; however he stated that: «...Many times a confusion is taking place on this issue... The Eastern block could offer some highly advanced products in certain capital intensive industrial sectors... However, labour intensive products were considered as luxury and of no importance. So the technology was old fashioned in these industrial sectors, when the old regime collapsed. Since the majority of Greek industry consists in labour intensive sectors, there is no «potential profit» for them from the collaboration with an Eastern European enterprise. On the contrary the Greek firm faces additional costs for personnel training and upgrading the old machinery or substituting it...».

On the issue of joint ventures control, Dr Alexandridis stated that: «...the Greek parent firm controls every activity of the venture in every country. This is the outcome of two factors. The first one is economic and

the second one is psychological. The economic motive for control is that the partner has no idea on how to manage an enterprise in a free market economy, so the Greek parent firm has to control the venture's activities. The psychological motive comes from the impression or belief that the East European partner will attempt to pursue personal goals. This is not always true, however that is what the Greek partner thinks...». He continued stating that: «...The Greek parent firms use a variety of control mechanisms. Of course the size of the venture and its activities differentiate the used mechanisms. For example for a small trading venture with five or ten employees that most common mechanism is that the Greek manager will travel from Thessalonika to Sofia or Bucharest two or three times every month and stay there for two or three days. For a big company which established a manufacturing venture with 200 employees, the issue of control mechanisms is different. This firm will use board of directors meetings, personnel training and other mechanisms. There is always the possibility of overlapping between trading and manufacturing ventures... For example in both cases the Greek parent firm will have a majority share-ownership...». The Greek parent firms, according to Dr Alexandridis, contribute pecuniary inputs to their ventures; however he stated that «...especially in Albania, the contribution of non pecuniary inputs as well, is a more common phenomenon compared to the other two Balkan countries...».

Concerning the issues of frequency and intensity of conflict, Dr Alexandridis, stated that: «...it is true that the partners disagree sometimes. The intensity, however is quite high...» He continued by identifying as the most important sources of conflict the personal goals that both partners may attempt to pursue at the expense of the venture. He added that: «...this is a common phenomenon in trading ventures. There are Greeks who attempt to sell low quality products at high prices while at the same time they try to exploit their partners. These people do a lot of harm to our reputation abroad... The members of our confederation have not engaged in such a type of activity, which can be found in small trading ventures... Our members have complained for the personal goals that their partners try to accomplish...». Other important sources of conflict are, according to Dr Alexandridis, the different management styles and cultural background, as well as the different strategic horizon's between the partners.

Concerning the issue of stability Dr Alexandridis stated that the majority of Greek parent firms would pull out from the venture, and they would establish a new enterprise. The financial performance of the

ventures has been characterised as good, according to Dr Alexandridis: «...the majority of the entrepreneurs have profits. These may be small compared to those they expect, but they operate with profits...» In terms of general manager and personnel performance he stated that: «...the general manager's performance is in the majority of cases better compared to that of the personnel...». On the problems that the joint ventures face he stated that: «...the most important are the bureaucratic barriers in the civil service, because it is time consuming. The low level of telecommunications is another major obstacle. The third major problem is the collapse of the distribution networks. Finally the hard currency problem gradually finds its solution with the establishment of Greek banks in these countries and with the de facto creation of a drachma zone in these countries...». Especially for trading ventures Dr Alexandridis pointed out that: «...From my experience I can tell that Greek companies which established trading ventures in these countries face difficulties in customs on several occasions. Custom officers have stopped for several times trucks on the border for more than six or seven hours giving unacceptable excuses... This has a harmful effect especially in the case of agricultural and food products in general. Furthermore the transportation cost is increasing...». He continued stating that: «...Another problem is that of the high cost of visas. This high cost is an obstacle especially if someone wants to travel to these countries quite often...».

CHAPTER 9:

MOTIVES TO EXPAND ABROAD

9.1. Introduction

In this chapter and chapters 10 and 11 we provide an empirical analysis of our data for firms from all countries across cases. The structure of this chapter and those that come is as follows. Chapter 9 considers motives to expand abroad under the heading of what we have earlier called «auxiliary issues». Chapter 10 considers core issues in terms of motives to establish an I.J.V. and partner selection criteria. Chapter 11 considers further core issues under the heading of control, conflict, stability, performance and problems. Section labels are as in the questionnaire. Further details on the results may be found in the Appendix (see Appendix B). The present chapter proceeds by discussing motives for expanding abroad under the heading of motives which are firm specific, strategic, or home and host country specific.

Although we have not used cross site matrix diagrams of the sort widely used in qualitative data analysis (c.f. Miles and Huberman, 1984)[1], we have been able to approach pure cross-section analysis in these chapters because all qualitative responses are coded in binary or categorical form. In this way the hypotheses suggested by the analysis of chapter five are directly confronted with evidence.

[1] See also Yin R.K (1994): «Case Study Research Design and Methods», Sage Publications, London.

9.2. FIRM SPECIFIC MOTIVES

A1: Access to cheaper financial capital compared to local firms.

According to Hood and Young (1979) a firm, in order to expand abroad, must possess some advantages which can counterbalance the «additional costs», that it faces compared to the local firms. These ownership specific advantages, as the authors point out, represent «...a necessary but not a sufficient condition for foreign direct investment...». The hypothesis was that Greek firms can have access to cheaper financial capital because of their size, brand name etc.

The managers of the Greek firms were asked to use the 1-5 point scale in order to classify the above motive. Here, as elsewhere in the thesis, point one (1) denotes the very low level of intensity; point two (2) denotes the low level of intensity; point three (3) denotes the medium level of intensity; points four (4) and five (5) denote the high and very high level of intensity respectively.

One firm classified this motive as very important (case No38). This is attributed to the fact that the Greek parent firm is a big shipping company with access to Greek and international financial markets. Another firm classified this as an important motive (Case No28) in the sense that the financial capital of the venture is partly covered by the EU Phare/Jopp programme. However, two other firms which have used the same route gave different answers. The manager in Case No18 ranked this motive at point 3 of the scale. The manager in the case No30 who also used the Phare/Jopp programme had considered this motive as unimportant (ranked it with point 1). Finally, the manager of another firm (Case No 37) has also ranked the motive as of medium level, using point 3 of the scale, stating that because of its size the Greek firm can, up to a point, borrow funds cheaper. In general, this motive was not important for the Greek firms to expand abroad, since 85% ranked it using point one of the scale. Point two was used by the 6.5% of respondents. Point three was used by the 4.3% of respondents. The remaining 4.2% was equally distributed among points four and five of the scale.

The fact that the majority of Greek firms rejected the above motive is not surprising. The size of the firms, their brand name, financial status etc does not allow them to compete successfully in the international financial markets. The only sources of cheaper financial capital for the Greek firms are the EBRD and the Pharre/Jopp and Tacis programmes of

the European Union. However, only a small fraction of Greek firms can take advantage of these sources of capital.

This suggests that what is applicable in one case may not be in another case. The Western scholars are correct, in certain contexts, when they point out that the above factor is a motive for expansion. However, whilst this is the case for large Western multinationals, such as BP, it is not for Greek firms.

A.2: Possession of better technology compared to that of the local firms.

The possession of better technology compared to that of the local firms is another ownership or firm specific advantage according to Hood and Young (1979).

Again, managers of the Greek firms were asked to use the 1-5 point scale in order to classify the above motive. The big groups of companies (cases No1,3,4,5), with the exception of case No2 have classified this motive as very important. In addition cases No17,18,19 had also the same classification. It is important to point out that the managers of some trading ventures have also ranked this motive with point 5 in the sense that they export in these countries products of superior quality compared to the local ones. This is, for example, what the managers of Cases No 6,19,42,33,34 have stated. In addition the managers of other trading ventures (cases No26,27) have ranked this motive with number 4 of the scale, following exactly the same reasoning. The managers of other trading ventures have stated that since they are not engaged in local production the technology is not important for them. (For example Cases No13,14).

The fact that 29 responses (63%) have classified this motive as important or very important demonstrates that it generally played a role in encouraging Greek firms to expand into these countries. In addition, it supports economic theory, since as Hood and Young point out: «...The existence of such ownership specific advantages represents a necessary but not a sufficient condition for foreign direct investment... the foreign firm could exploit its advantage through producing at home and exporting or by licensing to a foreign producer...». We have already seen that a lot of Greek firms produce at home and export via the joint venture. This is a point where western economic thought is applicable to the Greek case. This of course does not mean that the explanation provided by the Greek economists which we presented in chapter 5 is

invalid. Both theoretical assumptions are applicable. In general this motive was considered important or very important (points four and five of the scale), by 19.6% and 43.4% of respondents, respectively. Eleven percent (11%) of respondents ranked it as medium, 8.6% and 17.4% ranked it using points two and one respectively.

The fact that this theoretical point is applicable in the Greek case demonstrates that, despite their small size and limited, capital compared to the Western multinationals, Greek firms may use high technology for their production processes or they may trade high quality products. This advantage is reinforced because the technological standards in these countries, involving the production of labour intensive products, are low.

A.3: Possession of superior entrepreneurial and managerial capabilities, compared to those of the local firms.

This is another factor identified by Hood and Young (1979) and other authors. We can see that this factor played also an important role since 35 out of the 46 responses (76%) ranked it as important or very important (points 4 and 5 of the scale). The fact that two managers expressed the opposite view (2% ranked it with points one (1) and two (2) respectively) suggests that in Eastern Europe nowadays no Western entrepreneur can profit from his experience in situations that are highly unpredictable. The same view was expressed by those managers who ranked this factor with number 3 of the scale (19.5%). These managers acknowledged that they could profit from their experience up to a certain level in these countries.

The fact that an entrepreneurial and managerial advantage seems to hold in the Greek case suggests that nowadays the Greek enterprise is being transformed from the old owner-managed family firm to the modern, Western enterprise in which division between functions of owner and manager occurs. Furthermore, it suggests that whilst Greek managers have absorbed the managerial culture of the more advanced Western European partners, they have done so without abolishing their own mentality, which in certain contexts is very advantageous.

9.3. STRATEGIC MOTIVES

B.1: The firm decided to expand abroad in order to achieve a first mover advantage in these markets.

The notion of first mover advantage and its importance has been analysed by many authors. In the Greek case the essential issue is to enter the local markets as quickly as possible and to achieve the maximum possible profits. The majority of the ventures, because of their small size and trading character, cannot raise barriers of entry to other firms. This creates a future potential threat to these small ventures which can be exploited by others. Twenty eight (28) respondents (that is 61%) ranked the above motive at the fifth point of the scale. Twelve respondents, that is 26%, ranked the above motive using point four of the scale. Four respondents, that is 8.6%, ranked the above motive using point three of the scale. One respondent (2.1%) ranked the above motive using point two of the scale. Finally, another respondent (2.1%) ranked the above motive using point one of the scale. This evidence suggests that the Greek firms cannot raise barriers of entry to other foreign competitors with the possible exception of learning-curve type barriers. That is, the Greek firms may accumulate experience by operating in these countries, which is denied to others (e.g. potential new entrants will not have it). However, the Greek firms cannot raise barriers of entry such as complete control of distribution channels in these countries, or retaliation policies. This motivates the Greek firms to enter into these markets as quickly as possible.

B.2: The investment or expansion in these countries is a result of a followership strategy, that is following a competitor from the domestic market.

The managers of the Greek firms were asked to use the 1-5 point scale in order to classify the above motive. Generally the above has been rejected by the majority of the managers. This, however, may seem to contradict the view that they expressed that the market per se was a motive for expansion. A lot of them stated that «...all the firms expand in these countries nowadays...». Typical examples are Cases No1,6,7,8. In addition, in an oral discussion of the author with Professor Maroudas in April 1995 the latter also expressed the view that Greek firms do follow their domestic competitors, in spite of the fact the managers of the firms

are reluctant to accept it. He used the food and beverages sector as an example, pointing out that if a firm which is a leader in this sector expands in one of these countries, the other firms will follow as well. We expressed a similar view for the textile sector.

The above motive seems not to be applicable to the Greek case, since 89.1% (41 responses) ranked it with number one on the scale. Two (2) responses (4.3%) ranked it with numbers two and three of the scale. Just one response (2.1%) ranked with number four of the scale. Furthermore, the empirical evidence that we have at our disposal contradicts the above assumptions. Similar evidence was provided to us by Professor Maroudas. Despite this, we still express concern on the issue. We acknowledge the fact that the majority of managers stated that they did not follow a domestic competitor. We also acknowledge the fact that the empirical evidence collected by Maroudas express the same view. However we personally have strong and deep reservations on this particular point, since it cannot be understood in terms of an economic rationale. Perhaps the only method of interpretation is psychological. The Greeks have a «self-motivation» attitude towards many aspects of life, which is perhaps the only way of explaining this result.

B.3: The investment or expansion is part of a cost leadership strategy

The notion of cost leadership strategy is well developed by Porter (1980,1985). Here we use this notion in the sense that we have already described in chapter five. All the manufacturing ventures, with the exception of Case No2, have ranked this motive as important or very important. On the other hand, the trading ventures stated that it was not important for them. A typical diverse response on the issue was provided by Case No1. In the questionnaire for Bulgaria, where the firm's venture produces ice creams, the motive was ranked as highly important, using point 5 of the scale. The same manager however, in the questionnaire concerning Romania, where the firm established a trading venture, ranked the same motive using point 1 of the scale-that is of no importance. Another interesting result is that of Case No4, where the same manager ranked differently two trading ventures. In the oil trading venture, the manager stated that a cost leadership strategy existed in the sense that the low wages of personnel were important. However, the same manager said that the low labour cost was not important in the case of the car tyre venture. The only possible explanation is that for the Greek

parent firm the oil venture was more important compared to the car tyre and automobile venture.

In general, we can say that the cost leadership motive is not as important as one would expect because of the trading character of the ventures. This is evident because 37% of respondents ranked it using point one of the scale, 6.5% of respondents ranked it using point two of the scale, 15.2% of respondents ranked it using point three of the scale, 8.6% of respondents ranked it using point four of the scale and 32.6% of respondents ranked it using point five of the scale.

B.4: The investment or expansion is part of a product differentiation strategy.

The notion of product differentiation is developed by Porter (1985), who points out that: «...In a differentiation strategy, a firm... selects one or more attributes that many buyers in an industry perceive as important, and uniquely positions itself to meet those needs... Differentiation can be based on the product itself, the delivery system by which it is sold, the marketing approach and a broad range of other factors...». In the Greek case there is no clear evidence for a product differentiation strategy in the majority of cases. Even in cases where the managers stated that a differentiation strategy existed, it was in the sense that the products which the venture sells are of different quality compared to the Greek products. That is, for example, true of case No21 where the oil which the venture trades in Bulgaria is different compared to the oil that it is traded in Greece because of weather conditions. The other way that a differentiation strategy may exist is illustrated by case No19, where the Greek firm domestically is activate in the construction industry, while the Bulgarian venture is a trading company. The same can be said about case No13 in Albania. In general we can say that Porter's notion is not applicable to the Greek case. This is evident, because, 70.2% of respondents ranked it using point one of the scale, 8.5% of respondents ranked it using point three of the scale. The same percentage ranked it using point four of the scale. Finally, the remaining 12.7% ranked it using point five of the scale.

The fact that the above motive is not applicable to the Greek case may be attributed to the character of the consumer demand which these countries have. The majority of the consumers in these countries have such basic demands that they do not yet ask for differentiated products.

They do not even pay attention to the standards of the product, how this is packed etc. Whilst the Greek products are generally of superior quality compared to those that local firms produce however, they are not characterised by a high degree of differentiation (at least compared with the marked product differentiation which the US consumer has at his/her disposal).

B.5: The investment or expansion is part of a cost-focus strategy

The notion of cost-focus strategy has been developed by Porter (1985) who points out that: «...In cost focus a firm seeks a cost advantage in its target segment...» Here we used this notion assuming that a firm active in an Eastern European market has identified a certain low cost segment and wants to exploit it. However, this is not always applicable since 31 out of the 46 responses (67.3%) ranked this motive with points one (1) and two (2) of the scale. Some trading or service oriented ventures stated that a cost-focus strategy exists in the sense that the low cost observable segment is the low labour cost (wages). Cases No 7 and 33 are typical examples. Four firms (8.6%) ranked the above motive using number three of the scale, and four more used number four of the scale. Seven firms (15.2%) ranked the above motive using number five of the scale.

The fact that the above motive is generally not applicable in the Greek case has to be attributed to the chaotic macroeconomic situation which exists in these countries. The market research which will allow the western firm to spot a low cost segment is almost impossible to carry out. Furthermore, the Greek firms frequently can not attempt to undertake this kind of research, because of the financial costs with which it is associated.

B.6: The investment is part of a differentiation focus strategy

The differentiation focus has been developed by Porter (1985). In this strategy the firm «...exploits the special needs of buyers in certain segments...». Here the notion is that a Greek firm identifies a special need that the consumers have in Eastern European markets and decides to exploit it by expanding in these countries. However, the empirical data contradict this hypothesis since in the 35 out of the 46 responses (76%)

the managers stated that this was not important for them, using points one (1) and two (2) of the scale. Six enterprises (13%) ranked the above motive using point three of the scale. Two enterprises (4.3%) ranked it using point four of the scale. Finally, three firms (6.5%) ranked it using point five of the scale.

The above is attributed to many factors. The small size of the Greek parent firms and their trading character have not allowed them to have market-research divisions. In addition, to carry out market research in Eastern Europe which will allow firms to point out certain market segment opportunities is almost impossible.

B.7: The motive to expand abroad was a geographical diversification strategy.

Geographical diversification appears to be important for the Greek firms, since in 26 responses (56.4%) the managers ranked this motive as important or very important. This is attributed to the fact that the Greek firms can seek to obtain an increasing market share in Eastern European countries, while their share in Western markets is declining, a fact that we have already pointed out in chapter 4. Seven firms (15.2%) ranked the above motive using point one of the scale. Six firms (13.0%) ranked the above motive using point two of the scale. Finally, seven firms (15.2%) ranked the above motive using point three of the scale.

Of course in dynamic terms this suggests a certain trend. The inability of the Greek firms to compete in Western markets, today, forces them to expand to the countries of the BSEC area, rather than to retaliate in the Western markets. This means a lower cost, relatively speaking, of deeper involvement in Eastern Europe, and as time passes, the involvement in Western Europe will decline further.

9.4. HOME AND HOST COUNTRY SPECIFIC MOTIVES

C.1: The high level of interest rates in Greece makes any investment activity impossible, so by investing in Eastern European countries the firm can enhance its competitiveness in Greek and other western markets.

Evidence on this home country specific factor suggests that the high level of interest rates is not a factor which forced the firms to expand abroad. Out of the 46 responses only 14 (30.4%) considered it important using points four and five of the scale, while 29 (63%) expressed the opposite view, using points one and two of the scale. Furthermore three firms (6.5%) ranked the above motive using point three of the scale. This is perhaps a predictable outcome, since the majority of firms are trading companies. However some firms expressed the concern, that, despite their trading character, the high interest rates reduced their potential export capacity because the domestic currency is overvalued. (Cases No12, 34). On the other hand, generally firms that had established manufacturing joint ventures considered it an important factor, (Cases 1,15,16,17,18), though few firms which had established manufacturing ventures, characterised the issue as trivial (Cases 2,3).

Overall, the fact that this factor has been rejected as being unimportant as a potential motive by the Greek firms is probably related to the current macroeconomic policy which nowadays occurs in Greece, which encourages interest rates to decline.

C.2: The firm expanded abroad in order to exploit land and/or natural resources of the host country.

The above notion seems not to be applicable to the Greek case, since the majority of the ventures and their parents are trading companies. Thirty six respondents (78.2%) ranked the above motive using point one of the scale. Furthermore, it is notable that only eight firms (17.3%) ranked this as important or very important, using points four (4) and five (5) of the scale. We have to point out that two firms (cases No30 and 40) stated that although at the moment this is not important for them, in the future it will have some importance.

Furthermore the manager of the two trading ventures of Case 4 ranked this factor «important» for the oil venture.

C.3: The firm expands abroad in order to exploit the host country's infrastructure.

The above motive was ranked by the 69% of the respondents using point one of the scale. A 14.5% ranked it using point two of the scale. Another 2% ranked it using number three of the scale. Finally, the above motive was considered important or very important (points four and five of the scale) by the 14.4% of the respondents. The number of responses is 48 because two managers differentiated their answers (Cases No3 and 41). In the first case the manager stated that infrastructure exists in some cases, but not in every case. In the latter case, the manager stated that the only exploitable infrastructure was the buildings. We observe that the above notion is probably not applicable because, according to the managers, in these host countries there is poor infrastructure. Furthermore the trading character of the ventures minimises the infrastructural needs.

C.4: The firm expanded in these countries in order to exploit specific human capital in the sector that is activated.

The assumption that the Greek firms expand abroad in order to exploit the human capital that these countries can offer has also not been verified by the empirical evidence since only in 8 responses (17.3%) did the managers stated that this was important, or very important (points four and five of the scale). This is attributed to the fact that the majority of the ventures have a trading character, where no skilled labour force is needed. However, some (but not all) production oriented ventures expressed the same view. In general 34.7% ranked the above motive using point one of the scale, 21.7% ranked it using point two of the scale, and 26% ranked it using point three of the scale.

C.5: The demand conditions in the host country in terms of level and character, are essential for the firm to expand abroad.

Here we had one more response because the manager of Case No8 differentiated between the Romanian and the Albanian venture. The above hypothesis is confirmed since only in eight cases (16.9%) did the managers state that the size (level) of the demand was not a motive to expand in these markets, and ranked it using points one and two of the scale. However reservations were expressed on the issue of the character of the demand, since the low per capita income and the high inflation rates in these countries encouraged the consumers to seek for low and medium quality goods that they could afford given, their low purchasing power. In general 38.2% of respondents ranked it using point three of the scale, 25.5% of them ranked it using point four of the scale and 19.1% used point five of the scale.

C.6: The investment is an outcome of the desire to overcome trade barriers (tariffs and quotas)

The role of trade barriers has been analysed by Hood and Young (1979) and other authors. The managers of the Greek firms were asked to use the 1-5 point scale in order to classify the above motive. In the Greek case the above notion appears not to be applicable since only in eleven cases (23.8%) the managers ranked the above factors as important and very important, using points four and five of the scale. Twenty two respondents (48%) ranked the above motive using point one of the scale, 6.5% ranked it using point two of the scale and 21.7% ranked it using point three of the scale. However all firms do consider tariffs and quotas to be obstacles to trade. However they are either reluctant to engage in FDI activity or they simply cannot do it, and they prefer to «bear the cost» of these barriers.

9.5. Conclusion

This concludes the analysis on evidence concerned with motives for expanding abroad, which is concerned with what we have called «auxiliary issues».

Our general findings were that Greek firms possess better technology compared to local enterprises or they trade high quality products, compared to those which the local firms produce. Furthermore Greek firms have superior entrepreneurial and managerial capabilities compared to those of the local firms. This suggests that firm specific motives can be used as an analytical tool for the explanation of the Greek firm's expansion in Eastern Europe. Furthermore certain strategic motives are also applicable. These are: the first mover advantage and the geographical diversification strategy. Finally the same holds for one country specific motive that of demand conditions in the countries of Eastern Europe.

We turn now to core issues starting in the next chapter with motives for establishing an IJV and partner selection criteria which are used.

CHAPTER 10:

MOTIVES FOR ESTABLISHING AN I.J.V. AND PARTNER SELECTION CRITERIA

10.1. Introduction

This chapter uses the same format as the previous one. It considers what we have identified as «core issues». First it considers motives for establishing joint ventures under the headings of financial, strategic, and country specific. Second, it considers partner selection criteria in terms of eighteen characteristics (e.g. infrastructure, opportunism, complementary resources etc).

10.2. FINANCIAL MOTIVES TO ESTABLISH A JOINT VENTURE

A1: Portfolio Diversification.

In portfolio theory a number of assets is held in such a way that risk and return can be balanced. This notion is applicable to the joint ventures case and has been developed among others by Contractor and Lorange (1988). When a firm, according to the authors, enters a joint venture it has to commit a certain level of financial capital. This capital is smaller compared to the one that a W.O.S. would require. So the firm has the ability to invest in other activities as well, and thus creates a portfolio. The above motive was ranked with point one by the 65.2% of the respondents. Another 24% ranked it using point two of the scale. A 8.6% ranked it using points three and four equally divided. Finally, a 2.1% ranked it using point five of the scale.

The evidence is that this notion is not applicable in the Greek case, even in firms which have established multiple joint ventures. The explanation for this is not difficult. The Greek parent firm, in the majority of cases, has a vast majority stake of the venture, because the partner's ability to contribute pecuniary inputs is limited. In addition, the financial capital that the majority of Greek partners can contribute is

small, in absolute terms, because the Greek parent firms, in the majority of cases, are small as well. So actually they do not have the financial ability to establish the venture for portfolio diversification reasons. That is their size and financial capital does not give them the ability to enter other businesses as well.

A.2: With the joint venture option the Greek parent firm can reduce risk because of lower financial capital commitment in a volatile environment (compared to that of the W.O.S. option)

This notion has also been developed by many scholars as a motive for joint venture formation. As Contractor and Lorange (1988) point out: «...ventures can reduce partner's risk by (1) spreading the risk of a large project over more than one firm... Developing for instance, a new car... is a multibillion dollar undertaking. First, to state the obvious, a joint new undertaking... spreads the risk of failure (and the potential gains) over more than one party...». We attempted to test the above notion in the Greek case in the sense that a joint venture textile production unit, for example requires lower financial commitment, compared to the wholly owned subsidiary option.

However, in the Greek case the managers only in ten responses (21.6%) ranked this as important or very important. The majority of managers expressed the opposite view (29 responses or 62.9%) using points one and two of the scale. Finally, 15.2% used point three of the scale. According to the Greek managers it is the Western partner who bears all the risk in Eastern Europe, since in the majority of cases all the local partner can provide is a building. It is interesting to point out the manager's view that joint ventures and wholly owned subsidiaries offer the same level of risk, because of the external environment.

A.3: The joint venture option is preferable to the W.O.S. option, because of smaller payback period.

This notion has also been proposed by Contractor and Lorange (1988). They point out that: «...ventures can reduce partner's risk by...enabling faster entry and...a quicker payback...». In the Greek case, however, the majority of managers (40 out of the 46 cases or 87%) stated that the above was not an important motive for them to establish a joint

venture and ranked it using points one and two of the scale. This is attributed to the trading character of the ventures. The remaining 13% ranked it using points three (3), four (4) and five (5) of the scale. Here we have to point out another paradox that emerges. In the manufacturing ventures case, that is where an investment project is taking place, the Greek parent firms should be concerned with a smaller payback period especially since they operate in a high risk environment. So they should prefer the joint venture because it provides this advantage. This apparent paradox, however, is explained if we consider the inability of the partner in the majority of cases to contribute pecuniary inputs and the relatively longer term strategy of the Greek parent firm.

10.3. STRATEGIC MOTIVES TO ESTABLISH A JOINT VENTURE

B1: The firm establishes a joint venture in order to gain access to raw materials.

On this issue Contractor and Lorange (1988) remark that: «...joint ventures... can also be a form of vertical quasi integration, with each partner contributing one or more different elements in the production and distribution chains. The inputs of the partners are, in this case, complementary...». Here we attempted to test the above notion in the Greek case assuming that the East European provide the raw materials and the Western partner the technology as well as the necessary pecuniary inputs for the production of labour intensive products.

Here we have 48 responses because the managers in two cases (No3,7) distinguished between their ventures. In addition, the managers of two trading ventures stated that this will be important in the future when the trading ventures are transformed to manufacturing ones. Furthermore one manager acknowledged the fact that access to raw materials is important. However, he stated that these are not provided by the partner, but partly through contacts the partner could provide (Case No33 a bakery shop for the production of bread).

We can say that this motive is not applicable in the Greek case since in 36 responses (75%) it was considered as unimportant, and it was ranked with points one and two of the scale. A 16.6% considered it important or very important (points four and five of the scale). Eventually an 8.3% ranked it using point three of the scale. This is attributed to the trading character that most ventures have. Furthermore,

the East European may be in certain cases able to provide raw materials, however their quality standards are so low that it makes them inappropriate for the production process.

B2: We establish a joint venture because of access to cheaper labour force.

This notion is also expressed in Contractor and Lorange (1988), who point out that: «...Take, for instance, the case of a hotel venture located in the Mideast. One partner... based in the United States, supplies expertise to construct and start the hotel in terms of operating procedures, standards, and building codes. Thereafter, the other partner, a hotel company based in India staffs and runs the operation under a... contract, using local and expatriate Indian personnel who are hired at relatively modest salaries...». We attempted to test the above notion in the Greek case. We assume that if a Greek firm establishes in an Eastern European country a wholly owned subsidiary, will hire personnel which will be paid the wage which market forces determine. In the joint venture option however the East European partner can bring into the venture relatives who will play the role of the labour force. These people will accept a lower salary because of the psychological nexus with the East European partner. That is they will feel the joint venture enterprise to be their own enterprise. Even if this is not the case, we assume that the East Europeans will agree to a lower salary in an enterprise where compatriots are co-owners, since this company is not entirely under the Western «economic imperialists».

In the Greek case the situation is mixed since the managers in 16 responses (35%) stated that it was important and ranked it using points four and five of the scale. On the other hand, the opposite view was expressed by the managers in 21 responses (45.5%) who ranked the above motive using points one and two of the scale. The remaining 19.5% ranked it using point three of the scale.

B3: The motive for the establishment of a joint venture was the access to distribution networks.

One of the most common motives for the establishment of joint ventures in the literature is the above. For example Gullander (1976) points out that: «...certain resources in the economy are not available through free markets. Technology and distribution networks are not always for sale, and in such cases the need for access to these resources can only be satisfied through a J.V. ...». The above factor has important strategic implications which are described by Porter (1980): «...A barrier of entry can be created by the new entrant's need to secure distribution for its product. To the extent that logical distribution channels for the product have already been served by established firms, the new firm must persuade the channels to accept its product through price breaks... which reduce profits... The more limited the wholesale or retail channels for a product are... the tougher entry into the industry will be...».

However, in the Greek case it is not very important and this result reveals one of the biggest problems that an entrepreneur faces: the collapse of the distribution networks in the area. Here we have to clarify that in principle every entrepreneur would like to have access, via the joint venture, to distribution networks. However, these collapsed after 1989. The above motive was ranked by the 55.3% of the respondents using point one of the scale, 6.3% ranked it with point two. The same percentage ranked it with point three. Eventually 10.6% ranked it with number four and 21.2% ranked it with number five of the scale. We have one more response because the manager in one Case (No12) distinguished between the ventures.

We have to point out that this result is similar to the one that Dr Karafotakis expressed in a conference in Thesallonika in November 1994. Karafotakis speaking about the Balkan distribution networks points out that a distribution networks classification is possible of the following types:

«... 1 Networks for food products
2 Networks for .... consumer goods
3 Networks for durable consumer goods
4 Networks for raw materials and machinery
5 Joint Networks, which are adopted...according to the products demand...»

He continues stating that: «...According to empirical data... the joint networks are more than 50% of the total, food networks are around 25%,

networks for consumer goods are estimated at 15%, while the remaining percentage is divided in the two other categories...». Before the collapse of communist rule the «structure» of the distribution networks and the sale points was vertical. That is, every enterprise (factory) possessed its own distribution network and its own sale points.

Since the collapse of communist rule, a horizontal structure is emerging of the following form: Production-wholesale; trade-retail; and trade-consumption. The majority of these networks have a domestic, local, and peripheral character; however some international or national networks still exist. Our research highlights the problem and suggests its importance. However, in order to clarify the issue further we have to point out that the sales points may be too small to be used by a foreign firm and/or inadequate, because of their local character. Furthermore they may be very old, something which makes them unacceptable especially when food products are concerned. Typical examples can be observed in our sample. In Case No1, the points of sale which the Bulgarian side could offer were, at best, in the level of the beginning of 1960s. The venture established new points of sale from the beginning. The same occurred in Case No2 with juice production and Coca-Cola sale, since the ventures had to modernise the sale points. Additionally in the food industry essential infrastructure, like refrigerators may be missing. That was the case of our Albanian based food trading venture. (Case No13). The same problem is faced in Case No12. In both cases the ventures had to install new refrigerators and expand storing facilities.

It is clear that in the majority of cases the distribution network should be created form the beginning, or it should be upgraded. This is of course an extra entry barrier, because the financial cost is increased. Furthermore, the local and peripheral character of the networks creates a barrier, especially for big firms who target the total market of the country and not a geographical segment. However if the local and peripheral networks are in good condition, flexibility is given to small entrepreneurial activities. The only solution may be to take advantage of the so called joint distribution networks.

B.4: Exploitation of economies of scale and scope is the motive for the establishment of joint ventures.

The 56.5% of the respondents ranked the above motive using point one of the scale. Another 8.6% ranked it using point two of the scale. 6.5% ranked it using point three of the scale. 13% ranked it using point four of the scale. Finally, a 15.2% ranked it using point five of the scale.

The above motive has been identified by many Western academics in the literature. For example Gullander (1976) remarks: «...In many industries advantages connected with the size of operations exist... Economies of scale pertain not only to manufacturing but to some other functions as well, notably R&D and sales. A J.V. ...allows a company to benefit from these economies in a way not possible if it remained completely independent...». Furthermore, Contractor and Lorange (1988) point out that: «...joint ventures... can achieve... economies of scale and/ or rationalisation...».

Exploitation of economies of scale and/or scope is a major motive in Western European, Japanese and US enterprises seeking to collaborate and establish joint ventures. This is not surprising since these enterprises establish manufacturing joint ventures. In the Greek case, however, once again we can see that this is not a motive of such importance since the majority of the ventures have a trading character. It is important however to point out that in two cases (No22 and 37) the managers expressed the view that this will be important in the future: in the former case when the trading venture becomes a manufacturing one; and in the latter case when the venture starts its operation.

B.5: The establishment of a joint venture is the outcome of a follow strategy, that is following a domestic competitor who entered the host country via the J.V. option.

The result is similar to the one that was expressed for the expansion in a foreign country, that is 87% or respondents ranked it using point one of the scale. The other 10.8% ranked it using point two of the scale. The remaining 2.1% ranked it using point three of the scale. Again the above result can be attributed to psychological factors (self-motivation).

B.6: The motive for the establishment of a joint venture was the reduction of risk in a politically socially and legally unstable environment.

The above motive has been analysed by many scholars. For example Gullander (1976) remarks that: «...Nationalistic feelings have led many countries... to impose formal or informal restrictions on foreigners... To deal with such restrictions firms may enter a J.V. with a local company...». Furthermore Contractor and Lorange (1988) point out that: «...Another dimension of risk reduction has to do with containing some of the political risk by linking up with a local partner. Such a partner may have sufficient political clout to steer the joint venture clear of local government action or interference. It may also be that the joint venture has come about as a result of the host government's industrial policy. In such a case, added political risk reduction can be achieved; the government endorses the joint venture as being beneficial to its economic policy agenda...».

The results for the above motive are similar to those that we have already presented for the case of financial risk. In the case of financial risk, 21 responses had ranked that motive with number 1 of the scale. Here the number of responses with the same ranking is 22 or 47.8%. The percentage of responses that used number 5 of the scale is identical in both cases (8.6%). The number of responses that used number 3 of the scale is 13 (28.2%). This has to be attributed to the same causes.

B.7: Through the joint venture option the firm can overcome cultural barriers and/or take advantage of the local partner's «Know-how» by absorbing his/her knowledge and managerial capability.

The above motive has been analysed by many scholars. For example Beamish (1985) remarks that: «...The primary skill required by the MNE partner of the local firms was its knowledge of the local economy, politics and culture...». Gullander (1976) pointed out that: «...Through a J.V. firms can also benefit from the «experience curve» effect... The reason for this is to be found in the successive improvements in efficiency that normally take place in companies as they gain more experience in the production of a particular good...».

This motive is also not applicable in the Greek case since out of the 46 responses only in 13 of them or 28.1% the managers considered it

important or very important and ranked it using points four (4) and five (5) of the scale. In 26 cases (that is exactly the double number or 56.4%) the managers expressed exactly the opposite view and ranked it using points one and two of the scale.

This result once again demonstrates the unique peculiarity of the Greek case. The implication of the above result is that the Greek manager's aim is not to absorb the local partner know-how, or to overcome cultural barriers, but to impose their own managerial culture. Furthermore, this is consistent with the type of activity which the majority of Greek firms exercise in these countries, that is trade. It is apparent that in this kind of activity there is no need for the Western partner to absorb the knowledge of the East European. In the case of production oriented ventures, however, the East European may be in a position to offer to the venture useful scientific and technical know-how.

10.4. COUNTRY SPECIFIC MOTIVES FOR ESTABLISHING A JOINT VENTURE

C.1: The joint venture is established in order to overcome governmental barriers imposed in the host country.

The above motive has been analysed by many authors. For example Raveed and Renforth (1983) remark that: «...Today... a growing number of new international business investments have been joint ventures... This trend has developed largely as a response to pressure from the LDCs... Many economists from developing countries argue that a strong host country partner must be involved in any major foreign investment project to protect the interest of the local population...». The idea here is that any possible governmental barriers are imposed de facto and not de jure. That is, the government or the civil service of the Eastern European country will impose, unofficially, barriers to a foreign investor.

Again this hypothesis was rejected by the overwhelming majority of the managers. Their view was that whatever way of entry the foreigner decides to follow (joint venture or wholly owned subsidiary) he will face government barriers, which can be bypassed using unorthodox ways... 69.5% of respondents ranked the above motive using point one of the scale. 4.3% ranked the above motive using point three of the scale. Only an 8.6% of respondents considered the motive important. Finally, a 17.2% of respondents ranked it using point five of the scale. The implication of

this is that the state bureaucracy in Eastern European countries can still impose barriers to any entrepreneurial activity.

C.2: The firm established a joint venture, because the legislation in the foreign country prohibited the wholly owned subsidiary option (at the time of the entry).

Here the idea is that the barriers which the foreign investor faces are official, that is the local authorities prevent, by law, the wholly owned subsidiary option. As Afriyie Kofi (1988) remarks: «...host... governments have sometimes enacted legislation and administrated investment codes that permit foreign investment in selected industries only if co-operative ventures of foreign and local partners can be arranged...».

Here we had one more response because the manager in Case No8 differentiated between Albania and Romania. The managers were asked to provide a yes or no answer to the above question. 63.8% provided a negative answer, 29.7% a positive answer, and 6.38% stated that they could not provide an answer.

According to the above, domestic legislation in the host countries was not an impediment to wholly owned subsidiaries creation. This response however may not be very accurate, since the managers may not remember the exact legal terms for the entry of a foreign firm in the local country. The fourteen responses which considered the joint venture option as compulsory is an outcome which may be attributed to illinformation. Our knowledge concerning the legal evaluations and terminology is limited. However we can say that: The Albanian Law 7496/4-8-1992, the Bulgarian Law 8/28-1-1992, the Romanian Law 35/3-4-1991 and the Law 1545/4-7-1991 on «Foreign Investment in the Russian Federation» do not prohibit the W.O.S. option.

C.3: The bargaining power with local governmental authorities is enhanced via the joint venture option.

The notion here is that via the joint venture option the foreign firm minimises the possibility of local authorities imposing barriers on its activity. The intrinsic rationale is that the imposition of any «hostile» measures against the foreign investor (partner) will have harmful effects

on the local partner as well. In this way, the foreign partner will have increased bargaining power against the local authorities.

This motive for joint venture formation is applicable to the Greek case, since in 25 responses (54.3%) the managers stated that this was an important or a very important motive for the establishment of a joint venture. The opposite view was expressed only in 9 cases (19.5%). The remaining 26% ranked the above motive using point three of the scale. The implication of the above is that this is the only motive which the Greek managers acknowledged as important for the establishment of joint ventures.

10.5. PARTNER SELECTION CRITERIA: CHARACTERISTICS

1. Partner's infrastructure, installations

The above characteristic has been identified by Tomlinson (1970), republished by Geringer (1991). In the majority of responses, 27 out of 46, (or 58.6%) the managers stated that they considered the above contribution of the partner as important or very important. The opposite view was expressed by 39.1% of respondents who ranked the above using points one (1) and two (2) of the scale. However, we have to point out that the only infrastructure that the partners could provide was a building and storing facilities.

The implication of the above is that the East European is not a «worthless» partner as many in the West believe. He has something to offer which is a non-pecuniary contribution, a building where the venture can be situated. This is a requirement which Greek firms also seek.

2. Partner's Resources

The above characteristic has been identified by Tomlinson (1970), republished by Geringer (1991). In the overwhelming majority of responses (44 out of 46 or 95.6%) the managers stated that they did not consider the above criterion important for the partner that they had selected. This is quite understandable in the case of the trading ventures. However, one would expect the opposite for manufacturing ventures. In the latter case it is not that the Greek partners would not like to find local partners with the above characteristic; but in practice the industrial

disintegration in these countries make this impossible. This is the implication of the above result.

3. Partner's status (brand name)

The above characteristic has been identified by Tomlinson (1970), republished by Geringer (1991). Here we have two more responses because the managers in two cases (No 6,10) differentiated their answers. In our case with the term «partner status» we do not mean only a big firm as we often do in the Western countries. In Albania for example, a partner with status can be an individual highly respected by the local community. Having in mind that the term reflects a broad set of notions compared to what it means in the societies of Western Europe, we can see that in the majority of responses, (27 out of 48 that is 56.1%), the managers classified this as an important or very important criterion, that is the partner has status in the local community. The opposite view was expressed by 31.2% of respondents who ranked the above using points one and two of the scale. The remaining 12.5% ranked the above motive using point three of the scale. The above demonstrates the will and desire of Greek firms to become accepted by the local communities, and suggests their hidden fear that the above may not occur.

4. Partner's Local Identity

The above criterion has been identified by Tomlinson (1970), republished by Geringer (1991). In our case we mean the general social and cultural characteristics that the partner may bring into the venture. These characteristics may influence the performance of the venture in a later stage.

An example will clarify the issue. We have already presented Lawrence and Vlachoutsicos findings about STUs in chapter 3. Here we point out the following remark made by Vlachoutsicos: «...The close, cohesive teams were always part of the Russian cultural tradition and as an example we can refer to the peasant communities (obshchina-volost), the agricultural units of work (artel), the elders of the village (mir), the elected rural councils (zemstvos)... Essentially all these teams are STUs...». The above example, we hope, illustrates the way that we used the notion of local identity. That is, a managerial phenomenon like STU

has its roots in other aspects of social life. This, may occur in a joint venture as well and here the picture is mixed in some aspects and clear in others. That is in 17 responses (37%) the managers admitted that this is an important characteristic, that they should have investigated, but they admitted that they did not have the knowledge to do so. The opposite view was expressed by the managers in 20 responses, (43.4%) who ranked the above motive using points one (1) and two (2) of the scale. The remaining 19.5% ranked it using point three (3) of the scale.

5. The partner shares common strategic goals with the Greek partner.

The above characteristic has been identified by Tomlinson and Thomson (1977), republished by Geringer & Frayne (1990), and Geringer (1991). It is important to point out that the above characteristic encompasses, among other issues, the element of time as well. The element of time has been analysed by Ganitsky& Watzke (1990) who indicate the issue has many dimensions. However, here we consider the following: «...Time horizon... is closely related to the strategic orientations of the venturers... most likely to be reflected in the strategy of the joint venture itself... each venturer's view of its future is in part shaped by its unique past... Firms with ten-year planning cycles will likely have a different orientation and make different sorts of decisions than would a firm with only a five-or three year planning cycle...».

The above hypothesis has been rejected by the managers of 12 responses (26%) with the argument that the partners do not have any strategic goal at all, so the Greek parent firm imposes its goals on the venture. The managers of 22 responses (47.7%)considered this notion important and expressed exactly the opposite view. The remaining 26% ranked the above motive using point three of the scale. In general, this hypothesis seems applicable to the Greek case. The intrinsic rationale behind this is that the East European may not understand the strategic goals of the Greek partner, but he or she will not object to them. This is the «second best» option for the Greek partner. (The «first best» option is, of course, the possibility that both partners have the same strategic goals).

6. The partner's size is smaller, bigger or similar to that of the Greek firm.

The above characteristic has been identified by Daniels (1971), Adler and Hlavacek (1976). The findings of the above scholars are also described (republished) by Geringer (1991). Here we have 53 observation, because the managers of the cases No 7,8,11,12 differentiated their answers. The managers were asked to reveal the size of their Eastern European partner. Their size could be smaller, bigger or equal to that of the Greek firm.

In the majority of responses (69.8%), the managers stated that the partner is of smaller size compared to the Greek firm. This is the anticipated result, since until 1989 the dominant type of enterprise was state-owned and private firms were limited. So the private enterprises are small compared to those that exist in the West. On the other hand, the old state enterprises have disintegrated and they are not what they used to be in the past in terms of size. Only 5.6% stated that they have partners of bigger size. The remaining 24.5% stated that the partner has the same size as the Greek firm. The above is an indication of the generic finding that Greek firms have smaller partners, in terms of size.

7: The partner must have an adequate customer base.

The notion encompasses the rationale that the partner has connections with very important customers, which can absorb either very expensive products (luxury goods) or simply products in large quantities.

It would hold that the partner can sell the products that the venture produces (or trades) quickly, either under wholesale or retail terms. However this hypothesis was rejected by the majority of the interviewers, (65.1%) who ranked it using points one and two of the scale, typically with the argument that economic disintegration in these countries is so profound and deep that in practice the partners cannot have the above ability. This view was expressed in 30 responses. The opposite view was expressed only in ten responses (21.6%), where the managers used numbers four and five of the scale. The remaining 13% ranked the above using point three (3) of the scale.

The above demonstrates the peculiarity of the situation in Eastern Europe. The Western firm will not find a lot of customers who can absorb luxury goods, because they do not have the financial status. Furthermore, and if we consider basic consumer goods, again the partner cannot

guarantee the presence of an adequate customer base which can absorb large quantities of goods.

8: Partner's ability to communicate in Greek

Here we wanted to test the hypothesis that a language barrier may exist which creates an entry barrier to foreign investors. The above criterion has been characterised as important or very important by seven managers only (15.1%). Furthermore, four others or 8.6% stated that it would be helpful to the venture if the partner could speak Greek, and used number three of the scale. The fact that the majority of interviewers (75.9%) rejected the above criterion indicates that the language barrier is not so essential in the Greek case as one would expect.

9: The partner is selected because he/she possess complementary resources.

The above criterion has been identified by Tomlinson (1970), Tomlinson and Thompson (1977), republished by Geringer (1991). The above hypothesis was rejected by the majority of interviewers (93.4%) with two arguments. The first was that the trading ventures do not need any complementary resources, because of the character of their activity. (We must always remember that the dominant entrepreneurial activity is trade). The second, was that, the managers of firms which have established manufacturing ventures stated that economic disintegration in these countries practically made it impossible to find a partner who could contribute complementary resources to the venture. Only 4.3% of interviewers ranked the above using point four of the scale. The remaining 2.1% ranked it using point three of the scale.

10: Partner possessing high technology and having experience in its application.

The above criterion has been identified by Tomlinson and Thompson (1977), republished by Geringer (1991). Here we have 48 observations, because the managers in two cases (No5,7) differentiated their answers. The managers of the Greek firms were asked to use the 1-5

point scale in order to classify the above characteristic. This hypothesis has been rejected by the majority of interviewers (40 responses or 83.25%). This was attributed to two reasons. The first is that trading ventures do not need a partner who possess high technology. The second is that the firms which have established manufacturing ventures would like to have partners who could contribute high technology. This however is not often possible because typically the technological standards in these countries are very low, so practically the partners can not contribute high-technology machinery to the ventures. Only 6.1% of interviewers ranked the above using points four and five of the scale. The remaining 10.4% ranked it using point three of the scale.

We must always remember that the countries of Eastern Europe experienced high technological standards in certain industrial sectors such as defence industry. The production of labour-intensive products and basic consumer goods was considered a waste of resources, because these products were characterised as luxurious. For example the quality of the shoe-industry was not an essential matter for the attention of planning authorities. However, the Greek entrepreneurs are willing to form joint ventures in the production of these kind of products (labour intensive) and it is exactly the industrial sectors where the East Europeans cannot contribute a lot.

11: The partner has adequate financial resources.

The above criterion has been identified by Tomlinson and Thompson (1977), republished by Geringer (1991). The above hypothesis has been rejected by an overwhelming majority of the interviewed (84.7%), who ranked it using points one and two of the scale. This was expected because of the current economic situation, in the countries of Eastern Europe. The state enterprises have gone bankrupt and they can not provide any pecuniary inputs if they are selected as partners in a joint venture. Private individuals and enterprises, on the other hand, are also characterised by financial inability. For the above, only 4.3% of those interviewed ranked it using point five of the scale. The remaining 10.8% ranked the above using point three of the scale. The financial inability of the East European partner is one of the most important characteristics of the current economic status of these countries.

12: Partner highly credited by the host country's banking sector; having access to cheaper capital.

The above criterion has only a theoretical interest in our research. It was included however in order to follow the analytical reasoning of Western scholars. This hypothesis has also been rejected (86.9%), because in these countries the banking institutions are paralysed; and in general there are no financial markets. The opposite view was expressed by 10.8% of managers who ranked it using points four and five of the scale. The remaining 2.1% ranked the above using point three of the scale. The only access that the partner may have in a financial institution is through personal contacts e.g. relatives who have the influence to overcome some typical bureaucratic barriers.

13: Partner who possess a distribution network and marketing experience.

The above criterion has been identified by Adler and Hlavacek (1976), republished by Geringer (1991). The above hypothesis has been rejected by the majority of the interviewed (30 out of 46 responses or 65.1%) something that demonstrates once again the shortage of distribution networks, and the low level of marketing experience that the partners have. Only 26% ranked the above motive using point four and five of the scale. The remaining 8.6% ranked it using point three of the scale. Some managers differentiated their answer between distribution networks and marketing experience (Cases No 4a,21,23,24,30).

14: Partner with skilled labour force and non-militant workers.

The above criterion has been identified by Adler and Hlavacek (1976), republished by Geringer (1991). Out of 46 responses, for only 12 of them (25.9%) did the managers state that they found a skilled labour force and non-militant workers. In 26 cases (56.4%) the opposite view was expressed, with the use of points one and two. It is obvious that in theoretical terms every manager would select the partner who would be in a position to contribute skilled labour and non-militant workers to the venture. In practice, however the opposite occurs. The remaining 17.3% ranked the above motive using point three of the scale.

15: The partner is activated in similar activities with those of the Greek firm.

The managers of the Greek firms were asked to use the 1-5 point scale in order to classify the above characteristic. Here we have two more responses, because the managers in two cases (No 3,9) differentiated their answers. The empirical data provide a mixed picture on the issue. In twenty responses (41.6%) the managers stated that their partners had similar entrepreneurial activities, and ranked it using points four and five of the scale. On the other hand in 22 responses (45.8%) the managers stated exactly the opposite and ranked it using points one and two of the scale. The remaining 12.5% ranked the above motive using point three of the scale.

16: The partner has no opportunistic motives for collaboration

Before analysing responses to this we have to clarify the use of the term «opportunistic motives». By this term we mean any motives which are not mediated by business ethics. The relevant ethics are those perceived within the local legal framework, and the personal beliefs of the managers. This is different from the Williamsonian, transaction costs explanation. According to Williamson (1993): «...Opportunism refers to self-interestedness, with guile, whereupon economic agents will sometimes say one thing and do another (if they think that they can get away with it). They will not reliably tell the truth, the whole truth, and nothing but the truth if it suits their purposes to behave otherwise...» Williamson continues stating that: «...conditions of outright lying, cheating, and stealing, are subsumed by opportunism...».

The above is a clear definition, however the crucial thing is the notion of guile. We argue that there is no objective measure of guile, or opportunism. Moral values differ in time and space. What is guile and opportunistic behaviour for someone living in Japan may not be for someone in Russia. Furthermore the term guile was different in the ancient polytheistic Greek world, compared to the Christian Orthodox, Theocratic Byzantine empire. The action that a Bulgarian or a Russian manager may perform could be perfectly acceptable according to his belief, and according to the legal framework. However if the Greek, the British or any other partner evaluates the action as opportunistic, then the presence or absence of guile is a trivial issue. We conclude that the

term «opportunistic motives» is a subjective notion, determined by the perception and intellectual capacity of each manager rather than by an objective theoretical scheme.

Having said the above we can now turn to our empirical data. Out of the 46 responses the managers in 44 of them (95.5%) stated that theoretically this was the most important desired characteristic. However, they stated that opportunistic behaviour did present itself. The outcome of this behaviour for the partner may mean something simple: a dinner in an expensive restaurant, a bottle of wine, some packets of cigarettes etc. These do not put the venture in jeopardy. However, other kinds of opportunistic behaviour, such as the constant abuse of funds may put the venture into jeopardy. From the above it is obvious that in the case of Greek joint ventures we can distinguish between opportunistic behaviours with harmful and non-harmful effects. This opportunistic behaviour always occurs after the venture's establishment. A typical attitude is that of the manager who stated that: «...before the signing of a contract, which establishes the venture the partner gives a lot of promises, but when the venture becomes operational the promises remain empty words...».

17. The partner was imposed by the external environment.

The above characteristic has been identified by Tomlinson (1970), republished by Geringer (1991). The managers were asked to provide a Yes or No answer on the above question. Here we have 49 responses, because *in three cases the interviewed stated simultaneously that the* choice was forced and was not (presumably in different senses). In case No15 the manager stated that there was no government intervention; however, the choice was forced in the sense that local authorities would provide their services if the venture was established with a certain partner. In case No 18 the local authorities also played an essential role. Finally, the manager in Case No3 differentiated his answer stating that there was no government intervention, but the choice was forced in the sense that there was no other potential partner. That was the rationale of other managers who stated that the choice was forced. There was no imposition from governmental authorities, but there were external factors which forced them in a way to select the specific partner. For example, in Case No37 the manager stated that he had no other selection to make. In case No33 the manager also stated that the location of the building, in the

town, was the best that he could find, so he was forced to make the venture with the municipality.

In general we can say that the governmental authorities do not interfere with the ventures operations. The selection of the partner is the privilege of the foreign investor. However, the choice may be forced in the sense of the general economic situation, or personal links between the Greek manager and local people. 81.6% of respondents provided a negative answer. The remaining 18.4% provided a positive answer.

18. Partner status (profile)

The above is an extension of the contribution which was made by Raveed-Renforth (1983). The authors distinguish between private firms and state owned firms. (We included individuals as well). The managers were asked to reveal the status of their Eastern European partner. That is, if it is a private firm, or individual, or if it is a state owned enterprise. Here we have 55 responses because the managers differentiated their answers. For example, in case No3 the manager stated that a combination between private and public firms was taking place in the ventures. The same was stated by the managers in cases No5,6 and 7. The manager in case No9 stated that in both ventures the partner is a state owned enterprise. The term public firm encompasses municipalities, central and local associations and any other firm which is part of the broader public sector. The partner's profile distribution can be considered as balanced between the three categories, since 34.5% stated that their partner is a public firm. Exactly the same percentage stated that the partner is a private firm. The remaining 31% stated that the partner is an individual. The only thing that we want to emphasise is that access to local government contacts can be achieved via certain individuals and not necessarily through state owned enterprises.

10.6. Conclusion

This concludes the treatment of motives for establishing joint ventures, and the partner selection criteria. Concerning motives the main point that emerges is that Greek firms reject financial and strategic motives for joint venture formation. The only country specific motive

which they consider essential is the increased bargaining power which the joint venture option provides against the local authorities.

Concerning partner selection criteria the main points that emerge are that Greek firms have selected partners with the following characteristics: They can provide certain infrastructure for the venture. They possess a certain status in the local community. They share similar strategic goals with those of the Greek venturer. They have smaller size compared to the Greek firm. They are characterised by the absence of any opportunistic behaviour.

In the next chapter we turn to further «core issues», as we have called them, namely control, conflict, stability performance and problems.

CHAPTER 11:

CONTROL, CONFLICT, STABILITY PERFORMANCE AND PROBLEMS

11.1. Introduction

This chapter extends the analysis of core issues looking at control (e.g. type, focus of, mechanisms), conflict (e.g. frequency, intensity, sources), stability (e.g. distinction of percentage change of share capital amongst partners), performance (e.g. of managers, personnel) and problems (e.g. telecommunications, convertible currency and other). The methodology adapted is as in the previous two chapters.

11.2. CONTROL OF THE JOINT VENTURE

A: TYPE OF CONTROL

A1: Decision making inside the Joint Venture

With the term «decision making inside the joint venture» we re-interpret the term «extent or degree of control», which the parent firms impose on the venture. From the writings of Killing (1982), Geringer and Hebert (1989), Blodgett (1992), we can identify three types of decision making inside a joint venture. These are:

a)The dominant type. In this case we identify four possibilities:

a.1. The decisions inside the joint venture are taken only by the local partner.

a.2. The decisions inside the joint venture are taken only by the Greek partner.

a.3. The decisions inside the venture are taken by the joint venture's general manager influenced by the local partner only.

a.4. The decisions inside the venture are taken by the joint venture's general manager influenced by the Greek partner only.

In this type of control one of the partners attempts to influence directly or indirectly the decisions inside the joint venture.
b) The second type of decision making is the «shared-management» one. Here both partners exercise their influence on the joint venture's general manager.
c) The third type of decision making is the «independent» one, where the joint venture's general manager can take the decisions which he or she believe to serve the interests of the venture with no interference from the partners. The managers were asked to reveal the type of control that they exercise on their ventures. Here we had one more response because the manager in case No3 differentiated his answer, that is, some ventures have a dominant character and some others a shared management one.

In the majority of responses we can see the dominant role that the Greek partner plays. In 30 responses (64%) it is only the Greek side which influences the general manager. In the other 16 responses (34%) both partners influence the general manager. That is, in 46 out of the 47 responses the Greek parent firm is involved in the venture's activities in directing the general manager. Only in one case (2%) does the Greek parent firm not intervene and the decision making process is determined by the venture's general manager. The implication of the above evidence is that, generally speaking, Greek partners exercise dominant control on the ventures.

A2: Nationality of the Joint Venture's General Manager

The managers of the Greek parent firm were asked to reveal the nationality of the Joint Venture's General Manager (J.V.G.M.). In case No8 we were told that the manager in the Albanian venture is an Albanian of Greek origin. In addition in case No41 the manager is also a Russian of Greek origin. In Case No6 the managers of the joint ventures are Russian, but under the control of a Greek manager. The response of case No3 is omitted since we were told that at the beginning the managers were Greeks but in a later stage they were replaced by locals. In total we have 44 responses including the Greek general manager of Case No6, since he does not manage the ventures. The outcome was that 57% were Greeks, 16% were Bulgarian, 9% were Romanian, 13.5% were Russian and 4.5% were Albanian.

From the above, the dominant role of the Greek parent firm is once again highlighted. What is more important is the difference between

the participation of local managers. Bulgarians, Romanians and Russians are IJVGMs more often compared to the Albanians. This is simultaneously a signal of the human capital shortage-in managerial terms-that exists in these countries.

B: FOCUS OF CONTROL

The focus of control has been identified by Schaan (1983), republished by Geringer and Hebert (1989). The focus dimension has to do with the parent's ability to «...exercise control over a relatively wider or narrower scope of the IJV's activities...». According to this we have:

a) Wider focus: The Greek parent controls every activity of the venture

b) Narrower focus: The Greek parent controls some activities of the venture

Here we had one more response because the manager in case No8 differentiated his answer between the two ventures. The managers were asked to reveal if the Greek parent firm exercises a wider or a narrower focus on the venture; that is if the Greek parent firm controls every activity or some activities of the ventures.

Previous evidence suggests dominant control and wide focus. Here the conclusion is almost identical. We had thirty responses (diagram No48) with dominant control. Here we have 33 responses with wide focus (70.2%). The remaining 29.8% exercise a narrower focus. Geringer and Hebert (1989) point out that: «...This notion of selective control efforts raises the prospect of a split control I.J.V., one in which a parent firm may exercise dominant control over only a few dimensions of the venture...». In the Greek case however it is evident that Greek parent firms exercise an overall and simultaneously dominant control over the ventures, with a small divergence of 6%.

C: MECHANISMS OF CONTROL

C.1: Board of Directors Meetings

The above mechanism has been identified by Schaan (1988) who points out that: «...This seems too elementary to deserve mention. Yet this device too often escapes proper attention and use. The frequency of meetings and the minimal required agenda coverage are subjects that may not be agreed upon by the partners in the first instance...control at the board level is not simply a matter of votes. Control also results from the ability to influence other board members on important issues...».

Here we had one more response because the manager in Case No7 differentiated his answer. The picture is mixed since in 17 cases (or 36.1%) this is considered as an important control mechanism and it was ranked with points four and five of the scale, while the opposite view is expressed in 14 cases (29.7%). The remaining 34% ranked the above mechanism using point three of the scale.

The above mechanism is used in the Greek case, however not with an absolute majority, that is above 50%. The small percentage gap of around 6.5% demonstrates that barriers such as the distance between the venture's location and the Greek venturer's location cannot be always overcome. For example, no one can travel every week from Greece to Russia for a board of director's meeting.

C.2: Contractual arrangements which specify exactly the rights and obligations of each parent firm.

The above mechanism has been identified by Schaan (1988) who writes: «...To avoid stalling the joint venture's operations, parents should agree that one or the other... should have final authority over well defined area in the event of disagreement...». The picture is once again mixed. In 17 cases (36.8%) the managers rejected the above mechanism, using points one and two of the scale, with two arguments. The first one was that the social and political situation in these countries makes contracts worthless. As one manager stated: «... A contract is just a piece of paper and as long as there are no legal guarantees or other institutional mechanisms which will guarantee its implementation; the contract will remain a worthless paper...». The second argument was that: «...If I specify in advance my rights on the venture, then how will I act in an

unexpected situation? The partner may stop me and he will be right...». On the other hand in 22 cases (48%) the opposite view was expressed and the importance of the above mechanism has been acknowledged, because the mangers ranked it using points four and five of the scale. The remaining 15.2% ranked it using point three of the scale.

C.3: Key personnel appointments.

The above mechanism has been identified by Schaan (1988) who points out that: «...Control requires knowledge of events... such knowledge is most readily available to the venture's parents if key personnel running the operation... are supplied by those parents... Thus, the appointment of key personnel is a control mechanism for parents... geographically remote...». This mechanism was considered as important or very important in 26 responses (56.4%). The opposite view was expressed in 16 responses (34.7%) arguing that this mechanism is not important because the personnel appointment means tremendous financial expenses for the Greek parent firm (level of wages and in hard currency). In addition this appointment may not be efficient for a considerable period of time, because of language and other cultural barriers. The remaining 8.6% ranked the above mechanism using point three of the scale. However, we can say that this control mechanism is used by the Greek parent firms, in a way which is directly linked with Schaan's remark for geographically remote partners. The number of appointments is directly linked with the size and the activities of the venture. For example for a small trading company the appointment of a Greek general manager will be the only one which will occur. However, if the joint venture is a big production unit the Greek parent firm will appoint other personnel as well (sales managers, technicians, accountants etc.).

C.4: Development of a certain organisational and structural framework

The above mechanism has been identified by Schaan (1988) who remarks that: «...parent companies can exercise control (on the joint ventures) by shaping the context in which decisions are made through formal and informal means...». The notion here is that in a venture where a certain organisational framework exists, employees know exactly what

to do; there is no confusion about the members responsibilities and the parent firm can easily detect the person who is responsible if something in the venture, or in one of its divisions, goes wrong.

This mechanism is used by the Greek parent firms. In 30 responses (65.2%) it was considered important, or very important. The opposite view was expressed by the 21.6% of respondents. The remaining 13% ranked the above mechanism using point three of the scale. The above suggests that Greek partners have clear objectives for their ventures, and they attempt to clarify every aspect of the venture's operations from the early days of establishment.

C.5: Sufficient acquaintance with low level personnel inside the joint venture.

The above is an informal control mechanism which supposes that low level personnel will have better performance if the manager of the venture and the partners provide psychological (not necessarily financial) support to the personnel. Furthermore, it is believed that, via junior personnel, the parent company can control everything in the venture. The evidence suggests that the above control mechanism is generally not used by the Greek parent firms, since in 25 cases (54.3%) it was not characterised as important or very important. The opposite view was expressed only in ten cases (21.7%) where the managers ranked it using points four and five of the scale. The remaining 24% ranked the above mechanism using point three (3) of the scale.

C.6: Integration between the parent firms and the joint venture.

The above mechanism is identified by Schaan (1988) who points out that: «... to be effective the... control mechanisms need integration into the parent organisations. This means that parents must assign responsibility for the joint venture reporting and control mechanisms to one executive and that this party is given adequate time and resources to perform the job properly...». Here we had 47 responses because the manager in case No9 differentiated his answer stating that at the early stages of ventures operation the above mechanism was not used; however it was used in a later stage.

The above mechanism is not used by the majority of the Greek parent firms. 55.2% of respondents ranked it using points one and two of the scale. The opposite view was expressed by 36.1% of respondents. The remaining 8.5% ranked it using point three of the scale. The argument of the Greek managers was that the control mechanisms which are used in the Greek firm, differ from those of the venture, because in the latter the entrepreneurial culture, environment and expectations differ.

C.7 Exercise of Diplomacy.

The above control mechanism has been identified by Schaan (1988) who remarks that: «...Because a joint venture involves at least two partners with different personalities and expectations one partner... must exercise influence subtly and indirectly, finding ways of shaping people's behaviours and decisions through inducement, persuasion and negotiations, rather than through command ... joint ventures are less flexible than wholly-owned subsidiaries. Indeed parent companies have to be prepared to make... compromises...». The picture is mixed, since in 22 responses (47. 7%) the managers stated that the above mechanism is not important and ranked it using points one and two of the scale. The opposite was expressed in 17 responses (36.9%). The remaining 15.2% ranked it using point three of the scale. The above mechanism is rejected and this is consistent with the dominant control which previous evidence suggest Greek firms impose on the ventures.

C.8: Existence of specific mechanisms for solving disputes.

The above mechanism is common in big joint ventures in the West. An external committee is set up at the venture's formation. This external (independent) committee solves the disputes which the partners cannot solve alone. The above control mechanism is not considered important or very important for the majority of the Greek parent firms. This was the manager's view in 27 cases (58.6%). The opposite was expressed in 11 cases (23.8%). The remaining 17.3% ranked the above using point three of the scale.

The above is consistent with the type of entrepreneurial activity which the ventures exercise. We must always remember that in the majority of cases we speak about trading companies and medium sized

production units. This kind of ventures does not need the above mechanism of control.

C.9: High voting rights

The above is one of the most «classical» control mechanisms. The intrinsic rationale is that the majority partner has high voting rights which allow him to pass or veto any decision. Here we have 52 responses because the managers in some cases differentiated their answers (Cases No9, 10, 12). In Case No21 the manager stated that he has high voting rights despite equal ownership. From the data we can see that the Greek parent firms generally consider the above control mechanism to be important or very important. This view was expressed in 36 responses (69.2%). The opposite was expressed only in nine responses (17.4%). The remaining 13.4% ranked the above mechanism using point three of the scale.

C.10: Evaluation of East-European's partner desire to control and manage the joint venture.

This is another informal control mechanism. The evaluation in advance of the partner's desires provides the Greek partner with flexibility. That is, if the Greek partner assesses the desires of the partner and his expectations and realises in advance that the partner has no intention to control the venture, it can in advance, impose its will.

The above control mechanism has been rejected by the overwhelming majority (84.7%) of the interviewed. The argument against it was that, in practice, the partner has no desire to control and manage the venture, but even if the desire exists, the partner does not have the ability and bargaining power to impose his or her desire. Only a 6.5% ranked the above mechanism using point four of the scale. The remaining 8.6% ranked it using point three of the scale.

C.11: Evaluation of legal and fiscal provisions, which affect the joint venture and may change.

The above is an indirect control mechanism. A foreign investor has certain rights which are the direct outcome of the host country's legislation. If this legislation changes, the rights and obligations of the foreign investor will change. The volatile legal framework is a mechanism of control since it can abolish rights that the foreign investor has and vice versa. That is why the legal and fiscal provisions are closely monitored and evaluated by the Greek parent firms. This is an important control mechanism for the majority of them (26 responses, that is 56.6%). The opposite view was expressed in 12 responses (26%) who ranked the above mechanism using point one of the scale. The remaining 17.3% ranked the above mechanism using point three of the scale.

C.12: Imposition of minimum performance requirements

The rationale of the above control mechanism is that the parent firm imposes, in advance, specific minimum performance requirement targets on the venture. For example, the Greek side may force the venture to produce 10,000 pairs of trousers per month, or to sell 5,00 boxes of tomato juice per week. This is a way of forcing the venture's personnel to achieve a certain level of productivity.

The picture is mixed since the above control mechanism has been characterised as important or very important by the managers in 23 responses (50%), while the opposite view has been expressed by the managers in 21 responses (45.5%). The remaining 4.5% ranked the above mechanism using point three of the scale. The implications of these results are discussed later (see chapter 12).

C.13: Veto Rights.

The above mechanism is used by the majority partner of the venture. However, there may be issues where the minority partner can have a veto right. The picture is as follows: The above control mechanism has been rejected by the managers in 19 responses (41.3%), who ranked it using points one and two of the scale. The opposite view has been expressed by the managers in 25 responses (54.2%), who ranked it using

points four and five of the scale. The remaining 4.3% ranked it using point three of the scale. It seems that the Greek partner uses its veto rights in cases where he/she wants to reject the proposals of the East European partner on a certain issue.

C.14: Selection of the joint venture's general manager.

The above mechanism differ from the previous mechanism «key personnel appointments» in the sense that the Western (Greek) partner imposes only the general manager and not other personnel such as sales managers, technicians etc. The empirical data demonstrate the importance of the above control mechanism. The managers in 40 responses (87%) stated that they consider the above mechanism important or very important and they adopt it. 10.8% of them ranked it using point one of the scale. The remaining 2.1% ranked it using point three of the scale. We have to point out that even if the general manager is not Greek, but local, he or she is selected by the Greek parent firm.

The above demonstrates that the majority of ventures can be controlled just by the general manager and the presence of other personnel is not necessary. This, of course, is once again linked with the activities and size of the ventures.

C.15: Training of personnel.

The above mechanism has been identified by Geringer and Frayne (1990) who remark that: «...employee training...can be a useful control mechanism, because it can remove performance deficiencies, thereby... allowing the organisation to be more effective. Training can also be used to encourage people to think and behave in ways consistent with the parents...cultures, objectives and interests... In addition, training can be used as a mechanism for establishing... a unique IJV culture, one which is appropriate to the venture's specific circumstances...».

The empirical data suggest that the above control mechanism is used by the majority of the Greek parent firms. In 30 responses (65.1%) the managers stated that they considered the above mechanism important or very important. The opposite view was expressed by the managers only in ten cases (21.6%). The remaining 13% ranked it using point three of the scale.

The implications from the use of the above mechanism are positive for the joint venture and for the East Europeans. However there is always the risk that the East Europeans will abandon the venture after receiving their training. This possibility however is minimal, because of the high unemployment which at the moment characterises the Eastern-European economies.

C.16: Ex post performance evaluation.

The above mechanism has been identified by Geringer and Frayne (1990) who point out that: «... In the context of controlling I.J.V. operations, performance appraisals serve many specific purposes: namely management and staff development, performance improvement and compensation... Performance appraisals should not be used strictly in a reward/punishment manner. Instead, they should serve to identify strengths and weaknesses so that training and development programmes can be tailored to the employee's needs...».

The picture concerning the above control mechanism is mixed in spite of the slight majority of the responses, which considered it important or very important. In 24 out of the 46 responses (52.1%) the managers stated that they considered the above mechanism essential and ranked it using points four and five of the scale. The opposite view was expressed by the managers in 19 responses (41.3%). The remaining 6.5% ranked it using point three of the scale.

In general, the above mechanism is applicable to the Greek case, and it is directly linked to the fact that Greek parent firms use also the other performance-control mechanism, the advance imposition of minimum performance requirements. The implication of the use of the above mechanism will be analysed later (see chapter 12).

C.17: Compensation and Reward strategies

The above control mechanism is identified by Geringer and Frayne (1990) who remark that: «...The use of compensation as an I.J.V. control mechanism may take several forms. For example, parent companies that want to maintain control over the... I.J.V's personnel sometimes attempt to do so by keeping the venture's general manager or other key employees on the parent's own payroll... another strategy for exercising control is to

explicitly tie an employee's bonus and possibly his or her career path within the parent's international operations, to the attainment of the I.J.V's long term strategic objectives...».

The empirical data demonstrate that the above control mechanism is not used by the Greek parent firms. In 34 out of the 46 responses (74.1%) the managers stated that the above mechanism was not essential and ranked it using points one and two of the scale. The opposite view was expressed by the managers in six cases (12.9%). The remaining 13% ranked the above mechanism using point three of the scale.

The above is attributed to two factors. The first, has to do with the financial inability of the Greek partner. We must always remember the distinction that we made in chapter four, that is the majority of joint ventures are small trading companies, established by small firms or individuals. These parents do not have the financial ability to pursue these kinds of strategies, and the same is true for bigger firms as well.

The second, has to do with the general feeling that compensation and reward strategies, will have the exact opposite outcome, that is they will intensify the efforts of personnel and increase their productivity, but will put the venture into chaos, because the workers who will not receive any bonus will start strikes in order to achieve the same level of salaries.

C.18: Policies which govern parental intervention

Here the notion is that in the contract of the venture it is specified that the parent firms will intervene following certain policies. The above control mechanism is generally not used by the Greek parent firms. In 26 responses (56.4%) the managers rejected it. The opposite view was expressed by the managers in 14 responses (30.3%) who ranked it using point four and five of the scale. The remaining 13% ranked it using point three of the scale.

11.3. CONFLICT IN JOINT VENTURES

A: Frequency of conflict

The above measure has been identified by Habib (1987) as well as other scholars as one manifestation of conflict. In the literature the above measure of conflict has been expressed in a quantitative way

(mathematical). In our research the managers were asked to provide a qualitative description on the issue of conflict frequency, using a 1-3 point scale. Point one (1) denotes the low level of frequency, point two (2) denotes the medium frequency level and point three (3) denotes the high frequency level. Here we have 47 responses, because the manager of one firm (Case No31) differentiated his answer at the beginning of venture's life-time and at the time of the interview. He stated that, at the beginning, the frequency was at a medium level, but at the time of the interview it was at a low level. From the above data we can see that the frequency of conflict in the ventures is at low (51%) and medium (32%) levels. Only in eight responses (17%) high frequency level has been reported. The above is one of the most important results, since it is the prime stability indication. We have already found out that the joint ventures are under a dominant control status from the Greek parent firm. According to the mainstream rationale of western scholars dominant joint ventures become unstable (because of high conflict) and it is the shared management or the independent ventures which experience high stability rates. However, according to this first result the joint ventures which have been established between Greek enterprises, and enterprises from the Balkan countries and Russia are characterised by low frequency of conflict, which means high stability. The following section demonstrates the results on the issue of conflict intensity.

B: Intensity of conflict

The above measure has also been identified by Habib (1987), as well as other scholars. The above measure of conflict has been expressed in a quantitative (mathematical) way. In our research the managers were asked to provide a qualitative description on the issue of conflict intensity, using a 1-3 point scale. Point one denotes the low level of intensity, point two denotes the medium intensity level and point three denotes the high intensity level. Here we have one more response, because the manager in one firm (Case No41) stated that at the beginning the intensity of conflict was at low levels, but eventually ended at high levels. In addition to this, the manager of the firm in Case No9 differentiated his answers concerning the two ventures. Furthermore the manager of Case No37 stated that he could not provide any further answers, because the venture was not operational. The empirical data demonstrate that in the majority of responses the intensity of conflict is at low and medium levels.

(57.4% and 29.8% respectively). The remaining 12.8% ranked the above question using point three of the scale. This is another indication of joint venture's stability. This indication supports the view that dominant controlled East-West joint ventures experience low conflict, which is an indication of high stability rates.

C: SOURCES OF CONFLICT

C1: The partner attempts to pursue personal goals

Because a joint venture is a type of collaborative agreement between two or more partners, a number of scholars emphasise the fact that a company will establish a joint venture in order to pursue personal goals at the expense of the interests of the venture and the other partner. In this thesis we have pointed out that the term «personal goals» has two meanings. The former has to do with opportunistic behaviour which can jeopardise the venture. The latter has to do with opportunistic behaviour which cannot jeopardise the venture. The managers were asked to use again the 1-5 point scale in order to classify the above source of conflict. Here we had 45 responses, because the manager in Case No37 stated that he could not provide any further evaluation, because the venture was not operational. The above source of conflict has been rejected by the majority of managers (27 responses or 60%). We have to point out that the notion of «personal goals» is perceived differently by the managers of Greek parent firms. Here we refer to the two different types of opportunism that we have already distinguished earlier. 28.8% ranked the above source using points four and five of the scale. The remaining 11.1% ranked it using point three of the scale. The rejection of the above source of conflict was made on the basis that the partner will pursue personal goals which the Greek side can tolerate.

C2: Different Cultural Background

The above source of conflict has been identified by many scholars. Among them are Lane and Beamish (1990) who point out that: «...joint ventures... frequently fail... Many of the problems can be traced to cultural and behavioural factors resulting from inadequate understanding of and training in, cross-cultural co-operative behaviour...». The

managers were again asked to use the 1-5 point scale in order to classify the above source of conflict. Here we had 45 responses, because of the reason that we explained already in the previous source (C1). The picture is mixed for the above source of conflict. In 21 responses (46.7%) the managers considered it important or very important. The opposite view was expressed in 18 responses (40%). The remaining 13.3% ranked the above source using point three of the scale.

The different entrepreneurial mentality of the East Europeans has been analysed in chapter 3. Here, however, we are concentrating on the culture of these societies, a characteristic of which is wider compared to entrepreneurship, since as D. Roustan remarks: «...when we pronounce the word culture we think, mainly, the quality of spirit, the quality of discretion and of sentiment...». It is obvious that a different culture is the cause of different entrepreneurship, of different evaluation for economic evolution. The above result demonstrates the fact that Greeks have a lot of similarities with their Balkan neighbours, but simultaneously they have differences as well.

C.3: Different strategic goals of the partners

The above source of conflict has been identified by many scholars. For example Geringer and Frayne (1990) remark that: «...Differences in objectives among an I.J.V's stockholders are common and ...the joint venture is likely to encounter conflicts, performance problems and even termination...». The above source of conflict has been rejected by the managers of Greek parent firms. (34 responses or 75.6%). Comparing the above results (diagram No73) with those of diagram No34 we notice that in spite of the 22 positive responses there, here the responses which considered the above source of conflict as unimportant are 31 or 69% that is nine more. This probably demonstrates that the majority of those responses, which in diagram No34 ranked the motive at medium level of importance, are «closer» to «positive» rather than «negative» evaluation. The rejection of the above source of conflict is a further proof of the high stability of the joint ventures which have been established between Greek firms and firms from the Balkan countries and Russia.

C4: Different time horizon in the strategy of the partners.

The above source of conflict has been identified by Ganitsky and Watzke (1990), who point out that: «...the greater the divergence in time horizons of the ventures, the:

1. more divergent are the staffing goals for the venture
2. greater the difference in desired delegation of authority and responsibility to the I.J.V's management at both strategic and operational levels
3. greater a)the difference in the venture's decision making processes, and b) the complexity of the I.J.V's decision-making process.
4. more (a) difficulty in transferring key personnel from the parent organisations into the I.J.V. and b)blockage of promotions from the I.J.V. into the parents.
5. greater a)the divergence in approaches to gain loyalty of key executives in the I.J.V. ...and b)the problem of loyalty for the I.J.V's own employees.
6. greater the unfamiliarity of each venturer with the other's modus operandi and with that of the venture
7. more screening of information by all entities leading to greater need for informal communication channels to overcome resulting mistrust...».

Here we had 45 responses for the reason expressed in C1. The data demonstrated that this source of conflict has been rejected by the majority of the respondents (60%). A 28.8% ranked the above source using points four and five of the scale. The remaining 11.1% ranked the above source using point three of the scale. (This results is similar to those that diagrams No34 and 73 suggest). This result is another demonstration of low conflict inside the joint ventures, an outcome of dominant control.

C5: Competition between parent firms.

As Kogut (1989) remarks: «...Co-operation motivated by the need to mitigate... difficulties...is likely to be fragile...Ventures are likely to be characterised by competitive rivalry... Whether such rivalry leads to termination is... a function of the... degree of reciprocity among the partners. Instability of the venture should increase, the greater the competitive incentives among the partners and the lower the degree of commitment to the overall relationship...». From the above it is obvious that if the venturers compete and not collaborate, conflict will escalate

inside the I.J.V. and this will create instability. Here we had 45 responses for the reason expressed in C1. The empirical data demonstrate that the above source of conflict has been rejected overwhelmingly by the interviewed. (42 out of the 45 responses or 93.3%). The remaining 6.6% classified the above source using points four and five of the scale.

The rejection has been made on the basis of dominant control, and of the East European's inability to compete with the Western partner. This inability is not only an outcome of minority ownership. It is also the outcome of the fact that the pecuniary and non-pecuniary contribution of the East European to the venture is minimal, compared to that of the Greek partner. In simple terms the East European does not have the ability to compete with the Western European (Greek) partner. This of course is another demonstration of low conflict inside the joint venture.

C6: Transfer of knowledge

The transfer of knowledge is a major source of conflict in R&D joint ventures which have been established between enterprises of the advanced Western countries. Here we had 45 responses for the reasons expressed in C1. The above source of conflict has been rejected by the overwhelming majority of respondents (41 out of 45 responses or 91%). This is another outcome attributed to the entrepreneurial character of the joint ventures. We must always remember that we have trading and, up to a lesser extent, manufacturing joint ventures and not R&D joint ventures. Only 6.6% of respondents ranked the above source using points four and five of the scale. The remaining 2.4% ranked the above source using point three of the scale. In the Greek case even the 6.6% is considered a high response. This is attributed to the fact that some managers expressed their concern over the long run implications of training East European personnel.

C7: Use of the same trademark.

We wanted to test if the East Europeans use illegally the trademark of the Greek partner. Here we had 45 responses for the reasons expressed in C1. The above source of conflict has been overwhelmingly rejected by the interviewed: (98%) who ranked it using point one of the scale. This result is also an outcome of the nature of the Greek case. That

is the majority of ventures are small, established by small parent firms with no trademark.

C8: Disagreement between the partners for the distribution of profits

We wanted to test if the distribution of profits is a possible source of conflict between the parent firms and the joint venture. There is always the possibility that the general manager of the venture wants to invest the profits, but the parent firms want to distribute them.

Here we had 45 responses because of the reasons, that we have already put forward in C1. The empirical data demonstrate that the above source of conflict is not applicable to the Greek case. 88.8% of respondents ranked it using points one and two of the scale, 8.8% ranked it using point three of the scale. The remaining 2.2% ranked it using point four of the scale. This is again a positive outcome of dominant control and demonstrates the low level of conflict.

C9: Different management style

As Killing (1982) remarks: «...The problems in managing joint ventures stem from one cause: there is more than one parent. The owners... can-and will-disagree on just about anything: (for example) what constitutes good or bad management? ...An American-German venture, located in the United States, featured board meetings in which the Americans continually wanted to change some of the German operating procedures... This request made in English, was followed by a long discussion in German among the German board members. Their... response was negative: «The joint venture will continue to operate the way we do in Germany»... In such cases, an apparently straightforward decision becomes long and complex...». If the different management style of the Germans and the Americans is a source of conflict, everyone can understand what will occur between a Western European and an Eastern European partner.

The managers were asked to use again the 1-5 point scale in order to classify the above source of conflict. Here we had 45 responses because of the reason that we expressed in C1. The data demonstrate that the above source of conflict is applicable to the Greek case. The above source was ranked as important or very important by the 66.6% of interviewed.

The opposite view was expressed by 22.2% who ranked it using points one and two of the scale. The remaining 11.1% ranked it using point three of the scale. It is essential to point out that we do not refer to the culture of the Eastern European. (That remark was made in C2). Here we refer to his management style and practices. The above result is consistent with the different form of entrepreneurship which has been developed between Western and Eastern European managers.

C.10: Bad personal relations inside the joint venture

The above is another potential source of conflict. It is based on the assumption that the venture's personnel comes from the parent companies. If the personnel does not co-operate and bad relations occur, this will have a direct harmful effect on the venture's partners. Here we had one more response, because the manager in case No1 differentiated his answer at the beginning of the venture's life time and at the time of the interview. The empirical data strongly suggest that the above source of conflict is not applicable to the Greek case, since 82.5% of respondents ranked it using points one and two of the scale. The opposite ranking occurred for 6.4%. The remaining 11% ranked it using point three of the scale.

C11: Conflict between the joint venture's general manager and the parent firms.

As Anderson (1990) remarks: «...the interests of the joint venture and the parents are often in conflict... Because joint ventures have multiple parents, they may be viewed as «outsiders» by parent personnel, who question their commitment to the corporation...». It is often suggested that when the joint venture's general manager follows a certain strategy, some aspects of it may «annoy» one of the parent firms. This will result in conflict escalation. Here we had 45 responses, because of the reasons given in C1. The above empirical data demonstrate that the above source of conflict is not applicable to the Greek case, since in 43 out of the 45 responses (95.5%) the above source was not considered important, and the managers ranked it using points one and two of the scale. The remaining 4.5% of the managers ranked the above motive using point three of the scale.

This is again a result of the dominant control which Greek firms impose on the ventures. The joint venture's general manager does not have the autonomy to determine his or her strategy. The rejection of the above motive in another indication of the low conflict which these joint ventures experience.

11.4. STABILITY IN THE JOINT VENTURES

As Gomes-Casseres (1987) remarks: «...we can distinguish three possible types of instability in a joint venture. First the venture may be liquidated completely...Second the venture may be sold to the local partner or to outsiders, in which case it remains in operation, but under different ownership. Third, the MNE may buy out its venture partner and create a wholly owned subsidiary...». We decided to omit the first type of instability (absolute liquidation) and to concentrate on the other two possibilities, that is percentage change of the share capital by both partners and transformation of the venture into a wholly owned subsidiary.

1. A change of the (%) share capital is expected by the Greek parent firm.

This is the first type of instability, that is the Western partner increases or decreases the % share capital that he or she has in the I.J.V. The managers were asked to reveal their future plans concerning their future percentage share capital participation in the ventures. The empirical data suggest that the majority of Greek parent firms do not intend to change their percentage capital contribution to the ventures. 62.2% of respondents provided a negative answer; that is they did not intend to change their % share capital participation. Even the managers who stated that this possibility existed (29%) immediately pointed out that this would occur only under certain conditions. The remaining 8.8% could not provide an answer.

For example the manager in Case No1 stated that the Greek parent firm might increase its share in the production oriented venture in Bulgaria; however the share capital in the trading venture will remain constant. Other managers especially those activate in Albania stated that any potential change in the share capital would occur according to the evolution of bilateral political relations. This, for example, was the

answer by the managers in cases No9, 17. At the time of the interview, bilateral political relations were poor, so that factor had caused concern in the business community, especially for those activated in that country. In case No19 the possible change in the percentage of the share capital was linked with the future developments in the Bulgarian market and legislation. In case No33 the possible change was linked to the venture's performance.

The above answers illustrate the diverse causes which may eventually lead the Greek parent firms to change their percentage contribution to the ventures. We can see that a possible change is not always linked to internal factors which concern the joint venture (performance, conflict etc.). The change of share capital may be the outcome of political factors concerning domestic evolution in these countries, or bilateral political relations. A change may also occur if the Greek parent firms consider the economic evolution in these countries as unsatisfactory. If the Greek parents come to the conclusion that economic reforms will not succeed in these countries then they may reconsider their decisions.

The above demonstrates that joint ventures are stable, an outcome of dominant control and low conflict. Furthermore it demonstrates how relations may be destabilised by the external environment (economic and political situation).

2. A change of the (%) share capital is expected by the East European partner.

This is the second type of instability, that is the East European partner changes his or her % share capital. The managers were asked to reveal if their Eastern European partners had declared their intention to change their percentage share capital participation. 70.2% of Greek managers stated that they had no indication that their partner would change its share capital. 10.6% stated that their partners intended to change their share capital participation. The remaining 19.2% stated that they could not provide an answer on this issue. Here we had two more responses because the managers in cases No4 and No7 differentiated their answers. The above result is based on the answers given by the Greek side, so it is possible that someone may rise a validity issue. However, we have to point out that this type of result is what we expected. The East Europeans do not have the ability to change their percentage share

capital. The only way that this can occur is through the decision to re-invest their profit share in the venture and simultaneously inject additional funds. This however is almost impossible to happen. The majority of East Europeans do not possess additional financial capital. In the majority of cases their contribution to the venture is non pecuniary. Furthermore they use their profit share as an additional source of personal income. The above suggests that as long as the general macroeconomic developments in these countries are unfavourable, the East European will not be in a position to destabilise the I.J.V. This is a further signal of I.J.V's stability.

3. The transformation of the joint venture into a wholly owned subsidiary is possible in the future

This is the third type of instability which we decided to test. Here, the managers were asked to reveal if they intend to transform the venture into a wholly owned subsidiary. The empirical data again support the case for the stability of the joint ventures. The majority of managers in Greek parent firms (60%) expressed the view that they do not intended to change the status of the company from joint venture to wholly owned subsidiary. The opposite view was expressed by 22.2%. The remaining 17.8% could not provide an answer. This is another signal of stability.

11.5. PERFORMANCE OF THE JOINT VENTURE

There is no consensus on the intellectual definition of performance. Here we used three measures: Financial performance, joint venture's general manager performance and personnel performance.

1. Financial Performance

The above measure has been used by Tomlinson (1970), republished by Geringer and Hebert (1989). It has also been identified by Vlachoutsicos (1993). The managers were asked to use a 1-3 point scale in order to evaluate the financial performance of the venture. Point one denotes poor financial performance, point two denotes medium financial performance and point three denotes good financial performance.

The managers of the Greek parent firms have ranked the financial performance of their ventures according to subjective criteria. So «poor performance» does not necessarily mean losses. It may mean low profits compared to the expected ones. Furthermore it may mean that the level of profit is low compared to the physical, financial and moral effort of the Greek parent firm. The empirical data suggest that there is a balanced financial performance, since the number of responses in the three categories is almost identical. The 28.2% of respondents used point one to evaluate the financial performance of the venture. The 26.0% of respondents used point two and the 30.4% used point three. The remaining 15.2% could not provide an answer.

The above result indicate that the majority of I.J.Vs (56.4%) experience medium and good perceived performance levels. The above can be interpreted in two different ways: The first, has to do with the dominant control which is imposed on the I.J.Vs. It can be said that dominant control leads levels of good and medium performance which seem low. The second, has to do with the external environment which the ventures face. It can be argued that the unfavourable macroeconomic and political environment is to be blamed for the low levels of good and medium performance. The second explanation is probably the most realistic.

2. Performance of the joint venture's general manager

Here we extend the rationale of Geringer and Hebert (1991). The managers were asked to use a 1-3 point scale in order to evaluate the performance of the joint venture's general manager. Point one denotes poor performance, point two denotes medium performance and point three denotes good performance level.

The manager in Case No3 differentiated his answer stating that the performance of the general manager in some ventures is different compared to other ventures. The ranking was either «good» or «medium». The manager in case No15 stated that he was not in a position to evaluate the performance of the general manager because of the venture's small operational time. The same occurred in Case No37. (Cases No3, 15 and 37 are omitted).

The empirical data suggest that the Greek parent firms generally are satisfied with the performance of the general managers. The issue of general managers performance is very crucial and it is analysed in depth,

in chapter twelve. 57.1% of the respondents evaluated the performance of the ventures general managers using point three of the scale. 33.3% used point two. The remaining 9.5% used point one.

3. Personnel Performance

Again we extend the rationale of Geringer and Hebert (1991). The managers were asked to use a 1-3 point scale in order to evaluate the personnel performance. Point one denotes poor performance, point two denotes medium performance and point three denotes good performance level. Here the managers in Cases No15,37 could not evaluate personnel performance, because of the venture's small operational time in the former case and no operational time in the latter case. The empirical data suggest that personnel performance is on a medium level (The numerical parity between «Level 1» and «Level 3» is a notable result). In case No30 the personnel performance has been considered as good, because the dominant character of the venture is trading. 25% of respondents ranked the performance of the personnel using point one of the scale. 50% used point two of the scale. The remaining 25% used point three of the scale. The above results are discussed in the following chapter.

11.6. PROBLEMS THAT JOINT VENTURES FACE.

1. Corruption

The above problem has been identified by Greek entrepreneurs. The managers were again asked to use the familiar 1-5 point scale in order to classify it. Here we had 46 responses because the manager in case No37 evaluated the situation, despite the fact that the venture was not operational yet.

The term «corruption» is subjected to personal interpretation on the part of each manager in exactly the same way as the term «opportunism». The empirical data indicate that it is a major obstacle in business activities in Eastern European countries. However we point once again to the subjective nature of the above obstacle. Corruption may mean lack of business ethics, bribing, blackmail and threats by the mafia,

abuse of funds, etc. However it may also mean free meals in a restaurant, packets of cigarettes or alcohol. 4.3% of respondents ranked the above motive using point two of the scale. 37% ranked it using point three of the scale. The majority, the remaining 58.7%, ranked it using points four and five the scale.

2. Bureaucracy

The above problem has been identified by Greek entrepreneurs. The managers were again asked to use the 1-5 point scale in order to classify the above problem. Here we had 46 responses because the manager in case No37 provided an answer. The empirical data suggest that bureaucracy is a major obstacle in these countries, since 89% of respondents ranked it using points four and five of the scale. The remaining 11% ranked it using point three of the scale. However it is important to point out that the majority of those interviewed ranked the above business obstacle as «high» and not «very high». This may be attributed to domestic experience. Greece has also a bureaucratic public sector, so Greek businessmen are familiar with a bureaucratic situation. That is why they evaluated the above obstacle with number four of the scale.

3: Convertible Currency or Foreign Exchange Problem

Here we had again 46 responses, because the manager in Case No37 provided an answer. The convertible currency problem has been analysed by Vlachoutsicos (1993). The empirical data suggest that the above obstacle is very serious; since 60.7% of respondents ranked it using points four and five of the scale. Just 4.3% ranked it using point one of the scale, an 11% ranked it using point two of the scale. The remaining 24.0% ranked it using point three of the scale. It is important to point out that even in cases where the joint ventures export their products abroad (implying that they have a source of foreign exchange) their managers stated that they face a foreign currency shortage. This is attributed to the fact that foreign currency earnings from exports take a considerable time to reach the joint venture because of the underdeveloped financial market. During this time the exchange rates alter, and of course there is no «hedging» for Eastern European currencies.

Vlachoutsicos (1993) examined this problem in Russia. His research consists of 33 joint ventures: ten US-Russian, seven Finland-Russian, six German-Russian, two Swiss-Russian, two Italian-Russian and one from Britain, France; Sweden and Japan. Furthermore there were two multi-partner joint ventures. Vlachoutsicos provides certain key strategies which the joint venture has to follow in order to face the above problem. He identifies «convertible currency inputs» and «convertible currency outputs». The former can come from exports that the joint venture may achieve abroad or by the partners, domestic sales which directly or indirectly contribute foreign hard currency. Import substitution is for example an indirect way which «offers» hard currency to the venture. Finally, services to western suppliers can be an «input» of hard currency. The latter, that is *«convertible currency outputs»*, *can be* expenses for productive inputs (machinery, spare part etc.), expenses for personnel (salaries in hard currency for the general manager, business trips, training of local personnel abroad etc.). The final category for hard currency output may be current expense (such us marketing, debt repayments etc.). The crucial issue for every venture is to have more inputs for hard currency than outputs.

4: Telecommunications

Here we had again 46 responses, because the manager in Case No37 provided an answer. The empirical data demonstrate that the low level of telecommunications services is a major obstacle, and it is an issue that foreign investors have to evaluate carefully. The majority of respondents (93.4%) ranked the above problem using points four and five of the scale. The remaining 6.6% ranked the above problem using point three of the scale. The problem of telecommunications is very well documented by Kioulafas-Maravelas (March 1994) as well as by Babanasis-Skarpelis (November 1994). Here we have to use a table presented by Babanasis- Skarpelis.

TABLE 11.1: Indicators of telecommunications development in the Black Sea Countries.

	Main telephone lines, per 100 inhabitants		Required Investments 1993-2000 in mill USD		Main New telephone lines 1993-2000	
Country	1992	2000(estimate)	Total	Annual	Total	A.A.G.R.
Greece	41	64	3.671,2	452,1	2.411,5	5,5
Bulgaria	25	44	2.355,5	294,4	1.570,4	6,6
Russia	15	25	23.266,2	2.908,3	15.510,8	6,7
Ukraine	14	25	8.665,0	1.083,1	5.776,7	7,3
Turkey	14	66	55.121,7	6.890,2	36.747,8	21,9
Moldova	11	20	601,7	75,2	401,1	7,5
Romania	11	15	1.369,8	171,2	913,2	3,9
Georgia	10	14	30,9	46,4	247,3	4,6
Developed World	49	61	211.134,8	26.391,9	140.756,6	3,5
Total for the World	10	15	527.234,0	65.904,3	351.489,3	6,2
Where A.A.G.R.: Average annual growth rate.						

Source: International Telecommunications Union (ITU), Geneva 1993 (presented in Thessalonika 24-26 November 1994).

As Babanasis points out: «...The telephone density of Black Sea countries is around 10-25 telephones per 100 inhabitants and it is expected to reach (by the year 2000) the number of 14-44 telephones. The same indicator for Greece is 41 and 64... The average annual growth rate of new telephone lines... is expected to be between 4-22%. These rates are much higher compared to the expected GNP growth rates in global level... The telecommunications modernisation of these countries will require (until the year 2005) *an estimated 250 billion USD. The problem of finding* these vast amounts of capital (can not be) solved easily...». The above demonstrates how severe is the telecommunications problem in these countries. Its importance is documented also by the other studies that we have mentioned.

5: Lack of Banking Support

The above problem has been identified and discussed by Greek entrepreneurs. Here we had 47 responses because the manager in case No8 differentiated his answer for Albania and Romania. The empirical data suggest that the above obstacle is also severe, and must be considered seriously by international inventors. This problem was evaluated by 78.6% of respondents as important or very important. Only 15% of respondents evaluated it using point three of the scale. The remaining 6.3% ranked it using point two of the scale. However, this

impediment is of a short-term nature, because banking institutions will expand their activities in these countries in the future.

6. Volatile Legal Framework

The above problem has been identified by the Greek entrepreneurs. Here we had again 46 responses, because the manager in Case No37 answered the question. The empirical data demonstrate that the volatile legal framework, associated with unexpected changes, is a major obstacle for businessmen in Eastern European countries, since 97.8% of them ranked it using points four and five of the scale. The remaining 2.1% ranked it using point three of the scale.

11.7. Conclusion

This chapter has considered in detail issues of control, conflict and stability in I.J.Vs. It has also looked at the performance and problems of I.J.Vs. Concerning control the main points which emerged were that the Greek parent firms impose dominant control on the ventures over a wide variety of issues and they use a wide variety of control mechanisms such as high voting rights, imposition of minimum performance requirements, selection of the joint venture's general manager etc.

As regards conflict the evidence suggests that this is minimised in terms of frequency and intensity. Furthermore we found that only two sources of conflict exist inside the joint ventures. These are the different cultural background and the different management style.

The general points to emerge from the evidence on stability were that the joint ventures are stable since the partners have no intention to change their percentage share capital or to transform the joint venture into a wholly owned subsidiary. Finally, concerning performance and problems the key points were that the joint ventures, in general, experience good and medium financial performance as this is perceived by the Greek venturers and the same stands for the performance of the personnel and the general managers. Simultaneously the ventures face tremendous problems from the external environment, such as bureaucracy, bad telecommunications, currency convertibility, etc.

CHAPTER 12:

ANALYSIS AND COMPARATIVE CONSIDERATIONS

12.1. Introduction

Here we provide a wide ranging account of Greek joint ventures using our evidence. In doing so, we emphasise responses that were evaluated on any single issue as being either «significant» , or «non-significant». That is, we omit the responses which used number three in our five point scale and we consider only those, which used either the numbers four and five of the scale or the numbers one and two of the scale. In doing so, we refer to certain diagrams of the Appendix.

12.2. MOTIVES TO EXPAND ABROAD.

This issue has been of an auxiliary nature in our research. We identified three categories: firm specific motives, strategic motives, home and host country specific motives. The results demonstrated that Greek firms have all these kinds of motives to expand abroad . From the first category, possession of better technology compared to local firms is a motive which the Greek firms have in order to expand abroad. The motive was considered important by 63% of respondents. The opposite view was expressed by 26%. (see diagram No2). The second motive of this category, which is also applicable in the Greek case is the possession of superior entrepreneurial and managerial capabilities. This was considered important by the 76% of respondents. The opposite view was expressed by 4.3%. (see diagram No3). The third motive, that of access to cheaper capital compared to local firms was dismissed, by the respondents.

In the second category we have identified seven different strategic motives. From those only two are applicable to the Greek case. These are the first mover advantage and the geographical diversification strategy. The former was considered important by the 87% of the respondents. The latter was important for the 56.5% of the respondents. (see diagrams No4 and 10). Furthermore the cost leadership strategy motive is important for manufacturing

firms. However, because the bulk of Greek enterprises established trading ventures in these countries that motive was more often rejected than accepted, by a small majority. That it 43.4% considered it non-significant, while the opposite view was expressed by 41.3% of respondents. (see diagram No6).

In the third category, we have identified six motives. From those only one is applicable in the Greek case: The level of demand in these countries. This was considered important by the 44.6% of respondents. The opposite view was expressed by the 17% of respondents.

12.3. MOTIVES TO SET UP A JOINT VENTURE.

This is the first core issue in our research. We identified three categories of motives. These are: financial, strategic and country-specific. Both financial and strategic motives were dismissed by the Greek managers. Furthermore, all country specific motives were also rejected, with one exception: the joint venture option enhances the bargaining power with local authorities. The above was considered essential by 54.3% of the respondents. The opposite view was expressed by only 19.5% of the respondents.(see diagram No29). The above is the most surprising result; as it seems to contradict Western views. However, it demonstrates what we have already noted at the beginning of the thesis; that every social phenomenon is unique and what is applicable in one case may not be applicable in another. Indeed this is the value of undertaking new work of this sort. Whilst, Western economists and scholars are correct in their theoretical stream of reasoning, when they identify financial, strategic and country specific motives as being important for joint venture formation, it is not incorrect for Greek managers, on the other hand, in considering their own circumstances, to dismiss these motives. As compared to Western firms to which these motives have been imputed, Greek firms are not essentially international players. In a list of the biggest one hundred firms in the European Union there is not a single Greek enterprise. The majority of Greek entrepreneurs make decisions using their market experience and instinct. Their experience encompasses business strategy elements. However, very few will establish a venture with a prior specific business plan and strategy, because of the general macroeconomic situation in these countries. That is they start to operate in these countries without knowing exactly what they will face.

The fact that they rejected all the standard motives, with the exception of that which sees the joint venture as a vehicle which enhances the bargaining power of their firms with local authorities, is proof of our assertion.

The Greek entrepreneurs typically establish joint ventures for a simple reason, which can be captured simply by the term: «safety». As many of the managers put it: «...The local authorities understand that if they make our life difficult with the imposition of bureaucratic barriers, extravagant demands etc., they shall make the life of some of their compatriots difficult as well....». The intrinsic rationale is that any other difficulty or problem which may arise will be faced successfully by the experience and the instinct of the managers. However, if the local authorities are engaged in hostile conduct against the Greek firm, then no manager can confront this situation.

12.4. PARTNERS CHARACTERISTICS.

The second core issue in our research was the characteristics that Greek firms want their Eastern European partners to have. We identified eighteen characteristics (criteria). Of those seven are significant for the Greek managers. The Greek firms want from their partners to be in a position to provide certain infrastructure for the venture. This, in the majority of cases, amounts to just one or more buildings. The above was considered important by 58.6% of respondents. The opposite view was expressed by only 39.1% of respondents. (see diagram No30). The Greek firms also look for a partner, who possesses a certain status in the local community. This is essential for the 56% of the respondents. The opposite view was expressed by 31%. (see diagram No32). Another important characteristic is that the partner must share common strategic goals. This was important for the 47.8% of respondents. The opposite view was expressed by 26%. (see diagram No 34). Furthermore, another desired characteristic of the East European partners is that they have smaller size compared to the Greek firm. This is the case for the 69.8% of respondents (see diagram No 35). In addition to this the Greek managers stated that theoretically, the partners do not have any opportunistic motives for collaboration. In practice, however, opportunistic motives exist. The crucial practical issue is that these motives may be trivial. For example, when the partner hires his daughter or his brother as an employee into the venture, opportunistic behaviour seems to be making its presence felt. This behaviour, however, is acceptable by the Greek side. What the Greek side will not tolerate is a situation in which the partner attempts to abuse funds, or permits his relatives to work inefficiently.

We also found that typically the partner is not imposed by the external environment (local or governmental authorities). The Greek side can select his or her partner with no intervention. This is demonstrated in diagram No46

where 81.6% of the respondents stated that they do not face any type of direct or indirect intervention. Our final finding, on this issue, is that Greek firms are willing to use as partners, almost equally, public firms and private firms as well as private individuals. This is demonstrated in diagram No47, where we can see that private and public firms have the same percentage (34.5), while private individuals, are partners, in 30.9% of cases.

12.5. CONTROL IN THE JOINT VENTURES.

This is the third core issue in our research. The theoretical dimensions which this issue encompass are the type of control, the focus of control and the mechanisms of control.

We found that a dominant form of control is the type which the Greek parent firms adopt most often in the joint ventures. Dominant control is imposed in 63.8% of cases, while independent ventures occur in only 2.1% of cases.(see diagram No48). We also found that the dominant nationality of the ventures' general managers is Greek. The managers in 56.8% of ventures are Greeks, Bulgarians are 15.9%, Romanians are 9%, Russians are 13.6% and Albanians are 4.5% (see diagram No49). Furthermore, on the issue of control focus we found that the Greek parent firms exercise a wide focus, emphasising every activity of the venture, rather than a narrow focus. This is demonstrated in diagram No50 where we see that in 70.2% of the ventures the Greek parent firm controls every activity of the venture. The opposite occurs in just 29.8% of cases. On the issue of control mechanisms we identified eighteen mechanisms, based on the literature. We found that of these the Greek parent firms typically use eleven.

The first of these, is the board of directors meetings. This mechanism is used by the 36.1% of respondents. 29.7% do not use this mechanism. This is demonstrated in diagram No51. The second mechanism is specific contracts, in which the rights and obligations of each partner are described in the greatest possible detail. This mechanism is used by 47.8% of ventures parents. It is not used by 36.9% of parents. This is demonstrated in diagram No52. The third mechanism is key personnel appointments. This applies to the sales managers, technicians, solicitors, as well as other Greeks, who work in the parent enterprise and are moved into the ventures. In the case that locals are selected, they are hired and imposed by the Greek parent firm. In some cases, both locals and Greeks are used. The Greek parent firms always try to impose Greeks and not locals. This however is not always possible for various reasons. For example linkages between a family cannot separate its members. That is, a

Greek manager cannot leave his family and go to a place 200 miles out of Moscow stay there for some years; even if he receives a high salary in hard currency. Working conditions are another obstacle, and finally (until recently) working experience in these countries was not considered important. In spite of these barriers the above mechanism is used by 56.5% of respondents. This is demonstrated in diagram No53.

A fourth mechanism that the Greek parents firms use is the development of a specific organisational and structural framework inside the venture. This mechanism is used by the 65.2% of respondents. (see diagram No54). A fifth control mechanism which is used is high voting rights inside the venture. This mechanism is used because most of the Greek parent firms are majority owners in the ventures. Furthermore, in cases where there is a 50-50 shared ownership the Greek parent has the management of the venture as well. The above mechanism is used in 69.2% of cases. (see diagram No59). The imposition of certain legal and fiscal provisions by local governments creates the framework of economic activity in these countries. A change of law can alter immediately the rights and obligations that a foreign entrepreneur has in the country. This may have serious implications inside a joint venture. The same can occur if the local government imposes taxes or reduces its tax exemption measures. That is why the evaluation of fiscal and legal provisions is closely monitored in 56.5% of the ventures by the parent firms. (see diagram No61). Another control mechanism that Greek parent firms use is the imposition of minimum performance requirements. These are imposed on both trading and manufacturing ventures. In the former case, the impositions refer to the level of sales that the venture will achieve in a certain period of time. In the latter case, the impositions concern the level of production, as well as the quality of the goods which are produced. From diagram No62 we can see that the above mechanism is used by 50% of the respondents. Veto rights are another mechanism which the Greek parent firms use. This is an outcome of high voting rights as well as majority ownership. The above mechanism is used by 54.3% of the respondents (see diagram No63). The selection of the joint venture's general manager is also an important control mechanism, but has the same limitations that we expressed in discussing the previous mechanism of key personnel appointments. Even in cases where the general manager is local, it is the Greek parent firms who will finally appoint him. From diagram No64 we can see that the above mechanism is used by 86.9% of respondents.

Training of personnel is another control mechanism which is used. As Geringer and Frayne (1990) point out: «...Employee training and development includes any attempt to improve current or future employee performance by increasing (through learning) an employee's attitudes or increasing his or her

skill level and knowledge. When implemented correctly... (it) can be a useful control mechanism because it can remove performance deficiencies, thereby improving the employee's ability to perform better and allowing the organisation to be more effective... In addition, training can be used as a mechanism for establishing... a unique... culture, one which is appropriate to the venture's specific circumstances...». The above mechanism is used by the Greek parents firms. This is demonstrated in diagram No 65 where 65.2% of the Greek parents stated that they use it.

The final control mechanism which the Greek parent firms use is ex post performance evaluation of the venture. This mechanism is especially needed in Eastern Europe where the products that a venture produces or trades can be stolen. Performance evaluation does not encompass only the financial dimension. Personnel and managers performance, as well as level of sales, and expansion in the domestic market of the host country are all dimensions which have to be considered. However, the majority of Greek parent firms draw conclusions by comparing ex ante and ex post performance concerning profits and sales. This is understandable, especially for small trading ventures. However, manufacturing ventures and big consortiums have to impose the above control mechanism using qualitative «indicators» as well. For example, they consider the speed at which the labour force can adopt in new circumstances and requirements. The above mechanism is used by 52.1% of respondents.(see diagram No.).

An essential remark has to be made at this point. We can see that the Greek parent firms use the control mechanism «imposition of minimum performance requirements» (50%) and they also use the mechanism ex post performance evaluation (52.1%).The combination of the above two mechanisms can be seen as the combination of the old and the new. In the old system of central planning, we demonstrated that firms had to obey to the specific targets which the planning authorities imposed on them. This old mechanism, familiar to the East Europeans, is used by 50% of the Greek parent firms. That is, the Greek parent imposes on the venture minimum performance targets (for example a minimum level of sales) in advance, just like the old planning authorities did. Furthermore they also impose ex post performance evaluation criteria, which is a modern method consistent with the current Western managerial culture. Thus we observe a unique combination of the old and the new.

12.6. CONFLICT IN THE JOINT VENTURES.

This is another core issue in our research. The theoretical dimensions which it encompasses are the frequency, the intensity and the sources of conflict. We found that in the majority of ventures both frequency and intensity are at low and medium levels. The frequency of conflict is low in 51% of the ventures, and medium in 32%. A high level of conflict is demonstrated only in 17% (The above is demonstrated in diagram No 69). The intensity of conflict is low in 57.4% of the ventures, and medium in 30%. A high intensity level is observed only in 12.6% (see diagram No 70). Turning to the third dimension of this issue, out of eleven sources of conflict we found that only two are significant. These are different cultural background, and management style. The former was identified as an important source of conflict by 46.6% of respondents, while the latter by 66.6% (see diagrams No72,79). The results that we have obtained on the issues of control and conflict are crucial and part of the core analysis for us. They enable us to establish our eight stage process strategy.

12.7. CONTROL - CONFLICT RELATION.

The Greek parent firm- that is the western partner-imposes a dominant control on the venture. This has been the only solution for a considerable time, since the East European managers do not have the managerial ability to manage a venture. This dominant control simultaneously minimises the conflict inside the venture in terms of intensity, frequency and sources. This situation has to continue as long as the Eastern Europeans adapt to the new circumstances. When they have acquired the attributes of the western managers, then the dominant control can be abolished. In this process it is crucial to make the East Europeans understand the necessity of the above doctrine, without going so far that the western partner is perceived to act almost as an occupational force.

12.8. STABILITY OF THE JOINT VENTURES.

This is another core issue in our research. The majority of Greek firms do not intend to change their share capital percentage. This was stated by 68.2% of respondents (see diagram No82) . This for the East Europeans is 86.8%. (see diagram No83). Furthermore the transformation of the joint venture into a wholly owned subsidiary, was rejected as an option by 73% of

respondents. The above constitutes additional evidence for the soundness of the developed below doctrine. Further proof will be displayed shortly.

12.9. PERFORMANCE OF THE JOINT VENTURES.

This is another core issue in our research. Because of the many ways of measuring performance, each of which is debatable, we have used three dimensions. These are financial performance, personnel performance and the performance of the venture's general manager. Financial performance was evaluated as medium and good by the majority of interviewers. The same evaluation occurred for the performance of the general managers. Personnel performance was characterised as being at the medium level.

At this point some essential points concerning the performance of general managers have to be clarified. In diagram No87 we observe the evaluation that Greek parent firms made for the Greek general managers. From the data we can see that 66.6% of the Greek general managers in these countries had demonstrated a good performance level. 20.8% had a medium performance, and 12.5% had a poor performance. The above result is a very positive signal for joint ventures. Greek managers had no previous experience concerning Eastern Europe in either the macroeconomic or microeconomic spheres. They went to these countries from totally different managerial and cultural backgrounds. Furthermore, they worked and made decisions in a totally unstable and unpredictable environment. For a foreigner who goes to these countries, without even knowing the local language-or in same cases the dialect- the above result is completely satisfactory.

Concerning the evaluation of Bulgarian managers we can also identify very positive and promising results for the future. 71.4% of them had a medium level of performance. The rest (28.6%) had a good performance. In a country which until 1989 had one of the most hard-line communist regimes, (the centralised economic model was followed), the ramifications of the above results are obvious. This means that the Bulgarian managers absorb new ideas rapidly and they adapt to new circumstances. Turning to the Romanian managers the picture is also very promising. 66.6% of them have been evaluated by the Greek parent firm as efficient, demonstrating good performance levels. The rest (33.3%) had a medium performance level. The remarks which we made in the previous paragraph for Bulgaria are applicable to Romania as well. For the Russian managers, 66.68% had a good performance level. 16.6% had a medium performance level. A similar percentage (16.6%) was characterised by a low performance level. The above demonstrates that Lawrence and Vlachoutsicos (1993) are right when they

point out that: «...Russia has a great many talented and experienced managers. Successful joint ventures put these local managers in charge and delegate radically. Quality matters every bit as much to Russians as it does to Westerners...». For the Albanian managers their performance has been evaluated as medium by the Greek parent firms.

In diagram No92 we can see that 44.4% of East European managers had good performance and the rest (5.6%) had poor performance. These are the aggregate performance percentages of Eastern European managers. If we compare these results with those of the Greeks, that is the Western managers, we can deduce (using diagrams 86-92 and accompanying tables) that the doctrine which we have already presented is correct. That is, the Western partner must impose a dominant control on the venture, subject to the condition that he will not act as an occupational force. From the data we can see that 66.6% of the Greek general managers reached good performance levels. For East Europeans this was 44.4%. (The above is crucial and demonstrates the further steps that Eastern European managers have to take to adapt to new circumstances). It is of course a high percentage, with tremendous economic importance if we take into account that these managers come from countries where the centralised economic model recently prevailed.

However if we focus our attention on diagrams No93-95 and their accompanying tables, the picture changes in a less positive way. We can see that of those general managers who achieved good performance levels 66.67% were Greeks, followed by Russians (with 16.6%) and then Bulgarians and Romanians (8.3% each). Turning to the general managers who achieved medium performance levels we can see that the 35.7% of those managers were Greeks. The same percentage was reached by the Bulgarians, another 14.2% was attributed to the Albanian managers, and both Russian and Romanian managers followed (with a 7.1% each). Finally, in diagram No95 we have classified those general managers who achieved low performance levels. We see that 75% of them were Greeks. The rest were Russians.

If we compare the results of diagrams No87,92 and 93 it is obvious that our doctrine concerning the managing of joint ventures in Eastern European countries is confirmed, regardless of the way we analyse the data. In diagram No87 we can see that 66.6% of Greek managers achieved good performance levels, whilst from diagram No 92 we can see that this percentage for all Eastern European was 44.4%, well behind the percentage of the Greek (Western) managers. Finally, in diagram No93, when we classify all the managers who achieved good performance levels according to their nationality, the Greek managers account for 66.67% of the total. The East Europeans are the 33.3%. The above result constitutes the second body of evidence

supporting our doctrine for successful joint venture enterprises in Eastern Europe. (The first is the evidence on issues of conflict and stability).

Here an essential point has to be analysed. As Geringer and Hebert (1991) have pointed out the performance assessment which occurs by the parent firms reflects the cultural similarity or dissimilarity between the parent companies and the joint venture. This can indirectly imply a cultural bias. In our case, however, we can see that this is not the case. The fact that Greek parent firms admitted that the Greek managers who manage the ventures are not always successful and there are cases where the locals are successful is a signal of impartiality and fairness in evaluation. Furthermore, the fact that they assessed the performance of personnel as medium (the 25%-25% parity between poor and good performance is another proof of the medium performance level) demonstrates that they can distinguish between the East Europeans and assess their performance without cultural predispositions against them.

12.10. MANAGERS FLEXIBILITY

The above demonstrates another feature as well viz. the flexibility of Greek managers. Nowadays in Eastern Europe we can identify two conflicting forces: The former is the inexperience of the foreign managers, who have to act in a totally unknown, volatile and even hostile environment. As one manager put it: «...We did not know from were to start...». The above demonstrates that the Western manager does not know the cultural and managerial background of Eastern Europeans. The latter is the inexperience of East Europeans. It takes considerable time to understand even the basic economic principles, not to mention to practice them.

From our data we can see that the foreign manager-in our case a Greek-is more flexible. Apparently the western managers can adapt to new circumstances more quickly and successfully compared to local managers. That is why we observe a marked gap in terms of good performance between the Western (Greek) managers and their Eastern European counterparts. This «flexibility difference» is understandable since it is a direct outcome of the fact that Western countries developed entrepreneurship, while Eastern European countries developed, according to Professor O. Panov, a bureaucratic administration.

In chapter three we indicated that the typical Eastern European manager during the era of central planning was habituated to inflexible decision making since he did not have the ability or the scope to take

initiatives. Furthermore we provided accounts of the views of Radaev (1993) and Lambropoulos (1995). Our findings, confirm in some respects and challenge in other respects, the above scholars. The affirmation of the above scholars is obvious from our previous finding; that is the 66.6% of Western (Greek) managers achieved good performance level, whilst the average for all Eastern European managers is 44.4%. It is not paradoxical to say that the challenge to the above scholars comes from exactly the same result. The above result reminds us of the evolution which took place in Japan after the Meiji restoration of 1868. At that time Japan was an underdeveloped economy. However, the Japanese learned from the West and they transformed their economy. The same occurred after the Second World War. During this evolution involving economic transformation, management played an essential role. The Japanese absorbed and assimilated Western managerial principles and created a unique managerial system of their own. This phenomenon may be repeated in Eastern Europe, after a time horizon of twenty to fifty years. The dominance of Western managers is certain at the moment. This, however, may change in the future. From the evidence above it is apparent that both Greek and Eastern European managers are able to be flexible. The Western manager adapts rapidly to a new environment, while the Eastern European absorbs Western principles, especially on trade issues, quickly.

There are other issues which could be introduced in our analysis as well. The possible connection between the duration of the venture and the evaluation which the Greek managers provided for the performance of the venture is a potential research issues. Furthermore, we could provide a comparative country analysis on issues like dominant or shared management or independent ventures. The same could occur on partner selection characteristics, sources of conflict e.t.c. However, as we have already pointed out, the low response rate in individual sample strata is a major obstacle in our research. From a population of 85 joint ventures we have only 47 observations. By omitting one venture which is situated in Greece we have a population of 84 ventures and 46 observations. The above ratio is considered by us unsatisfactory for further comparative country analysis across the four nations.

Other researchers with greater resources at their command, could explore the other side of the IJV, that is to consider the view from the perspective of the Eastern European partner for these ventures.

12.11. CONTROL - FINANCIAL PERFORMANCE RELATION.

Another issue that we have to explore emerges from the diagrams No97,98, and 99. In diagram No97 we observe that the 57.0% of the ventures which achieved good financial performance level are of dominant control type; that is the venture's general manager is influenced only by the Greek parent firm. The rest (43%), belongs to the shared management type of ventures i.e. those where the general manager is influenced by both partners. In diagram No98 we observe that 82% of the ventures which achieved medium level of financial performance are of dominant control type. The other 18% is equally distributed between shared management and independent ventures. In diagram No99 we can see that the 54% of the ventures which achieved low levels of financial performance are shared-management ventures. The rest 46% belongs to the dominant control type. The above results suggest that dominant control is not an obstacle to financial performance in Eastern Europe.

12.12. THE CONTROL-CONFLICT-STABILITY-PERFORMANCE RELATIONSHIP.

The theoretical consideration of causality between the above four elements, goes beyond the scope of this thesis. However a presentation of our results is needed. We found that a «human capital deficit» exists in Eastern Europe's managers (This deficit has been indirectly documented by Professor Panov). This situation forces the Greek firms to control the ventures that they establish, using multiple mechanisms, in a dominant way. Furthermore the Greek parent firms exercise control over a broad variety of activities. This dominant control minimises the sources of conflict in the ventures, and also the frequency and intensity of conflict. The above process leads to stable ventures which achieve good and medium levels of financial performance. [A good performance level is achieved by 30.4% and medium from 26% (Diagram No85)]. Furthermore the majority of firms which achieved high and medium financial performance levels experienced dominant control. Of course dominant control must not be imposed on a venture for an indefinite period of time. Our evidence indicates that the East Europeans will, sooner or later, learn the necessary skills and will transform themselves from bureaucrats to real managers. This time horizon, of course, differs from one case to another.

12.13. THE EIGHT STAGE PROCESS TO SUCCESSFUL JOINT VENTURES

The analysis and comparative considerations of this chapter have set out a systematic treatment of the process by which successful joint ventures are formed. The elements of this process are traced out in section 12.2. through to12.12 above. They are summarised in tabular form in Table 12.1 below, which provides a brief encapsulation of our core findings.

Table 12.1: Eight stage process for I.J.Vs. in Eastern Europe.

STAGE 1:	*DECISION TO EXPAND ABROAD.*
STAGE 2:	*DECISION TO ESTABLISH A JOINT VENTURE.*
STAGE 3:	*DOMINANT CONTROL OF THE VENTURE (WHILE THE EAST EUROPEAN REMAINS A BUREAUCRAT).*
STAGE 4:	*CONFLICT MINIMISATION.*
STAGE 5:	*HIGH RATES OF STABILITY.*
STAGE 6:	*GOOD FINANCIAL PERFORMANCE.*
STAGE 7 :	*THE EAST EUROPEAN BECOMES A MANAGER.*
STAGE 8:	*THE VENTURE IS TRANSFORMED INTO A SHARED MANAGEMENT ONE.*

The detailed justification for this process is embedded in the empirical evidence above. This process is documented by the empirical evidence of Cases No:1,2,3,7,8 (in the Albanian venture only), 9 (it was in the above line during interview time), 10 (because of good personal relations), 12 (it was in the above line during interview time). No19,20,21, (because of good personal relations), 22,32,35,36,40,43,44.It is important to point out that the first six stages of the above process are followed by the majority of ventures. The number of ventures which are transformed into a shared management type are less; however after the six-stages it was observed that the Greek parent firms tend to relax the control and give authority to the East-European partner. This does not always mean an equal share-ownership. However, when the East-Europeans absorb the Western managerial principles the Greek parent firm relax the control over the ventures. (For example the Greek venturers stop making frequent trips in these

countries), give more authority to the East-European and even if the share participation is not equal the venture de facto is transformed into a shared management one. In the final chapter it will be show how it can be used to generate well granted prescriptive schemata for successful joint venture formation.

12.14. PROBLEMS THAT JOINT VENTURES FACE.

The problems that joint ventures face are not negligible. Corruption has been considered as an essential barrier by 58.6% of respondents, bureaucracy by 89.1%, convertible currency by 60.8%, telecommunications by 93.4%, lack of banking support by 78.7% and a volatile legal framework by 97.8% (see diagrams 100-106). These are not the only problems that joint ventures face; but they are the most essential ones. It is important, however, to point out the «character» of these problems. All of them are the outcome of the external and not of the internal environment, that is they are not generated inside the joint venture. The problems are external, a direct outcome of the general economic situation which exists in Albania, Bulgaria, Romania and Russia. In chapter two we provided a brief analysis of the macroeconomic environment. There we pointed out that the economy was organised under a command, authoritarian system (five year plans), which eventually created bureaucracies. After the collapse of the communist regime these economies have been characterised by high inflation rates, uncertainty, stagnation etc.

This external macroeconomic environment generated phenomena like bureaucracy, lack of banking support, and a low level of telecommunications services. The above problems are the «heritage» of the old command economic system. On the other hand, the new chaotic macroeconomic environment generates phenomena such as a volatile legal framework and corruption. (The latter occurred during the communist years as well). It is important once again to point out that these problems are not generated inside the ventures by the policies which the Western (Greek) partner follows. That is the dominant control which the Greek partner imposes on the venture does not in itself create any problems. The fact that the problems which the venturers face may be attributed to the external environment provides further support for our eight stage process (Table 12.1). That process considered both the internal factors of the venture (e.g. the fact that the East-European partner is a bureaucrat) as well as the external factors (e.g. the chaotic macroeconomic situation) which can be faced more successfully by the Western manager because of higher flexibility rates. This is another way of showing how the «whole» and the «part» interact.

The complementarity is obvious. The fact that Greek managers can successfully face the above problems is up to a point the outcome of their experience of the domestic Greek environment. As Mc Donald (1995) remarks: «...Greek companies are well suited to doing business in the region. They are used to dealing with heavy handed and arbitrary bureaucracy. They have recent experience of dealing with backward banking systems... until recently they too have worked in a high inflation, high interest rate environment with a weak and depreciating currency. They know how to manipulate, manoeuvre and hedge such problems in ways that their Western European and... American counterparts often do not. The problems are nonetheless difficult even for them...».

12.15. Conclusion

The interaction of the analytical framework which has been described extensively in this chapter, made us develop an eight stage process strategy for successful joint ventures in Eastern Europe. The first two stages concern the decision to expand abroad and to establish a joint venture. Then the venture is characterised by an infant stage where it is under the dominant control of the Western (Greek) partner. During this stage the venture is also characterised by minimum conflict and high stability. The above provide the framework for successful performance. During this stage the East European is transformed from a bureaucrat to a manager. When the above occur the venture passes this «infant stage» and it can be transformed from a dominant to a shared management one.

CHAPTER 13:
PRESCRIPTIONS FOR JOINT VENTURERS

13.1 Introduction

A crucial feature of business economics, as compared to positive economics, for example is that it prescribes[1]. That is it provides guidelines on best courses of action. This thesis has been analytical in its creation of a framework for investigating the features of joint ventures. It has been inductive in displaying the nature of these features. Many economists would stay here, but the business economist can go further than adapt procedures of falsification or support of hypotheses; he can also prescribe. Thus the evidence can be used to show how the joint venturer can most effectively pursue his goals. Although the main scientific tasks of this thesis have now been accomplished and expounded, it is possible to display the practical importance of this work by a set of guidelines for venturers. We develop these guidelines under the headings of trading ventures, manufacturing ventures and entrepreneurship. In this may we aim to illustrate how we can bring on the scientific foundations of this thesis a set of guidelines which will bring science alive at the level of the practitioner.

In «The Prince» (1640) N.Mackiavelli[2] published an analysis of survival in the Italian principalities (or city states) which became the handbook of those who would practice realpolitik. Initially thought to be immoral, it became known through time as a starkly realistic view of survival strategies, based on the lessons of history, and a strong appeal to evidence. Whilst we could not claim to rival great works of this short, our three sets of principles for success set out below are the distillation of a large body of field work evidence including extensive interviews with those active in joint venturing activity. They aim to be realistic and hard-headed and hopefully they meet the criterion of Reekie and Allen (1983,p.1) in that they may «...help to make us more effective participants in the business world...».

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[1] See D. Reekie and D.E. Allen (1983), p.1: «The Economics of Modern Business» where they say of the business economist: «...He can illustrate economic and business activity... he can help to make us more effective participants in the business world...».

[2] «The Prince» by N.Mackiavelli edited by E.V.Riev. Penguin Books, London (1964).

Doing business in Eastern Europe and B.S.E.C. countries is certainly challenging and exciting. Here we provide some essential points to joint venturers. The first thing that the Western entrepreneur has to remember is that Eastern Europe, at the moment, offers great opportunities and risks. These risks may be the outcome of problems that no one can imagine or predict. For example, manufacturing production may be delayed, because of a screw shortage. It may be pointless to try in advance to enumerate, and so address all the risks. If someone decides to do business in these countries the best thing is to go there, just to get a feel for the place. Then the first step has to be trade. It is unwise, and perhaps catastrophic, to go to these countries and attempt to establish a manufacturing company. The best solution is to go there and establish a trading joint venture. This venture has to stay operational for at least sixteen months before you transform it into a manufacturing company.

13.2. SUCCESS IN A TRADING VENTURE.

In order to establish a successful trading venture the following steps are indicated.

1. Find the correct partner.
   The partner must have a brand name in the local community. If that is not possible, then the partner selected should be someone who promises little compared to the others. If the Western investor hears a lot of promises from an individual who is a potential partner then he should ignore him as soon as possible, and find another one. You must remember that your partner's ability to contribute pecuniary and non-pecuniary inputs is limited. (For example in Case No13 the partner is respected by the locals, the opposite occurs in Case No23).
2. Beware of your pace.
   You have to start with a small trading company. Do not reveal your financial ability from the beginning. Via this small trading company monitor economic evolution, and extend your commercial activities gradually. (This, for example, was the strategy followed in Case No1 when the ventures were trading companies).
3. The best way to secure yourself against any financial risk is to force the joint venture to pay you in advance (and in hard

currency) for any goods that you send to the venture. (See, for example, Cases No14 and 42). If this is not accepted by your partner draw up a detailed contract, which specifies in detail all the key issues. (See for example Cases No4a,5).

4. Remember that although you need a specific contract, you can never manage a company (especially a joint venture) by a piece of paper. Your physical presence is needed for a long period of time. If this is not possible for various reasons, travel there as often as possible. (See, for example, Cases No1, for the time that the ventures had a trading character and No13).
5. If you cannot go there send a general manager. If the manager is a native select him very carefully, exactly like your partner. (See, for example Case No23 where the outcome of a non-careful selection is evident).
6. Always remember that your partner needs something extra from you. Do not hastily characterise this «extra» as opportunistic behaviour which will jeopardise the venture. If you offer to your partner a dinner at a restaurant or a small gift it does not mean that he or she has opportunistic motives for collaboration. Remember that you have to understand your partner's culture and needs. Furthermore, remember that both partners seek to profit from any collaboration agreement. Accept your partner's wishes up to the level at which the venture's operation is not put in jeopardy. Never, however, accept more than one individual from your partner's family. (See, for example, Case No1b, the trading venture in Romania).
7. Train your partner and the personnel. If he or she improves gradually give him authority, but always remember to monitor him closely. (This, for example, is the strategy followed in Case No2).

13.3. SUCCESS IN A MANUFACTURING VENTURE.

In order to establish a successful manufacturing venture bear in mind the following:

1. Always establish your trading venture in the sector in which your future plans are directed. For example if you intend to establish a venture in the food sector, trade only food products in advance. (This is, for example, the strategy followed in Cases No 28 and 30).

2. During the «experimental phase», that is the life time of the trading venture, try to establish as many personal contacts as possible and become familiar with the state bureaucracy. These countries are not like Britain or the USA. (This is, for example, the strategy followed in Case No1).
3. Your partner must always be in the position to provide fixed assets, such us buildings and stores. This phase may be time consuming and require extensive negotiation. In the majority of cases you must be in a position to provide all the machinery and office equipment to the venture. It is possible that your partner insists on using some of his machinery as well. This, in the majority of cases, will be outdated; simply reject this kind of request. Never contemplate modernising the old machinery; this will take a lot of time and eventually create many problems. Procurement, especially for spare parts can become a major problem with modernised old equipment. There is the possibility that you will have to stop production process because of .. screws. (See, for example, Cases No16,18 and 43).
4. Again, select your partner very carefully. If you can do that from the time of the trading venture, do it. It will save you both time and research costs. (See, for example, Cases No28 and 30).
5. If the raw materials for the production process are contributed to the venture by your partner you must be extremely careful about their quality. In general avoid the use of raw materials which your partner provides, especially if you have not personally inspected them to ensure a certain quality level is satisfied. (See, for example, Cases No29 and 43).
6. Select the labour force very carefully. Especially in small communities it is easy to spot skilled workers and craftsmen. Offer the jobs to employees who will offer you their services for lower salaries.

   Even if your workers are skilled remember that you have to train them. Do not expect them to work as in the West.

   You can give to them bonuses and other financial or moral rewards, but do that very carefully and gradually.

   Up to a point, personal association with the personnel is needed. Remember that a collaborative agreement is a personal relation at all levels. (See, for example, Cases No9 where the association with personnel is clearly demonstrated, and Cases No15,16,17,18 and 43).

7. Monitor and control your partner and personnel very carefully. Dominant control is essential for a considerable time. After that, you can relax the control on the venture. However you must always have under your supervision certain phases of the production process especially quality control of the raw materials, and of the final product. (See, for example, Cases No2,3).
8. An advertising campaign is helpful, especially if you face competition from other local or international firms. (See Cases No1,2 and 3 for the Russian ventures).
9. Remember that personal commitment is needed from both sides in order to establish a successful venture. This means more in practice than common strategic goals with your partner. It means hard work from both sides. If you establish the venture, but intend to go there just once a year to collect your profit share, do not bother to take the trip. There will be no profit to collect. You have to demonstrate to your partner and to the local community that you work not only for your own personal interest, but for them as well. This is vital. The above is evident, for example, in Case No43 when the Greek manager gave the 320 boxes of cans which were robbed during the trip to the customers.
10. In order to obtain hard currency produce goods or services which will bring it to you. To illustrate, a hospital which offers medical services of high quality to foreigners (like case No 41) does not face any hard currency problem. The same can be said of a company which exports part of its production (or all of it). This is the case for ventures like those of cases No 9, 18, 26 etc. The only problem arise from the banks, which have to undertake time - consuming activities, which may eventually be costly because of exchange rate differentials. In order to face this problem try to use a Western bank (if possible).
11. Always remember to respect your partner. Dominant control does not mean humiliation. The Western partner has to respect the local values that the partner encompasses. The above is evident, in Case No1, when despite the initial high conflict the Greek side respected the partners and the outcome was a successful collaboration.
12. The pace of development has to be careful and gradual in this case, as in the trading case. If an expansion of activities is needed it is preferable that it occurs by investing the venture's profits, rather than by committing extra financial capital. In this process external

auditors are needed. These can be foreigners or locals. However they have to be trusted, because there is always the possibility of overvaluing the level of expenses. (The expansion of the venture's activities by profit re-investment is evident in Cases No 1,2. The problem of evaluation is documented in Case No 38).

13. In cases for which financial performance is not what is expected, find out the reasons for this. Make a self-evaluation to see if you have failed to do the correct things.
If you are satisfied with your actions, start to look for the «guilty party»: in your partner and in the general economic situation. The «guilty party» can be either the partner (Case No23), or the general economic situation (Case No22).

14. Dissolve a venture only if you find out that your partner abuses funds. Under no other circumstances should you deprive yourself of a partner whom you have already spent time finding. (See, for example, Cases No23,25 and 41).

15. You must always remember that in these nations two of the main principles which have been developed as an outcome of intensive propaganda, are egalitarianism and a mistrust for anything which comes from the West.
The first principle is a barrier to productivity, since these people are not attuned to the idea that your financial rewards depend on what you produce and how.
The second principle is a psychological barrier. These nations need investments from the West and ask for them. However they somehow think that their countries will become colonies of the West and they will become mere slaves.
That is why they have a hidden mistrust of any Western investor. In order to succeed you must always remember that. It is crucial to remove these sentiments from the relationship. If you think that you will effectively collaborate with your partner just by dictating to him what to do you are wrong. For example the productivity level of the personnel was not the expected one in many cases, across countries. This is demonstrated, for example, in Cases No15,16,17,18 for Albania, Cases No28,29 for Bulgaria, Case No38 for Romania and Case No43 for Russia. Furthermore the mistrust against the Greek partner is documented, for example, from Cases No1,14. This is the reason why the Western partner must be very careful.

16. Remember that you can not impose a straight forward Western managerial strategy. If you think that in these countries you can just replicate what you do in the West you are wrong. You have to take into consideration the culture of the country, its level of economic and social development, its history etc. It is different, for example, conducting business in St. Petersburg, a town which traditionally was linked to the West and influenced by its culture, compared to operating in Siberia in Novosibirsk, a place were historically there has been no Western influence.
This presupposes clear objectives. You have to know in advance exactly what your future plans and targets are. You must always remember : you never change your target, what you do not know is which path to follow in order to achieve your target. This is something that you decide taking into account the local circumstances. This, for example, is demonstrated from the strategy which the Greek firms in Cases No1 and 2 have followed. They achieved their targets taking into account the local circumstances.

17. Do not create a conflict when your partner, or your customers, or the civil service, or your suppliers do something which you find intolerable or unexpected according to your Western managerial knowledge. Patience is needed. Remember that with a different partner, supplier, customer, or civil servant you could still face the same problems. It is not the people's character, but the people's culture, in the majority of cases which creates the problems. This is documented because across cases, across countries the Greek firms had to face similar problems.

18. Beware of the Mafia. Your physical security can be in danger. In 4/8/1995, for example, the Russian Mafia killed one of the senior Greek-Russian bankers, the president of "Rozbnibank" Ivan Kivelidis. He was the second banker murdered in a period of two weeks[3]. The problems which the Mafia creates to business people are documented in many cases, such as Cases No 5,25,42,43.
It is essential, however, to distinguish between Mafia activity and simply the lack of business ethics. In the former case the foreign investor has to face certain groups of people who are engaged in criminal activity. In the latter case, the lack of business ethics may not lead to criminal activity, and has to be considered as a

[3] Press reports 5/8/1995.

transitional phenomenon, since it is not embedded in the culture of these countries.

Furthermore, the lack of business ethics gives to the Western investors the unique opportunity, in the long run, to impose their business ethics, respecting of course the local entrepreneurial culture. For this process to be completed an adequate time horizon is needed, which may take years. However, seeking these long term benefits is essential.

19. Political risk is a problem that Western investors can face. The Greek investors can use the "Organisation for Insuring Export Credits". The organisation was established in 1988. It provides guarantees for exportation of products and services and investments abroad. Furthermore it finances the participation of Greek firms in international exhibitions. The organisation covers the following types of risk :

-Bankruptcy.

-Devaluation of foreign currency against the drachma.

-Nationalisation of the investment by the government of the foreign country.

-Risk from war, civil war or terrorist attacks.

-Risk from earthquakes.

-Risk from barriers in foreign currency exportation from the host country.

-Any other destruction which may occur in the commodities or in the project for which the Greek exporter/investor is not responsible.

In general the Western investors, regardless of their nationality can use MIGA (Multilateral Investment Guarantee Agency) which covers political risk arising from expropriation, wars etc. for investment projects.

The Overseas Private Investment Corporation (OPIC) is another organisation, which can be used only by US entrepreneurs and covers political risk. The organisation, which is a US government agency, can also provide lending for product financing, inconvertibility insurance etc. The organisation can finance a project in which other nationals are involved, but requires a minimum 25% US participation. The problem of political risk is something which the majority of the entrepreneurs

has not faced. Its importance was highlighted at the BSEC forum in Thessalonika (24-26 November 1994).

13.4. SUCCESS IN ENTREPRENEURIAL ACTIVITY

In general, you have to remember that successful entrepreneurial activity applied to joint venturing presupposes a sequence of certain entrepreneurial steps. Remember that if you make a mistake in one of them the whole process will be in jeopardy. These steps are the following:

1. The entrepreneurial idea must be clear in advance. You must know exactly where the investment opportunity exists; that is you have to know exactly what you want to do. You must never go to one of these countries, thinking that: «Whatever I do, I will have profits". You must develop a long term strategy. A "hit and run" strategy is not likely to work. (See, for example, the different outcome of Cases No1 and 23).
2. Remember that your long term strategy must have a gradual character: Trade first, investment later. (This was the strategy followed by Cases No 1, 28 and 30).
3. Select your partner very carefully. Try to find someone with good government contacts. This does not imply that your partner has to be a state-owned enterprise. He can be an individual who knows important people in the civil service. Furthermore it is essential that he or she has status in the local community and that he or she is governed by a moral code of conduct. This strategy was followed in many cases. See, for example: Cases No1,13,27.
4. If the venture's general manager is a local he must have the above characteristics as well. Remember that you have to make your partner and the local general manager understand your entrepreneurial strategy and ethics. Do not try to impose your views on them. For example if they express the desire for venture's profits to be split between the parent firms, make them understand why the profits have to be re-invested. This difference is demonstrated in Cases 39,40 where in the former the performance of the general manager has been characterised as good; but in the latter the evaluation is exactly the opposite.
5. Exercise a dominant control on the venture over a certain time horizon. During this time you have to demonstrate to your

partner and the personnel that you respect them. Train your personnel, as well as your partner. This process is followed in many cases, such us Cases No1,2,15,17.

6. When this initial phase passes, gradually relax your control on the venture and transform it from a dominant type to a shared - management type. Always remember that the above process needs time and careful planning. See, for example, Cases No1, 3, 7,10, 43, 44.

All the above demonstrate what a Western entrepreneur has to do in order to establish a successful enterprise in Eastern Europe. The above, of course, do not represent a «formula» which a businessman must follow. We must always remember that each business is unique. Formulas are not characteristics of social sciences. Our aim was to describe some general principles, which business people will find useful when they are operating in Eastern European countries. We turn now to some concluding remarks on the macro and microeconomic level.

13.5. The Macroeconomic Dimension

The first essential macroeconomic remark relates to the emergence of the BSEC area, and Eastern Europe in a broader sense, as the new economic zone which offers tremendous investment opportunities. The B.S.E.C. region offers low labour cost, land, natural resources and specific human capital, in some industrial sectors. The low labour cost factor, however, is a relatively complicated issue, since at the moment the workers can be characterised as militant. The natural resource base of the region (oil and gas) is the most essential factor for the West. As Dr Karafotakis points out: «...Azerbaijan has enormous resources of natural gas and oil. The estimate for the former is 800 billion cubic meters (m^3) and 5,000 million tons for the latter...».

Furthermore in the B.S.E.C. area there is a high level of demand for consumer products, and other goods as well. However the majority of consumers absorb at the moment, low quality products because of low purchasing power. The fact that consumers' needs are satisfied by low quality products, which the domestic industry can also provide, creates, prima facie, the impression that the foreign investor will face competition in the domestic market. This however is not the case, because of the industrial disintegration in these countries.

The second essential remark concerns macroeconomic developments in the four countries on which we have focused. The essential characteristic is that all of them during the communist regime followed the centralised economic model, that is, the most bureaucratic model of the command economy. This model contradicts to the de - centralised one which was followed by other Eastern block countries, such us Hungary, and Poland. Furthermore it differs from the Yugoslav model.

This common root in the centralised model implies that our four countries have the same «economic heritage». However, their process of economic development after 1989 was quite different. It is correct to say that economic crisis occurred in all of them during the 1989 - 1992 period, but trends where reversed in Albania compared to the other three countries. Albania achieved high growth rates after 1992 which are expected to continue in the future. Bulgaria, Romania and Russia achieved positive GNP growth rates at a later stage. These rates, which were smaller compared to the Albanian ones, because these countries lacked the massive external aid which was provided to Albania directly or indirectly. Naturally the economies of these countries will continue to face major structural problems: high inflation and high unemployment rates, as well as, high external debt and budget deficits.

The most essential problem for these former communist countries is the cultural and social change which they have to face. This of course requires a lot of time and patience. The gradual integration of these countries with the rest of the world primarily depends on the people of the B.S.E.C. nations. They have to accept that whilst capitalism is not the perfect economic system, but it may be the best that we have. They need to think their way forwards from Marxist views concerning profit. On the other hand, foreign investors have to respect the culture of these nations, and they have to understand their needs and expectations. They have to realise that they are not an «occupational force», even in an economic sense.

At this point some suggestions for government policy come to mind. During the period 1990-1995 the Greek governments have taken certain measures to assist the expansion of the private sector in the BSEC countries. These measures, which were presented in chapter four (see §4.2) are of an indirect character (loans to these countries, humanitarian aid, establishment of good political relations at a bilateral level etc).

A measure which directly helps the establishment of manufacturing joint ventures in Albania is the extension of the law of

1892/1990, which provides government subsidies up to 35% of the initial capital.

We propose the amendment of this law as a good starting point. The law should expand to every Eastern European country (especially those which participate in the BSEC organisation) and «attach» to every country a certain level of government subsidies which will be determined by the size of the investment and its location. For example a textile joint venture which is established in Bulgaria should receive a government subsidies of 35%, as in Albania, whilst the same textile company established in Romania or Russia should receive 30%. If the location is the Ukraine then the level of subsidies can be 25% etc. It is important that the Greek state should follow the market mechanisms.

Since the Greek entrepreneurs have identified Albania and Bulgaria as a first cycle of activity; Romania and Russia as a second cycle and the rest of the BSEC countries as a third cycle the Greek state has to re-inforce the above trend, if IJV levels of activity are to be enhanced.

Furthermore in the EU level the Greek government could emphasise he need for greater funds to be placed in the Pharre/Jopp programme and could also encourage the Greek firms to act as intermediaries between big US MNEs who expressed their interest to expand their activities in South-eastern Europe and in the Black Sea area. For example, common Greek-US joint ventures can be established in certain industrial sectors and these ventures can expand in the Black Sea countries. The governments of the Balkan countries and Russia have to reduce the bureaucratic procedures for foreign investors and protect them from the Mafia.

13.6. The Microeconomic Dimension

To explain our main points to a reader who is possibly unfamiliar with Greece, it may help to draw an analogy with Austria. Austria and Greece have a lot of similarities. They are both small countries (in terms of population) and small open economies. Furthermore, they both have borders with former communist states. When Plasonig and Buchleitner (1991) speak about the Austrian joint ventures with former Communist countries they point out that, Austrian companies established joint ventures because of : «...Austria's special geographic position between East and West, Austria's neutrality since 1955 [and] Austria's traditional

trade relationships with the countries of the former Austro-Hungarian monarchy...».

The elements which are similar to the Greek case are history and geography. As we have already pointed out, until the beginning of the century Greek international business was developed in the Balkans, the Black Sea area, and in the Eastern Mediterranean. This had existed from Odessa in the Ukraine to Alexandria in Egypt for more than twenty centuries. The Balkan wars (1912-1913), the First World War (1914-1918), the Greek-Turkish War (1919-1922), the interwar period, the second World War (1939-1945) and the Cold War (1945-1989) changed the region and devided it. As a result of these disruptions Greek international business ceased to exist. The evolution which occurred after 1989 created conditions suited to the re-emergence of Greek international business. The process started at a slow pace during 1989-1991, and accelerated after 1992. By the end of 1995 around 2,500-2,800 enterprises were established in Albania, Bulgaria, Romania, Russia, the Ukraine, Czech Republic, Poland, the Slovak Republic, Azerbaijan and Hungary. The total capital invested was estimated around one billion USD. The dominant entrepreneurial activity is trade and services rather than investment. That is the reason why we cannot speak about FDI since this is not the dominant entrepreneurial mode.

The second important issue is the geographical factor. The majority of this entrepreneurial activity is developing in Albania and Bulgaria, the two neighbouring countries. Romania and Russia follow. Eventually there is a third cycle of activity, which encompasses the rest of the Eastern European countries. Geographical proximity is important as in the Austrian case where according to Plasonig and Buchleitner (1991) «...the concentration of about 80 percent of the Austrian joint ventures in the Hungarian market is due to... geographical proximity, and Austrian knowledge of the... market...». The importance of geographical proximity is illustrated further if we consider that until 1991 there were around 200 enterprises in former Yugoslavia with a total capital of around 18 million USD. However with the war, first in Croatia, then in Bosnia-Herzegovina, and with the imposition of the UN embargo, these enterprises were closed down and many entrepreneurs relocated their activities to Bulgaria. The aim of this thesis was not to provide an overall description of Greek economic activity in Eastern Europe. Instead of providing a broad comparative analysis between joint ventures and wholly owned subsidiaries, we decided to provide an extensive, detailed

and specific analysis of joint ventures. Furthermore, we focused on the four countries in which Greek economic activity is most developed.

In spite of the limitations (level of responses, financial and time constraints etc.), we covered all the aspects of joint ventures and we described a strategy - which is by no means formula - for successful joint ventures in Eastern Europe in general, and BSEC area in particular. The future is expected to be promising not only for Greek enterprises active in these countries, but also for enterprises from other Western countries. The same can be said of the people of these countries. The important issue for the foreign investor is to understand and respect the culture of these people, and vice - versa.

The fact the overwhelming majority of these firms are small trading companies has another implication. This is related to the «Taylorist assumption» which assumes that by task disintegration (advanced division of labour) the level of profitability can be enhanced. This tends to lead to hierarchical forms of management with decision makers at the top, managers below, highly skilled workers below them and unskilled workers at the bottom. It may be that other forms of organisation (e.g. the co-operative organisation), which are more widely used in non-western economies may have advantages over Taylorist methods. However, for many of our firms the issue of using Taylorist method never arises because their scale of activities is too small to permit the advanced division of labour.

The essential conclusion of the thesis is that in the case of East-West joint ventures dominant control, exercised by the Western partner, is necessary for a certain period of time so that the East-European partner has time to adapt himself to new circumstances. During this time, the Western manager (partner) has to train the East Europeans, and when the latter, have in a significant measure absorbed Western managerial culture, then the venture can be transformed to one of shared management. This finding differs from those which Western academics would have reached, arguing from current principles of joint venturing.

Killing (1982), using joint ventures which had been established between Western enterprises, concluded that the precondition for successful joint ventures is the dominant control which one of the partners will impose on the venture. Beamish (1985) found that joint ventures in developing countries (LDCs) were more unstable than joint ventures in developed countries. Beamish and Banks (1987) found out that the shared-management venture is the more stable option and achieves a satisfactory performance. Gomes-Casseres (1987) found that

liquidation (instability) is almost equal for joint ventures and wholly owned subsidiaries. Blodgett (1992) found out that: «...the dominance of one partner appears to be a destabilising force in a joint venture... it appears that the 50%-50% shared management arrangements have a greater chance for long life than the dominant partner joint ventures...».

Thus the orthodoxy which has been developed by Western academics is that dominant control has a harmful effect on a joint venture's stability, so that an independent or a shared management venture is more preferable option. This finding is the outcome of research conducted on joint ventures which have been established between Western enterprises of developed countries, or between Western enterprises and enterprises from less developed capitalist states.

In both cases the outcome is correct, because we are considering partners who come from capitalist environments (economies). Despite the differences of economic development and culture, these partners have a common «code of communication» to share, because they come from capitalist economies.

In chapter five we have presented the intellectual contribution of the Western academics which has been developed to analyse joint venture enterprises. (See §5.1.3.G). There we pointed out that these ideas were useful for the explanation of the Greek case and we stated the writings of particular authors and their influence in the questionnaire. At this point we have to make particular reference to the writings of Harrigan (1984, 1988a,b), Haspeslagh & Jemison (1991), Faulkner (1995) and Lorange and Roos (1995).

Harrigan (1984) remarks that joint ventures have benefits and costs and she concludes that «... In environments of scare resources, rapid rates of technological change and massive capital requirements... joint ventures may be the best may for some...firms to attain better positions in global industries...». The rationale concerning joint ventures was developed further in the following years so Harrigan (1988) remarks that: «...ventures are more likely to succeed when partners possess complementary missions, resource capabilities, managerial capabilities, and other attributes that create a strategic fit in which the bargaining power of the venture's sponsors is evenly matched... Thus, partners will stay together as long as they need each other and their venture remains successful...». She concludes that: «...Results suggest that ventures are more successful where partners are related (in products, markets, and/or technologies) to their ventures... [and]... ventures last longer between partners of similar cultures, asset sizes and venturing experience levels...».

In spite of the fact that Harrigan's contribution to the literature, is essential her findings have limited applicability in this thesis. Harrigan is correct when she points out that joint ventures have benefits and costs; indeed those that she mentions have been analysed by other scholars as well. However, her finding that «partners will stay together as long as they need each other...» and «...that ventures are more successful where partners are related... to their ventures... [and they have]... similar cultures, asset sizes and venturing experience levels...» cannot be applied to the Greek case.

In this thesis we have analysed the joint ventures which Greek firms established with enterprises from Albania, Bulgaria, Romania and Russia, and we developed a survival strategy which can create stable joint ventures based on empirical evidence. The empirical evidence demonstrate that dominant control can lead to stability and when the venture passes the infant (initial) stage the control of the Greek partner is relaxed and authority-responsibility is granted to the East European. This occurs because during the infant stage the Greek side transform the East European to a real manager and the personnel to experienced workers. The only point from Harrigan's (1984) work which could be, indirectly, applied in the Greek case is that the joint ventures have costs. Indeed the dominant control during the infant stage is associated with high monitoring costs (frequent trips, payment of the joint venture's general manager in hard currency etc.) and this is an incentive for the Greek parent firms to pass this initial stage as quickly as possible and transform the venture from dominant to shared management one.

The reference to Haspeslagh & Jemison (1991) can be characterised as surprising since in their work they discuss mergers and acquisitions. However, some issues are common. For example the authors point out that: «...Despite manager's best intentions... acquisitions often do not live up to their hopes. Our research found that a major reason for these... failures lies in a series of problems... These include fragmented decision making, escalating momentum, multiple motives, and ambiguous expectations...». From the above we can see the analogy with joint ventures. In chapter 12 we pointed out that inside the joint ventures at the initial stage of their life two conflicting forces co-exist. The former is the inexperience of the Greek manager and the latter is the inexperience of the East Europeans (managers and personnel). These two conflicting forces can result to «ambiguous expectations» which will destabilise the venture. Furthermore the authors point out that: «... Many firms face serious difficulties in developing the willingness of people in both

organisations to work together after the acquisition...». The above difficulty is faced in joint ventures as well. However, this difficulty is overcomed since the Greek partner respects the culture of the East Europeans and during the infant stage he does not «dictate» orders but he trains and instructs them. At this point we have to remark that the above process in analogous to «leadership vacuum». In the acquisition case: «...leadership is important... to help people from both firms develop understand and embrace the acquisition's purpose and to see their role in it...». In the case of the joint ventures the dominant control of the Greek partner (the leader) is essential in the early stages in order to face the difficulties form the environment and to train the East Europeans. When the East Europeans are trained they will be able to see «their role in it».

Faulkner (1995) had reached to similar conclusions with those of this thesis. He points out that: «...the main conclusion...is that partner relationships are more important as a predictor of successful alliance than any other economic, organisational or structural factors... The management of the alliance is a crucial element in determining its effectiveness... Cultural sensitivity also plays a significant part...». The similarity of the above view with those of this thesis has been analysed extensively. However we point out, once again, the «crucial element of the management of the alliance» (dominant control) which takes into account «cultural sensitivity» that is respect the local cultural values and tradition, trains the East Europeans and also create bonds between the partners.

The findings of Lorange and Roos (1995) are also essential. The authors identify «four generic motives for strategic alliances». These are defending, catching up, remaining and restructuring. They also identify four archetypes of strategic alliances. These are: the ad hoc poll type, the consortium type, the project based joint venture and the full blown joint venture. They point out that: «The strategic alliance is positioned between traditional wholly-owned organisations on the one hand and market-based interaction among several firms on the other». They continue stating that: «The formation of a strategic alliance takes place as a multi-step, gradual process, leading up to a commitment to go for an alliance over time, rather than being a clear-cut decision-making phenomenon, where analytical and political dimensions both play important roles... In short, we... viewing strategic alliances as a dynamic phenomenon, that recognises the strategic intent of both parties as the driving force behind it, and that recognises that strategic alliances in many ways can be a particularly offensive tool for firms with ambitions in the global arena-

offering opportunities both to gain scale and/or scope advantages and to keep a profile adapted to local conditions...».

The above has limited applicability in the Greek case. The Greek firms which go in these countries do not have ambitions in the global arena. It is essential once again to point out that the notion of strategic alliances has a totally different concept in the major western economies compared to the Greek and Balkan economies. A Greek firm which goes for example in Russia and establishes a trading venture with ten employees (like Case No42) is not a strategic alliance as the Western academics and managers define. However other issues are similar for example when Lorange&Roos (1995) point out that: «...cross-cultural considerations become particularly important when it comes to evolutionary issues. Here, the ability to co-operate over time by building trust and by having appropriate interactions on business matters that lead to co-operation and common learning, becomes essential. If the cultures of the partners are such that evolution of the strategic alliance cannot take place, because the partners end up playing watch-dog against each other, the alliance will, of course, not be a success...».

In the case of East-West joint ventures there is nothing common between the partners, because they come from different social, economic and political systems. That «forces» the Western partner to exercise dominant control on the venture as long as this is required. Only when the venture passes its infant stage can the control be relaxed, and then the venture can be transformed to one of shared management type.

The performance of the venture is expected to be successful in both stages: in the former, because any problems which will emerge can be faced by the entrepreneurship of the Western partner; and in the latter, because the East-European partner is transformed from a passive learner to an active manager. The building of trust between the partners is a key element for the success of the joint venture, and of our strategy.

THE END

Bibliography

We present the most essential references in English and in Greek which we used for our thesis

Other useful editions can be found in International and Greek press as well. An important international newspaper, which is edited in Greece weekly and covers Eastern Europe, is called «New Europe» (former «Balkan News and East European Report» BN & EER).

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