In terms of disadvantages, first, JVs often involve partners from different backgrounds and goals; conflicts are natural. For example, *McDonald's* established JVs with two different partners to sell its burgers in India. One JV prospered, while the other faced slow growth and repeated legal conflicts (see Integrative Case *McDonald's* in India). Second, effective equity and operational control may be difficult to achieve because everything has to be negotiated (and in some cases, fought over). Finally, the nature of the JV does not give an MNE the tight control over a foreign subsidiary that it may need for global coordination (such as simultaneously launching new products around the world). In terms of risks, JVs reduce the investment risks because less capital is committed. However, JVs are highly exposed to internal risks such as conflicts between the parent firms, and they constrain the investors' ability to change its strategy. Hence the risk of not reacting sufficiently flexibly to changing internal or external circumstances is high.

JVs are thus appropriate in special situations, namely when three conditions are met: (1) the new business unit depends on resource contributions from two or more firms, (2) high transaction costs inhibit the markets for these resources or for the expected outputs and (3) it is not feasible for the entire parent firm to be integrated into one firm, for instance because they are big relative to the envisaged project, or one of them is a state-owned enterprise.[24] In other words, JVs are common where two firms are trying to achieve something that neither could do on its own and where the outcomes are highly uncertain. These conditions often apply to entries into emerging economies: MNEs that lack local knowledge and relationships with influential local players in their target markets may obtain such knowledge and relationships by collaborating with a local firm (In Focus 12.3).

JVs thus provide an avenue to operate in unfamiliar contexts, especially in countries with weak market supporting institutions, such as China or Russia. JVs are also used, for example, when two multinationals want to jointly conduct an operation, such as R&D, or servicing a foreign market. For example, Japanese brewer *Suntory* first served the Thai market through a JV with a local partner, but that was not successful. After terminating that JV, *Suntory* formed a new JV with *PepsiCo* of the USA that would distribute both *PepsiCo*'s soft drinks and *Suntory*'s beers.[25]

IN FOCUS 12.3

Joint venture ZF Kama *in Russia*

by Irina Mihailova

ZF Friedrichshafen (ZF), a German automotive supplier, and *Kamaz Corporation*, a Russia truck manufacturer, set up a joint venture '*ZF Kama*' to produce transmissions in Russia.

ZF is one of the world's leading suppliers of driveline and chassis technology, with an annual turnover of €12.8 billion, over 72 600 employees and 122 production sites worldwide. For *ZF*, the JV in Russia was an important step towards building a strong market position in the Russian market, where *ZF* previously did not have production facilities. The cooperation with *Kamaz* was expected to help this objective by creating an association with a leading local truck manufacturer and its extensive dealer network in Russia. In addition, the technological and managerial capabilities of *Kamaz* were significant criteria for the choice of partner. The Russian JV generated an increase in demand for parts produced in *ZF* plants in Western Europe and thus contributed to the growth and viability of these established business units.