Formation of international joint ventures as a strategic alternative for foreign market entry in the times of crisis

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Abstract

Due to economic slowdowns and partially due to market saturation the Czech Republic as well as other countries, suffer from downturns within their construction industries. These conditions have caused a lack of jobs and investments in their domestic markets, therefore construction firms are forced to search for jobs in foreign markets in order to keep their production capacities and turnover. The formation of various kinds of partnerships is a great opportunity for companies to grow, improve efficiency, become more competitive, and increase their market share. On the other hand, there are particular risks, difficulties and pitfalls involved in following such a strategy. Joint ventures (hereafter JVs) have become popular due to their importance as strategic alliances in domestic as well as global competition. Based on that, we should examine up-coming challenges offered by international joint ventures (hereafter IJVs) as strategic alternatives to enter developing foreign markets. For purposes of this research case study method was selected. Based on this research IJV formation with a foreign firm resulted as an optimal strategic alternative for foreign market entry for mid-sized construction firms.

Introduction

Competitiveness within the construction industry is increasing as market borders are being expanded through the use of widely available telecommunications and increasingly efficient transportation systems (Sillars and Kangari 1997). Internationalization of construction markets and globalization cause pressure on local markets, especially in the developing countries, where there is high demand for construction services and expanding construction segments. Global competition presses on company margins as well as on supply chains, time plans, guarantees and quality.

The market conditions differ hugely across the world, which has lead to many companies' expansion into prospering markets. In the last decade we observed an increasing presence of German, French and American firms in the Czech Republic and Taiwan. It has been caused by economic and construction downturns in their domestic markets and rapid growth and construction booms in central Europe and south-eastern Asia. Market expansion is also driven by diversifying of risk across different areas and fields. Therefore, companies do not now have to rely only upon their home market conditions, since they can transfer their activities abroad. In the Czech Republic most of the construction exporting has been is undertaken by midsize construction firms controlled by Czech owners, since almost all major market players are now owned by multinational corporations and have became a subsidiaries, which are supposed to operate only within domestic Czech market.

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Problem statement

According to forecasts, due to the world economic crises, both the Czech Republic and Taiwan face lowering construction demand in home markets. If domestic firms want to sustain or grow their business, they will be forced to search for new jobs abroad. These jobs are expected to be found in underdeveloped regions exhibiting high speed growth, with poor infrastructure, lacking the latest technologies, with an increasing number of public as well as private projects. In terms of the Czech Republic these areas might be markets in Eastern Europe such as the Balkan countries and post-soviet countries. Czech firms in general have lots of entry advantages to eastern markets compared to their western competitors due to language as well as cultural similarities and historical background. These are significant considerations for entering into and succeeding in new markets.

Taiwan has experienced extraordinary growth during the last few decades due to foreign investment and especially its export-oriented strategy. In 2008 this situation has changed and growth has slowed, caused by the world economy's slow-down and the close linkage to the U.S. economy. This situation will also logically impact construction industry, which is generally considered as an indicator of economic conditions. Moreover the Taiwanese construction market is relatively small; therefore there may easily be free production capacity which could be exported abroad. In terms of Taiwanese companies, they might find jobs in fast growing regions of Asia. Some markets have recently been recently discovered by local companies such as Vietnam, Thailand, India and the Arabian Emirates.

Both Czech and Taiwanese companies are facing construction industry slow-downs, which might be followed by a critical lack of work in their home territories. The local firms will be challenged to search for the new markets in developing countries, with underdeveloped infrastructure, characterized by lower levels of competition and higher returns on investments. The latest trends in the economies and construction industries in both countries are motivations for the following research, providing a deeper insight into forming international strategic project-based alliances, especially IJVs, as strategic alternatives for foreign market penetration.

Background in Strategy

Five Forces Model

Porter (1980,1986) studied competitive strategy and introduced the Model of Five Forces of Competition theory. His model defines a state of competition in an industry and the attractiveness of the market, depending on five basic competitive forces identifying the key structural features. Porter's five forces determine the ultimate profit potential in the industry, affecting a firm's ability to serve its customers and make a profit measured as a long term return on invested capital. The collective strength of the forces differs, depending on particular industries and markets. The five forces framework provides a basic view towards the analysis of competitive environments for companies and has become a substantial managerial tool for analyzing industrial environments in order to assist companies in choosing effective competitive strategies and other researchers as a basic framework for further studies.

The five forces of this model are the risk of new and potential competitors; the bargaining power of suppliers; the threat of substitute products; the bargaining power of buyers; and the degree of rivalry among established companies within an industry (Hill and Jones, 2007). The first force in Porter's model is a thread of new entrants. These entrants face barriers of entry. In regard to IJVs in construction, which is the topic of this research, we consider this force to play a crucial role.

Barriers to Entry

Barriers to entry are factors that make it harder or easier for another company to enter into the industry. High entry barriers will keep potential competitors out of the industry and low barriers to entry will give an opening for competitors to enter into the industry if the industry returns are high enough. (Hill and Jones, 2007) The fewer competitors in an industry the more the existing companies can take advantage of higher prices and better returns.

Many markets have at least some barriers that make it more difficult for a firm to enter a market. A debate over how to define the term "barriers to entry" began decades ago, however, and it has yet to be decided (OECD, 2007). Some scholars have argued, for example, that an obstacle is not an entry barrier as such. Others contend that an entry barrier is anything that hinders entry and has the effect of reducing or limiting competition. A number of other definitions have been proposed, but none of them has emerged as a clear winner. New entrants to the market bring new capacity, the desire to gain market share, and often substantial resources.

Construction firms can concretely face barriers in terms of project management, foreign country restriction and regulation, legislation, accounting standards and financial reporting. In concert with developing globalization, organization systems, standards, regulations and software are being internationalized in order to conform to requirements world-wide, promoting transparency and accountability. Systems are becoming unified to facilitate mutual communication among firms and institutions across the world.

Strategic alliances and Joint Ventures

Strategic alliances have been widely discussed in the context of international business over the past two decades since interim collaboration has become an important component of creating competitive advantage (Xu, 2005). A strategic alliance is an agreement between two or more companies to work together to achieve an objective. JV, a special type of strategic alliance, offers a unique opportunity to combine distinctive competencies and the complementary resources of participating firms (Ozorhon, Ardity, Dikmen, Birgonul, 2008). A JV involves at least two parent organizations that contribute equity and resources to a semiautonomous legally separate entity, participating in the decision making process (Geringer, 1988). This form of alliance provides an opportunity to share the costs and risks, acquire knowledge, enter new markets and to gain economies of scale or to rationalize operations (Contractor and Lorange 1988). An IJV is defined as a JV with at least one partner headquartered outside the JV's country of operation. (Geringer and Herbert, 1989).

Although establishing international construction JVs is a widely used strategy in the construction industry, the majority of current literature and research on JVs and IJVs is focused only on the manufacturing industry. Theories of JVs and IJVs in the construction industry have not been investigated, except for a small number of studies which have concentrated on the risks of IJVs (Bing and Tiong, 1999; Das and Teng, 2001, Tang and Beamish, 2004) and factors affecting the performance of IJVs (Mohamed, 2003; Gale and Luo, 2004). Several studies in the literature have also examined the influence of culture on forming and on the performance of IJVs (Barkema and Vermeulen, 1997; Morosini, 1998; Horri, Levitt and Jin, 2005, Evans and Mavondo, 2002).

Construction projects are unique and differ largely from ordinary JVs formed in the manufacturing industry. International construction JVs are usually formed on single project bases, with limited duration. These alliances are affected by complex and multidimensional factors regarding partner compatibility, interworking relationships between the firms, host country conditions, project characteristics and by the JV structure itself.

Motivation and Benefits of International Alliances

As markets erode due to competition, firms need to seek project revenues from outside their home territories. They often join with firms local to the new territory, to assemble local knowledge or relationships into a venture, thereby reducing risk and creating a partnership that clients will find effective and trustworthy (Shen 2001). There is a variety of theoretical explanations on why firms choose IJVs for international investment, including exogenous forces (Mowery 1996). For example, firms choose JVs to exploit core competencies among partner firms and achieve technological superiority, and to reduce transaction costs due to opportunities, bounded rationality and uncertainty. Firms go into partnerships because of exogenous forces such as requirements from the host country (Pan, Tao and Lu 2005) or local governments' requirements due to technology (know-how) transfer as well as involving local vendors, labor and other resources.

The implementation of alliances has been proven as a tool enhancing companies' position in the global construction market. Strategic alliances are considered as a necessity for construction companies if they wish to compete in the global market place.

Key factors of IJV Success

The reported JV failure rate ranges from 36 up to 70 percent (Killing, 1983). Why do these relationships have such an alarmingly high failure rate? And what can be done to increase the likelihood that an IJV partnership will be successful? One of the main reasons is cultural match among the partnering firms. The academic literature is not consistent in ascribing JV failures to cultural problems. JVs, whereby two or more parties combine their resources in a joint business undertaking, can be a great way for start-up and established companies alike to obtain needed money or expertise, introduce new products or services to an existing market or bring existing products and services to a new market. Sillars (2003) argued that while there are models for operating JVs, there is a limited body of research that ties specific operating factors to success. Identification of these success factors would allow managers even more control over the ability to avoid erosion of the outcomes of the JV partnership. JV success factors and their importance will evolve as the understanding of project-based JVs and inter-organizational relations in general improve and the ratio of JV failures may decrease (Sillars and Kangeri 2004). Definition of project based IJV success factors would provide a means for understanding these dynamics and for exposing the underlying root causal factors of success by controlling for environmental change.

Research methodology

For purposes of this research case study method was selected. This case study is a qualitative methodology analyzing data within construction industry. The interviews and related literature have been the main sources of data. The present case studies are analyzed to identify the major problems that exist. Qualitative analysis is an interpretative technique of data collection which is used to increase understanding of a topic. This methodology describes, translates, and otherwise comes to terms with the meaning of certain phenomena (Copper and Schindler, 2006). This qualitative research methodology contains case studies of two construction companies, which are expanding into prospective developing markets. The data were collected from structured interviews conducted with the managers representing both firms. In order to get wide context, several supplementary interviews were conducted with experts and insiders representing the construction environment in the Czech Republic and Taiwan. The information gained from academic literature review and from the following case studies lead to case study analysis. The authors selected case studies of companies operating out of their home territory in international construction markets, collaborating with domestic construction firms on project basis.

Data sources

The interviews with representatives of PSG-International, Ltd. (Czech construction firm) were held in March, 2009, in company's branch office in Prague, Czech Republic. Altogether four company representatives have been interviewed. The three interviews with representatives of Da Cin Construction Co., Ltd. (Taiwanese construction firm) were held in April, 2009; in the company headquarter in Taipei. Altogether three company representatives have been interviewed. To get the whole picture and wide context, get support for the research conclusions and findings there were another nine respondents interviewed, representing Czech, Taiwanese and international construction. In order to avoid slow pace of interviewing with note taking and data losses, most of interviews were recorded. Each interview lasted between one and two hours. Each interviewee was assured about the data confidentiality to make him or her feel free answer the questions honestly. Some interviews were done by email since the people were not in the Czech Republic or Taiwan. Case study research questions are among the most important components of the case study project. Questions for the two case study analysis of JVs in construction were divided into: industry situation, operations in international markets, alliance formation, JVs characteristics, and JVs aspects.

Industry analysis and company introduction

Construction industry in the Czech Republic

Nowadays the level of Czech export in construction is very low, in comparison to previous decades. Czech firms are facing various restrictions and discrimination barriers raised by West-European countries, but the main reason remains their poor capital position causing problems with project financing, which results in lower competitiveness in contrast to western rivals. Most of the export is undertaken by mid-size private construction firms, which are a subject of this research. These firms are unique in their capabilities and know-how, enabling them to be competitive in foreign markets. In the 2007 Czech Republic exported most of its construction production to Slovakia (26%), Russia (5%), Germany (4%) and the United Kingdom (3%) (Foreign Trade Statistics, 2007).

In terms of industry development, the construction sector in the Czech Republic has experienced continuing growth, starting in 1999. In the last a few years, nearly since 2004, the growth was enormous. There were several reasons, for that such as economic growth and investment to infrastructure financed by government and European structural funds. The most significant reason was 'booming' of real estate market due to increasing demand for housing and high purchasing power of citizens, empowered by easy access to mortgages and low interest rates. These conditions encouraged the firms across the field start up land development projects, since they could enjoy high margins. The growth was naturally accompanied by increase of prices and partial market saturation in 2008. At the same time construction industry was heavily impacted by world economic crises and the whole sector cooled down rapidly. Market uncertainty and banks' cautiousness when lending money made lots of projects to be stopped, eventually postponed.

Construction industry in Taiwan

The construction industry has been slowing down because of market uncertainty caused by world economic crises, since mid 2008. Many private projects were stopped or postponed due to lack of investing confidence and tightening conditions of project financing. The real estate market has been plunging, since financial institutions became more conservative in money lending. Luckily there are several infrastructure projects scheduled, regardless the crisis. The Taiwanese government decided to stimulate the market and announced investing nearly TWD 500bn (US$14.4bn) in a fiscal stimulus package. The package includes a sizeable investment in infrastructure, which should help the construction sector. In December 2008, the Taiwanese government announced construction of ten major infrastructure projects, ranging from expansion of Kaohsiung Harbor, Taiwan's largest seaport, to a Mass Rapid Transportation system in Taizhong.

PSG-International, Ltd. - Company introduction

PSG Group is the top nine ranked construction firm in the Czech Republic, it employs about 580 people. It specializes in turnkey deliveries of industrial, civic, commercial; residential and infrastructure related project. Most of the company revenues come from civil and building works. Their services include design, project and construction management services, civil works, turnkey or EPC (engineering-procurement-construction) deliveries of construction projects. The main field of PSG-International is delivering reinforced concrete and steel structures. The firm is a engineering, construction and services company. PSG-International has been oriented to the international market and its possibilities since established in the 1920's. In this way it has been more immune to domestic market volatility than some of its competitors. The firm became a Czech pioneer in handling challenging construction projects in Central and Eastern Europe, Africa and Asia.

Da Cin Construction Co., Ltd. - Company introduction

Da Cin Construction Co. is a private limited company listed on the Taiwan stock exchange. Da Cin is expanding, and is one of the top-ranked construction firms in Taiwan.. It employs over 650 people. It is mainly concerned with the building and development of residential and commercial buildings, excavation and highway construction. The group is engaged in the subcontracted construction of factories, public engineering projects, commercial buildings and residential buildings. During the year 2008, the Company obtained revenues mainly from factory construction and other related projects (50%), public engineering projects (30%), as well as commercial building business (16%). Since 2005, nearly half of the company's revenues have come from building and real estate development. The Company operates its businesses mostly in the domestic market. In 2007, the 8% of revenue came from company activities overseas, especially in Vietnam.

Da Cin Co., Ltd. has adopted as a domestic pioneer that advanced tunnel boring method (TBM) drives through the existing retaining structures which are underneath the tunnels of the Taiwan High Speed Rail (THSR) and Taipei Mass Rapid Transportation systems (MRT).

CASE STUDY: PSG-INTERNATIONAL, LTD.

Motivation for foreign markets entry

PSG-International has lots of experience in international market operation due to its long history and tradition. The main motive of PSG-International for international market entry is company expansion and revenue growth. Even though PSG's field of interest is unique when compared to other domestic market players, on the other hand, the potential for growth in the Czech Republic has certain boundaries because of market size, and rivalry among existing market competitors including powerful multinational competitors diversifying their specialization. PSG-International still considers the eastern markets quite risky, but above average revenues became sufficient drive to enter them. Penetration into the markets of Western Europe is troublesome due to high barriers to entry and market competition. Besides other eastern markets, PSG-International successfully operates in Russia and recently entered the Indian market. These territories are the main subject case study.

Russian Federation

The Russian federation has a strong and emerging market offering an extensive potential, promising high returns, but also considerable risks and obstacles. After the political situation was stabilized and legal environment partially improved, foreign investors started to enter and invest in the Russian market. The Russian federation has attained political and economic stability and high GDP growth (8,1 % in 2007). The country is set to experience another years of rapid economic growth on the back of strong energy prices, foreign investments and rapid expansion of domestic demand. Russian's focus is now on using the oil windfall to build and modernize infrastructure and create an environment conducive to business. The needs of the Russian federation are enormous. They range from investment in oil and gas to energy generation and transmission. They cover urban infrastructure from transport to water and sanitation, housing and heating. They relate to the ports and inter modal transport facilities, and continue into the areas of aviation and railways. Apart from that, the overall environment remains risky, containing lots of barriers to entry. Project financing, legislation and corruption are still substantial obstacles. Interest rates remain high and there is a lack of financial institutions willing to provide capital coverage for foreign investments. The Russian market remains unsaturated compared to other parts of Europe which suffer from slight downturns in construction empowered by current economic crises.

PSG-International in Russia

In the Russian federation, PSG-International prefers to deliver the projects as a main contractor. Most of the projects are financed through the Czech Export Bank, supporting activities of Czech firms' operations abroad. This type of project financing requires a high level of discipline and responsibility. PSG takes a substantial risk, as it is responsible to the Czech Export Bank for the investors' payback period as well as for a smooth project delivery. Any kind of joint venturing would be inconvenient, since most of the risk would be taken by PSG. Based on these circumstances PSG prefers to deliver such projects as a main contractor, collaborating with local firms as subcontractors.

PGS-International preferred to enter the market by establishing a new legal entity, since it conducted construction projects for the last few decades. In Russia, PSG undertook only a few attempts to form IJVs. In all these cases the main purpose was to increase the chance to get contracts by public tenders. Nevertheless, in this way PSG never got any contract in Russia so far. In the other projects there has not been a need to enter alliances so far, since the company is familiar with market conditions and confident enough to cope with most of the projects itself as a general contractor. PSG did not face substantial difficulties in terms of connecting to local supply chains. Project financing, corruption, legislation and lack of trust remain the main barriers.

India

The Indian market with its one billion plus population, presents lucrative and diverse opportunities for exporters. Due to India's rapid growth and extremely underdeveloped infrastructure, opportunities in all fields of industry including construction seem to be endless. India's requirements for equipment and services for major sectors such as energy, environmental, high-tech, infrastructure, transportation, and defense will exceed tens of billions of dollars as the Indian economy further globalizes and expands. India's GDP growth of 7,3% for 2008, makes it the 2nd fastest growing economy in the world. India has potential for a sustained growth of 8-10% for the next couple of years. The Indian government heavily invests in infrastructure in order to attract foreign investors. Besides that, the Indian Government's approval allowing 100 percent FDI in real estate has given a major boost to the already fast growing construction industry.

PSG-International in India

In order to follow the corporate strategy of continuous expansion into prospective markets, the company decided to enter Indian. India has become an emerging global challenger, experiencing extraordinary growth naturally accompanied by a rapid boom in construction. In spring 2008 a group of PSG representatives was sent to India in order to examine the environment, assess local conditions and the potential for gaining contracts. Half a year later on in Bangalore, Karnataka state, there was established a subsidiary company, PSG-Infratech. PSG became the first Czech construction company entering the Indian market. India entered the market through Foreign Direct Investment (FDI). PSG-Infratech faced many difficulties when dealing with government officials due to unclear legislation and the country's regulation, which are hard to understand. The overall level of bureaucracy and corruption is enormous.

PSG-Infratech representatives realized soon that finding a strategic partner is the necessary key success factor in such a distinctive environment. The company started to negotiate with several Indian firms right after the market entry, but huge cultural gap and different way of thinking discouraged firms to cooperate. Moreover, all the potential partners proved to be untrustworthy or having different expectations. PSG representatives consider finding a strategic partner as essential issue in order to improve mutual communication and overcome some of the differences. The company recently formed 2 contract-based IJVs with local smaller firms for tendering purposes. In this way the firms increased their chances to succeed in current tender competition due to resource and knowledge synergy.

Findings

In Russia, the main competitive advantage is that the company is able to secure project financing due to collaboration with the Czech Export Bank and EGAP. That helps PSG-International to overcome difficulties in terms of financing and guarantees resulting from the projects. In such risky markets as Russia, securing project financing makes PSG-International very successful and competitive. Corruption, bribery, strong government influence and lack of trust remain unbroken barriers (see Tab.1)

Table 1: Russian market barriers to entry identified by PSG-International

Identified barriers	Overcome*	Comment
Bureaucracy, Legislation	√	hiring consulting and law firm
Project financing	√	partnering with Czech exporting bank and EGAP
Get contracts	√	good reference projects
Corruption	X	
Economies of scale (production costs)	X	hard to compete on price
Connection of politics & business	X	
Lack of trust	~	

* √ - overcome, X - not overcome, ~ - partially overcome

PSG-International entered Indian market recently, in spring 2008, which is too early to make any further conclusions as most of the barriers are still unsurpassed (see Tab.2). The unanswered question is which of them can be overcome and which cannot. Strategic alliance formation with the Indian firm might be the right way for PSG-Infratech to speed up company start up and market adaptation.

Table 2: Indian market barriers to entry identified by PSG-International

Identified barriers	Overcome*	Comment
Bureaucracy, legislation	√	hiring consulting and law firm
Corruption	X	
Get contracts	~	no reference projects from India
High importing duty	X	
Connection of politics & business	X	neceesary to get "informal" aproval
Get contracts	~	no reference projects from India
Supply chain access	~	access to partners strong distribution system
Economies of scale (production costs)	X	hard to compete on price
Project financing, money transfering	~	partnering with Czech exporting bank and EGAP
Lack of trust	X	
Cultural differences	X	
Language barrier	X	

* √ - overcome, X - not overcome, ~ - partially overcome

In terms of IJVs in Russia and India, company forms them for resource or bidding purposes, in order to increase their chance to get contracts. The firm did not identify substantial barriers in Eastern Europe which it could not overcome itself. Due to sophisticated way of project financing through Czech Export Bank and EGAP, PSG-International takes responsibility for investors to service their debts. In these cases eventual IJV formation would be very risky.

The formation of IJVs in India has proven to be essential either for overcoming barriers to market entry or succeed in the bids. The whole environment and conditions completely differ from European, thus partnering with local firms is more than necessary. On the other hand, there is a huge cultural gab, which needs to be taken into consideration. Compared to other firms in eastern markets, PSG-International has expertise and latest technologies, which make the firm very capable and competitive. Contrariwise, the company struggles with legal, political and cultural issues. Russian and Indian firms can hardly win attractive tenders themselves, due to poor performance, organizational skills and lacking technology, thus IJV concept seems be beneficial for of both sides, especially in India.

CASE STUDY: DA CIN CONSTRUCTION CO. LTD.

Motivation for foreign market entry

Due to the size of the Taiwanese domestic market, which is quite small and very competitive, limiting Da Cin's growth, the company began to search for new opportunities overseas in 2005, being aware that the economic and construction boom in Taiwan is over. Such a strategic decision takes lots of analysis and preparation and time for implementing. Therefore the company started looking for new territory in advance.

Vietnam

According to a United Nations survey (UNCTAD 2008) Vietnam is the 6th most attractive world foreign investment destination. Distinct from Taiwan, which suffers from economic downturn, the economy of Taiwan probably slipped into a recession in the last 3 months of 2008 and a real estate market, which is rapidly slowing down, the country of Vietnam is growing with many investing opportunities. Vietnam has become an economic tiger, holding lots of promise for international construction firms.

The Vietnam political regime is very stable compared to other countries in the Asian region. The Vietnamese economy had the 2nd fastest growth in Asia with impressive GDP growth of 8,4 % in 2005. In addition, more than the 65% of GDP comes from domestic demand. The country's rapid growth makes the people wealthier as well as increasing their purchasing power. The population is nearly 84 million inhabitants, among whom 50% are younger than 35 years of age. In addition, in overseas there are numerous communities of

Vietnam War refugees, counting over 3 millions. There is already a second generation of overseas Vietnamese, especially in the United States. Most of them are wealthy, looking for some opportunity to return back to their home country and invest.

Da Cin Construction in Vietnam

After a few years of consideration and detailed analysis, Da Cin Construction management decided to penetrate to Vietnam, which fulfilled the company's criteria for expansion. Those main criteria were good political relations among the countries, a stable political situation, real estate market growth, cheap labor and knowledge of the market.

The company faced lots of barriers to entry. Apart from government restrictions Da Cin Construction had to handle extensive cultural differences, language differences, bureaucracy and government regulation. Vietnam is a communist country; the local regime is unforeseeable and risky in many ways. There are also many political risks even though the country remains quite stable compared to other countries in that area. Most of the industry in the country is still run by the government with a small ratio of private ownership. Moreover as the country has developed rapidly, over the last few years, these changes have been accompanied by legislation which makes the entrepreneurial environment even more complicated and risky. The parent company of Da Cin Construction limited the overseas investment activities to $30,3 million USD to limit against losses and protect stockholders' value, since Da Cin Construction is a publicly listed company. Da Cin Construction firstly decided to enter the market through foreign direct investment (FDI) and set up a brand new subsidiary company in Vietnam. This step showed as a wrong strategic decision later on. The company started facing extensive barriers to market entry, bureaucratic and legal problems, partially because Vietnamese officials had difficulties with Taiwan recognition, politically.

Da Cin Construction is a family firm with a long tradition and strong company culture. The fit of company cultures was determined as one of the requirements for any new venture partner. Large firms, with strong market position and negotiating power, were appreciated. One of the largest contractors in Vietnam, called Saigon Trading Group (SATRA), seemed to fulfill all these requirements. Entering into alliance with the SATRA Group, a leading government controlled construction firm later showed as a bright strategic decision.

Findings

IJV partnering with SATRA Group brought Da Cin Construction many advantages and benefits which could hardly be achieved by a single foreign entity operating in Vietnam. Due to the IJV formation, the company could overcome some of the barriers to market entry, gain access to government bids, acquire land as well as secure project funding. As mentioned above SATRA Group also owns an investment bank, which makes the project funding easier in case of any problems. By allying with a government owned company Da Cin Construction also eliminated political risks. SATRA provides assistance to Da Cin in many ways. All these factors enabled and speeded up Da Cin's entry into Vietnam. On the other hand, Da Cin contributed to the common IJV by sharing know-how, bringing in much experience, expertise and knowledge of the latest trends and technologies in construction. That increased the IJV's qualifications for the Vietnamese market, since it became more competitive. All the JV participants brought some particular resources, took part of the risks and took benefits from working in the alliance.

We identified barriers to entry of Vietnamese market, which Da Cin Construction faces. Based on case study analysis we provide the following table assessing overcoming these barriers. Evidently most of them were overcome due to IJV formation with SATRA (see Tab. 3). All these achievements would be hard, if not impossible, to reach without such a powerful partner which SATRA definitely is, especially due to its close ties to the Vietnamese government, strong market position, financial stability and negotiating power.

The analysis of the Da Cin Construction case study shows that the IJV concept has proved to be an appropriate alternative way to accomplish foreign market penetration and overcome barriers to market entry. The strategic alliance of Da Cin Construction and SATRA seems to give both JV partners what they expected. The companies' alliance is based on principles of good faith, trust and an open-book approach towards the costs. By using common synergy they became more competitive, and more qualified to deliver a wide range of projects.

Table 3. Vietnamese market barriers to entry

Identified barriers	Overcome*	Comment
Bureaucracy, Legislation	√	hiring consulting and law firm
Get contracts	√	close ties with local officials, government projects
Competitive market	√	strong market possition of JV partner
Government restrictions	~	JV partnering with government owned company
Land acquisition	~	participation on projects supported by government
Supply chain access	√	access to partners strong distribution system
Economies of scale (production costs)	√	sharing resources with JV partner, reaching the scale
Project financing	√	guarantees partially privided by JV partner
Double taxation (profit repatriation tax)	√	paper company in Singapore
Lack of trust	√	incease of Da Cin's credibility
Cultural differences	~	-
Language barrier	X	-

* √ - *overcome* , **X** - *not overcome,* ~ - *partially overcome*

Summary and conclusion

Before entering strategic alliance company executives should clearly consider and define why they want to enter an alliance and what do they expect from it. Company culture plays a key role, especially if the firms intend to cooperate on the long-term basis. The firms should get to know each other as much as possible and make sure they share the same objectives and values. Good experience from past projects or close personal relations among partnering firms' representatives have a positive effect on alliance formation.

Both cases have shown that securing project financing is one of the key factors. Some barriers can hardly be overcome without partnering with a local agent; on the other hand some of the barriers remain unbroken even after joint venturing, especially those related to culture, language, government restrictions and legislation. In these cases the firms might use consulting or law firms.

Close collaboration with government or controlled firms and agencies can eliminate risks and facilitate construction operations in terms of getting jobs. Export supporting institutions such as Czech Export Bank and EGAP can provide valuable information, expertise, guarantees or project financing. Similarly close ties with financial institutions proved to be beneficial in terms of guarantees and financial support.

The competitiveness and chance to successfully enter a foreign market is increasing with specialization uniqueness and possession of scarce resources such as the latest technologies and know-how, which might be appreciated in the host country.

Integrity, mutual trust, and good faith have been the main factors affecting relationship between partnering firms. In order to reach harmony within a common venture, the firms should bring some particular resources, take part of the risks, as well as take benefits from working in the alliance. To avoid disputes and eliminate misunderstandings, there should be efficient communication flows among the partners. The research proved the need of a JV leader, which is critical to resolve the problems and avoid impasses.

Conclusion

IJVs have become an important way of exploiting business opportunities for construction companies, even if they are mostly formed by large companies, as mid-size firms remain skeptical, lacking confidence and international experience. Foreign market entry without entry preparation; experience; and close collaboration and linkage to local partners, officials, potential stakeholders, and clients mostly results in low success rates. The construction industry is considered to be a 'national issue' in every economy; therefore knowledge of particular environment conditions, culture, manners and participation of local entities is more than necessary. JV, as a type of strategic alliance, is in general considered a very risky strategic alternative. This study has proven that the risks can partially be eliminated during JV partner selection by following the key success factors we defined. For mid-sized companies lacking capital for eventual acquisition, IJVs resulted as an optimal strategic alternative for foreign market entry. Market penetration through IJV formations has shown to be suitable for markets with high barriers to entry. On the other hand, markets with low entry barriers can be entered directly by establishing new subsidiary firms through FDI. Even though both case studies differ from each other in many ways, the basic principles and conditions remain the same. After the analysis of both case studies, overcoming barriers to entry, and supplementary interviews with experts, we aggregated the findings and propose the Ten Critical Success Factors, which are essential for operations in international markets and another Ten Critical Success Factors for IJV formation.

The Ten Critical Success Factors of foreign market entry:

1 Detailed market analysis
2 Experienced and capable project team
3 Hire law/consulting firm
4 Understand local legislation
5 Possess of unique resources & know-how
6 Find right strategic partner
7 Cultural knowledge and understanding
8 Get contract (credibility)
9 Secure project financing
10 Employ local people

Identification of the Ten Critical Success Factors of foreign market entry should allow managers more control and get them more focused on these essential issues.

The Ten Critical Success Factors of IJV formation:

11 Due diligence of potential partner
12 Common objectives
13 Carefully formulated JV contract
14 Knowledge of JV project
15 Risk sharing
16 Leader of JV
17 Open book approach (trust / control)
18 Avoiding opportunistic behavior
19 Cultural match
20 Communication

Identification of these Ten Critical Success Factors should provide managers a tool for understanding IJV dynamics and decrease a high ration of JV failures.

This research also represents extension of the strategic management body of knowledge.

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