

Successful Joint Ventures in Korea

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Overview

The advantages and disadvantages of establishing a joint venture in the Korean market and a number of key success factors are outlined below.

Advantages

- Direct control of business (compared to imports or licensing)
- Involvement in the industry provides better market intelligence
- Long term benefits from market growth
- Can benefit from partner's reputation/market position
- Can utilize partners existing sales marketing network

Disadvantages

- Good partner hard to find, difficult determining if you have found the optimal partner
- Partners have differing objectives
- Disagreements can disrupt business
- Decisions can take more time than the market will permit
- Some partners have a hidden agenda which prevents growing the joint venture, even killing it
- Reliant upon partner's network, access, reputation
- Staff has two masters, often schisms within company between 'yours, mine and ours'

Key Success Factors

- MUST choose right partner
- Control is the key issue in a joint venture
- Both parties must be committed to success of joint venture
- Must be actively involved in management of the joint venture

Considerations for Joint Ventures

- Foreign party should not form a joint venture company on the assumption that the local partner will independently work hard, make a profit and remit a share of the profits to the foreign investor.
- In a joint venture, a separate license agreement with the joint venture company would permit remittance of royalties based on the turnover of the company. Engineering fees and purchase of components from the investing company are also sources of income to the foreign investor.

Ownership Issues

Percentage Ownership: There are several 'break points' in ownership of a joint venture ranging from a minor position merely to establish a strategic alliance through various levels of control. 50:50 joint ventures are difficult to manage as no one has final authority or is perceived as 'The Boss'. It is common in a 50:50 joint venture to assign responsibility and authority for certain activities to one party or the other in the Articles of Incorporation.

10-20%	No control but provides 'strategic alliance' with partner
33.4%	Exceeding one third allows veto of certain actions
50%	Equality is often difficult to manage but can be successful with a good partner - must divide responsibilities
50.1%	Majority equity gives investor veto power in all activities as well as major authority in operational matters
66.7	Exceeding two thirds eliminates partner's veto powers
100%	Complete control

- **Independence & Unique Identity:** Long term success of the joint venture requires that it develop its own unique culture and not be seen as an extension of the domestic partner. This can be supported by:
 - Locating the facility in an independent location, not in partner's factory
 - Hire your own employees, avoid staffing your joint venture with employees from your partner. (It will take approximately 10 years for employees to shift loyalty from the partner firm.)
 - Select a UNIQUE name for the joint venture