

High-Tech Hurdles in an Emerging Market¹

AMMAN, JORDAN

Case Description

High-Tech Hurdles in an Emerging Market is a story about the consequences that often arise from asymmetrical joint venture structures. Such problems are typical in emerging markets where large multinational corporations wield significant power and influence over the normal decision making process of a local partner. In most cases, the multinational corporation has many choices in terms of what countries to operate in, and what companies to partner with within the preferred country. In the case of JIG and Globetronics, this common form of asymmetry was compounded by JIG's over-exuberance and somewhat irrational enthusiasm for participating in the height of the 1990s high-tech boom. The case is told primarily from the perspective of the emerging market partner that tirelessly struggles to save a failing joint venture that had at one point been a source of great potential and pride.

The bulk of the case is devoted to telling the sometimes colorful story of the consequences of an asymmetrical emerging markets joint venture. As would be expected, it is JIG, the Jordanian company that comes up with the short end of the stick when a promising joint venture agreement is implemented. The first hints of this fate were evident during a conspicuously one-sided negotiation process. The joint venture performance subsequently worsened when it became clear that certain elements within Globetronics felt threatened by a low-cost production partnership in Jordan and were determined to stunt its potential success.

This case attempts to communicate how critical it is to ensure that contingency due diligence be conducted upfront and that the venture enjoy full 'buy-in' within each organization.

Position in the Course

- Joint Venture Strategy
- Multi-national Corporate Strategy
- Emerging Markets Business Issues

Teaching Purpose and Objectives:

- To impart that there are potentially damaging consequences to both sides of an asymmetrical joint venture agreement.
- To underscore the importance of conducting due diligence and rational business planning.
- To highlight the potential for tension within a multinational corporation that may arise when a low-cost production facility is introduced.
- To cast light on the challenge of implementing a low-cost production strategy that balances cost savings with a minimum level of business planning and integration.

Questions for Discussion

1. **How can a company in an emerging market effectively address the natural asymmetry of partnering with a major multi-national corporation?**

There is no easy answer to this question. The bottom line though is that the company in the emerging market needs to provide compelling and unique value, as well as to properly market itself to the prospective multi-national partner. This is the only basis for an attempt at leveling the negotiating field, if not establishing some tangible leverage.

In the case of JIG, this positive negotiating leverage should have been possible. Jordan's tariff status, labor market, and geographic proximity made it uniquely positioned to attract foreign investment. From a country perspective, Jordan had

natural leverage to be exploited. Moreover, within Jordan, JIG was the premier player, the partner of choice. JIG's track record working with major multi-national firms was second to none locally. Globetronics could have chosen to build the Jordan venture on its own, but with JIG's extensive government contacts and knowledge of the local market, this would have been an impractical choice.

Despite its legitimate sources of leverage, JIG failed to promote itself and demand appropriate terms during the negotiations. Why did this happen? For one thing, JIG was blinded by the glow of high tech fortunes, and was overly eager to sign any deal. Furthermore, because the respective CEOs of JIG and Globetronics developed a personal relationship, JIG was under the false impression that they would be protected no matter how lopsided the negotiations progressed.

2. How did the multinational corporation Globetronics ultimately suffer from the asymmetry it created?

Lost in all of the tension between Globetronics Greece and JIG was the fact that Globetronics had a strategic and fiduciary imperative to lower its costs so that it could better compete with Far East competitors. Jordan (and the JIG-partnership) was Globetronics' stake in the ground for moving in this direction. By failing to realistically reap the full value of the JIG partnership while not scrapping the joint venture all together, Globetronics managed to create negative tension at Globetronics Greece without achieving the savings Globetronics shareholders were demanding.

3. How could JIG have dealt better with Globetronic's Greek production staff who felt threatened by the low-cost JIG joint venture?

This is an extremely common problem in emerging market business, one that JIG should have been well versed in handling. In principle, a multi-national corporation such as Globetronics can tier production so that the high end/customized orders get manufactured at higher-cost facilities,

while larger, less customized orders get produced at low-cost facilities. In the long run, the multinational can choose to shift some high-end production to low-cost facilities without inducing the great shock posed by outright closing of high-cost facilities. In this case, Globetronics and JIG pursued a gradual transfer of production responsibilities. Nonetheless, Globetronics Greece remained concerned that JIG would ultimately spell its doom. As such, the Greece plant erected obstacles to shifting any production to the Jordan facility whether high-end or low-end. In this situation, it is up to JIG to assuage the concerns of the Greek managers and market its value continually to the multinational headquarters. This should have been easy given Globetronic's continued reliance on high cost manufacturing, a fact noted in the public record via the company's SEC filings.

4. In what ways should JIG approach Globetronics about guaranteeing the long-term sustainability of the Jordanian operation?

JIG was faced with several intermediary tactical alternatives and only two strategic alternatives for saving Jordan Electronics. Given the scale of the problem and the number of obstacles, JIG would have been best served by using the meeting with Globetronics to focus exclusively on pursuing one strategic alternative (i.e. compelling Globetronics to buy a 50% stake in the venture, or finding a new multi-national partner all together). Both alternatives were viable, and while the latter alternative was not the preferred route, other realistic suitors could serve as an excellent source of leverage with Globetronics.

In the end, moving towards a full joint venture built on a co-investment by both parties should have been the primary focus of JIG negotiators. By investing in the venture, Globetronics would have a greater stake in utilizing its full capacity. An investment by Globetronics would also give JIG comfort that they could steer their way through the current obstacles.

1. This note was written by Avinoam Green of Georgetown University.