

# IDENTIFYING KEY SUCCESS FACTORS FOR INTERNATIONAL JOINT VENTURES: A STUDY OF SINO-HUNGARIAN JOINT VENTURES

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## ABSTRACT

*International joint venture (IJV) is the main way of an international company to enter foreign market. The Belt and Road (B&R) initiative built a bridge between China and other countries. More companies are trying to cooperate with Chinese industries. This study focuses on the factors that promote the cooperation between Chinese and other countries, especially European countries. Most of the current research on this topic are analysing how to maximize the profit but ignore the factors to ensure the successful cooperation. The research presents the key points through the case of the cooperation between China RE and Pannónia First Hungarian General (CIG) from Hungary, which could be divided into external and internal parts. As for internal part, the main focus are the conflict resolution and the support from the government while the main factors for external part are well-developed complementary strategies, providing the entry for capable employees and the well-developed infrastructure. Some strategies and recommendations are given at the end based on the case. The final result has great implication for business decision makers and managers. Also, this research provides valuable advice for Chinese companies which are trying to enter the global market.*

**Keywords:** Success Factors; Development Strategy; IJV; Sino-Hungarian China

## INTRODUCTION

Under the macro-environment of globalization, the connection between countries is becoming much closer. Globalization has greatly improved the economic development of countries, which means they begin to cooperate by trading, labor and technology communication. During this process, China has rapidly increased its economic power in the past few decades and other countries started to make trades with China which could achieve double win, for example, the B&R programme is used for China and other 63 countries. Aside from Asian countries, the Central and Eastern of European (CEE) countries, which are the biggest member countries in this programme, have clear position between Western Europe and the Asian continent, which is of great significance for the construction (Matura 2018).

Recently, Italy, Luxembourg, Poland, Greece, Hungary and Portugal have joined the initiative. A number of other European countries, including major developed economies have also shown increasing interest in the initiative (Yan 2019). According to China RE (2018), Premier Li has published an article on a Germany media, which shows the difference between China and Europe in geography, history, culture, social system and development path. It is obviously that many European countries are trying to cooperate with Chinese industries, and one of the approaches is the international joint venture, which could save cost, share risks and technology transformation (Xinhua 2017).

Thus, the goal of this research is to illustrate the factors that promote the success of cooperation between China and CEE industries. The lessons for other Sino-European companies in their joint ventures with China will be analyzed through the case. The main research questions in this study are: 1) *What are the key factors that promote the successful cooperation between China RE and CIG?* 2) *What is the development strategy and the future development direction of Sino-foreign joint ventures in B&R initiative.*

The paper is organized as follows. Firstly, the research background, the status, the purpose of the research and research questions are illustrated. In the second part the literature review according to the top research question is presented. The third is the details of the case about the cooperation between China RE and

CIG by the internal and external environment of these two companies. The forth section is the research by analyzing the data to obtain the development strategies. Lately, conclusions and the answers to the research questions will be presented.

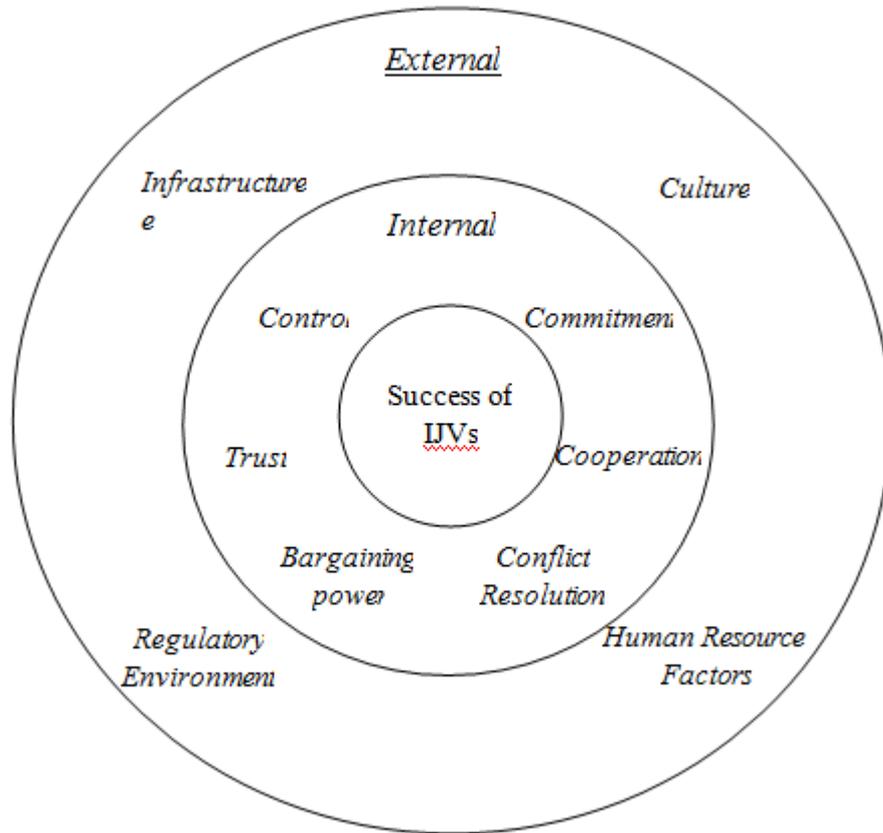
## LITERATURE REVIEW AND THEORETICAL FRAMEWORK

As the world's second biggest economy, more CCE countries are looking for opportunities to cooperate with Chinese industry in order to enter Chinese market. Shi et al. (2014) argue that foreign firms are more likely to prefer collaborating with local firms that have unique network structural advantages in emerging economies, since foreign firms face a lack of legitimacy in the new market (Zaheer 1995). That is why the research is trying to find out the factors that promote the success of IJV and encourage them to cooperate with China industry. Meanwhile, some useful information can be learned from the successful cooperation from foreign countries and combine with Chinese characteristics to develop service industry.

Thus, how to ensure a successful cooperation and profit maximization is valuable to research. One of the aims in this report is to summarize the factors of successful cooperation in B&R. This report will also analyse the status of Sino-foreign joint ventures under the framework of B&R, which has a positive economic and political impact by investing in large projects such as services, power plants, railways and ports. In order to facilitate readers to understand the feasibility of Sino-foreign service joint ventures, this article lists the development status of some typical examples. According to professor Peter Franco pan (2018), one of the greatest focus in China is about improving the lives of the poor.

There are two innovative research directions in the study for IJV, which are the promotion of government and the raise of service industry. Firstly, according to Wang *et al.* (2017), Governments adopt a more proactive approach to provide commercial opportunities for IJVs, especially for the foreign market. The positive relation between business and government can significantly benefit firms' innovation from the management to enlargement of market (Tian *et al.* 2017), and B&R is not only a regional strategy, but also establish a global brand of China (Aoyama 2017). Secondly, precious study always focuses on construction industry and manufacture industry to seek for the cooperation for IJV, but this study concentrates more on the service industry. With the influence of political strategy, the highlight of service industry could be the trend in the future.

Fig. 1 provides a clearer concept of the determinants of IJV manifestation that were identified in advanced. Success of IJV can be resulted into internal (within the organization) and external factors (local environment). Commitment control, cooperation, trust, conflict resolution and bargaining power are included in external factors. Meanwhile, external factors of an IJV performance include regulatory environment, the supporting infrastructure, human resource factors and the culture. Case study is the research method in this report, which refers to an intensive analysis of an individual unit such as a person or a community to stress developmental factors in relation to environment (Webster 2018). Fig. 2 shows the ice cone model of IJV success analysis. The internal and external factors lead to the change of performance measurements, which eventually cause the key success factors for IJV in China. The conceptual "Dynamic capabilities" and the theory of synergy are used to analyse the case study to gain the key factors of success and practical strategies. Dynamic capabilities can be defined as an approach of promising both research potential in the future and help management devise their own competitive advantages, which could lead managers to adapt to the changing environment efficiently to generate more successful performance (Teece 1997; Kim & Boo 2010). According to Bititci *et al.* (2007), synergy model focuses on providing as audit tools to assess the readiness to collaborate between organizations, resulting in enhancing the opportunities of future collaborative enterprises. The paper is mainly applying the theory from premium, stock price, and the evaluation of stock trend for China RE.



**Figure 01.** Key Determinant of IJV performance at operation stage

## CHINESE SERVICE INDUSTRY

The service sector has become China's largest industry and the driver of economic growth. From 1978 to 2017, the added value of Chinese service sector increased from 90.5 billion yuan to 42,703.2 billion yuan, representing an average annual growth rate of 10.5 percent, one percentage point higher than the average annual growth rate of China's GDP. The service sector's share of GDP rose from 24.6% to 51.6%. The contribution rate to national economic growth rose from 28.4 percent to 58.8 percent. Moreover, the service industry has become the main channel for job creation. From 1978 to 2017, employment in the service sector increased from 48.9 million to 348.72 million, with an average annual growth rate of 5.2 percent. At the end of 2017, the service sector accounted for 44.9 percent of all employed people, 16.8 percentage points higher than the secondary industry, which shows the importance of the service industry to China's development.

### The first insurance company to enter the Chinese market

As a foreign company operating in China's service market, American International Assurance Co (AIA) is the only wholly foreign-owned company, and also the first insurance company to enter the Chinese market that year. This company opened a branch in Shanghai in 1992, which is the first foreign insurer to get the permission in Mainland China. By 2012, AIA's had expanded to Beijing, Shenzhen, Guangdong and Jiangsu provinces, and established a professional team of insurance marketer to provides a series of insurance products through diversified sales channels. AIA is keen to have the opportunity to expand into the entire mainland Chinese market, but still needs to wait for regulatory and other opportunities. The company focused more on the growth of its own business, and now it has more than 16 million group plan participants and sold more than 32 million individual policies.

## **Acquisition between CIG Pannónia First Hungarian General and China RE**

For the purpose of this research paper, the purchase between CIG Pannónia First Hungarian General and China RE, formerly known as a successful cooperation case, plays a special role as its operation would be analysed in order to determine factors of ensuring successful cooperation. This cooperation is a combination of strong and powerful companies, which will promote the implementation of the "One Belt And One Road" initiative and promote mutually beneficial cooperation between the two countries. According to Yin (2014), this deal would give CIG company a broader future.

### **RESEARCH METHOD AND DATA COLLECTION**

This report uses case study as a common research method in business-related studies. Moreover, this study would focus on identifying the internal and external factors of success of cooperation between CIG Pannónia First Hungarian General and China RE by the use of a single-case study. Yin (2014) stresses the necessity for case studies in order to gain profound knowledge of a real-world case. The case study research would be supported by a basic model, which would provide guidance for data analysis and underpin conclusions and generalizations (Yin 2014).

The CIG Pannonia Life Insurance Plc is a Hungarian multinational financial services company headquartered in Budapest, while China RE is the largest reinsurance premium group in Asia and the eighth largest in the world. The core business and focus of CIG is life and non-life insurance. At the same time, China RE is the only local reinsurance group in China, and the main channel of reinsurance is stable. However, CIG was established in 2007 and is relatively young. The company's mechanism and operation mode still need to be improved and its ability to evaluate the global market needs to be strengthened.

The case was elected based on the fact, that the CIG Pannónia First Hungarian General and China RE Signed strategic cooperation agreements and started cooperation from September in 2018. The two sides reached consensus on providing mutual support and reinsurance services for China's overseas interests in Hungary and central and eastern Europe. Therefore, more opportunities are provided for both nations for further collaboration and economic profit. This is the first strategic cooperation agreement signed between the Chinese insurance industry and the Hungarian insurance industry. Due to Huang, the sponsor of association of insurance supervisors, the signing of the strategic cooperation agreement between China RE and CIG today is the concrete practice of implementing the " the Silk Road Economic Belt and the 21st-Century Maritime Silk Road " initiative and deepening financial cooperation between China and central and eastern Europe, especially with Hungary (China RE, 2018).

A notional model was developed to apply a more systematic approach to the analysis and identification of cooperation between China RE and CIG. The overview of factors of success of China RE would be augmented and adapted to create the conceptual model (Fig. 1). The developed "Key determinants of China RE" includes the internal and external factors that determine China RE's performance. Based on this figure, initial success factors of cooperation between China RE and CIG could be determined.

After having certificated determines that predominantly affect China RE, there is necessity to appraisal the internal effect of CIG and China RE's collaboration. Before the collaboration, on September 2018, the share price of China RE was 1.4 in comparison, the share price on February increases to 1.64, which is a 17 per cent rise. The graph of stock shows that the share price of China RE maintains the rising trend. According to Yuan, the CEO of China RE, as the only local reinsurance group company in China, China RE is the forerunner of "going global" of Chinese insurance industry. The cooperation between China RE group and CIG not only benefits both sides. Moreover, this collaboration deepens the connectivity between the insurance industry and the service industry of the two countries. The signing of this strategic agreement is conducive to the in-depth business cooperation and exchanges between the two sides, giving full play to the advantages of both sides in resources and channels in their respective fields, common development and broad prospects for cooperation (Xinhua finance and economics, 2018).

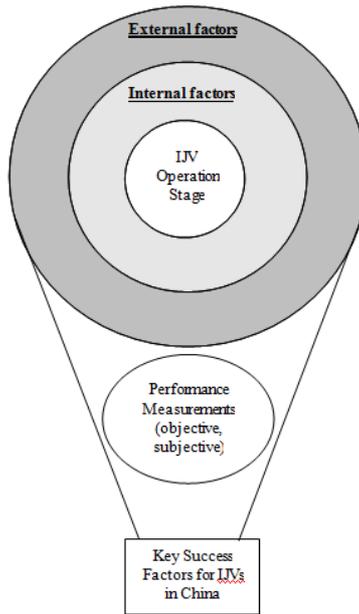


Figure 02. The Ice Cone Model of IJV success analysis

Source: Gewiss & Oestersporkmann (2018)

## RESEARCH ANALYSIS AND DISCUSSION

The research analysis strictly followed the conceptual “Dynamic capabilities” and synergy to analyze the key factors of performance and practical development strategies. Dynamic capabilities can be generalized into three levels: (1) sensing opportunities; (2) seizing opportunities to capture value; (3) transforming the organization, which will be combined with the Dynamic Capabilities Framework. And synergy effects model will be emphasized from premium, stock price, and the stock future trend for China RE.

**Table 01.** [Results of IJV Internal Factors]

### Internal Factors

Control	Balanced
Commitment	Similar level
Cooperation	Supported by government
Bargaining power	Relatively low
Trust	Relatively high
Conflict Resolution	Cultural differences exist but acceptable

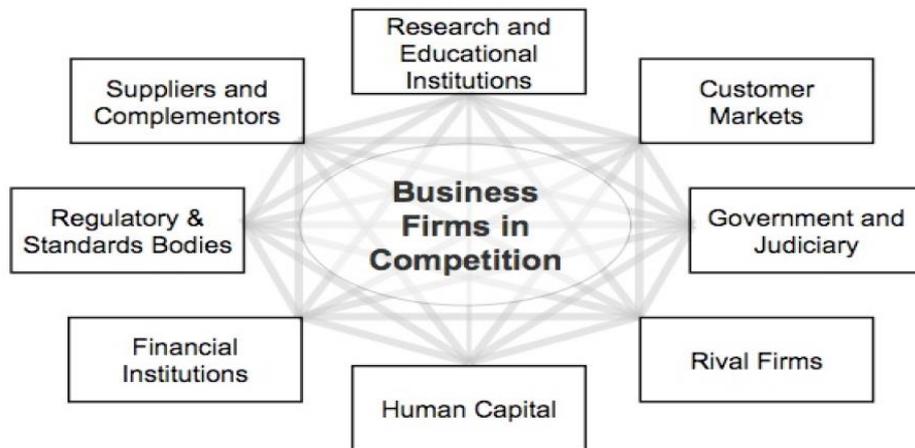
**Table 02.** [Results of IJV External Factors]

### External Factors

Culture	Great difference in politics
Regulatory Environment	Big impact, good relations with government
Infrastructure	Well-developed
Human Resource Factors	Well-developed complementary strategies provide entry for capable employees

## Dynamic capabilities

The framework of dynamic capabilities was established, including new factors of competitive analysis, which possibly influence firm performance, and it will gradually develop into an interdisciplinary theoretics of modern corporations. (Figure 3)



**Figure 03.** The Dynamic Capabilities Framework

Source: Teece (2011) Dynamic Capabilities: A Framework for profitability.

Teece & AI (2012) suggested that dynamic capabilities can be usefully divided into three clusters: (1) sensing opportunities; (2) seizing opportunities to capture value; (3) transforming the organization efficiently to gain a required new business model and adapt to the competitive environment.

**Sensing:** The emphasis of management in China RE is to grasp the opportunity even in the team of peace. Under the competitive environment, one of the strategies is to allow the service relates to the market directly based on the market research, which is an innovative beginning in this industry. Also, after the publication of “One Belt One Road” from Chinese government, China RE regarded this policy as the vital opportunities to cooperate with CIG, which is also an appliance of sensing opportunities.

**Seizing:** human capital is the significant determination of a company which not only can influence the performance directly but also help the company to capture value as accurate as possible. China RE has paid attention to the importance of management education by building a school for training successors and doing staff training, naming insurance vocational college. It is a typical action for most of the company and making use of the education stage well could produce more profit including intangible asset for company itself.

**Transforming:** in the process of development, China RE has two main determined transformations for its system, which relates to the economical and political environment of China closely. The first adjustment of system was the establishment of China RE insurance (group) company in 2003, which was a significant symbol that the Chinese insurance industry has transformed into split-body system reform and collectivization management successfully. In 2007, with the permission of the State Council, China RE transformed into stock company, which means it was more convenient for shareholders to value their shares by stock valuation model and making decisions based on stock trading (Sharafoddin & Emsia 2016).

From these, the suggestive conclusion is that companies should seize the opportunities timely and produce the chances proactively. Finding the opportunities between the requirements from the country and the company its own benefits because it could be more helpful to adapt the rapidly changing environment. In order to gain more benefits, companies can also create opportunities by themselves based on the evaluation of the long-term development.

## **SYNERGIES EFFECT**

Synergy effect from mergers and acquisitions include operating synergy and financial synergy. Operating synergy comes in two forms: revenue enhancements and cost reductions while financial synergy can come in different forms but one of the most common is when a deal results in a lowering of the cost of capital and/or an increase in the availability of capital by combining one or more companies. (Wiley, J & Sons, Incorporated). China RE and CIG began their cooperation in November of 2017. The 2017 annual

report shows that the total premium has an 18,659,241 thousands RMB increase from the same period last year. The cooperation of two companies can save the cost of management expense. The 2017 annual report shows that although the share out premium, turn share out premium and amortized reinsurance expenditures has increased a lot. The combined income statistics still has increased 17,306,457 thousands RMB. This has proved the success of financial synergy.

In general, the stock price is on the rise after the cooperation. The stock price keeps increasing until the February 2018. In June, the share price fell due to a surge in trading volume, but China RE' s returns and revenues continued to rise. Highlighting the role of synergies, it is very obvious to find out the trend of the stock. The China RE official website (2018) states that on 29<sup>th</sup> December 2017, China RE' s stock price is 1.78 yuan per share. It fell by the daily limit of 1.77 yuan per share on January 2 and it starts to increase rapidly.

In the process of acquisition between Chinese enterprises and foreign enterprises, It is an important basis for attracting excellent employees and retaining valuable customers. There must be a clear business strategy, which is the path to realize the vision in a competitive environment, and a series of consistent. Before the merger, the acquirer must carefully plan which businesses must be merged, which businesses will operate independently and which businesses will be cancelled. What resources and capabilities will be transferred. Which operational processes and strategies will be improved or optimized. How much does it cost to do this integration. How much value will these mergers and transfers creation. Under the synergy, the integrated company must be able to undercut competitors and explore new markets.

## CONCLUSION AND DISCUSSIONS

IJVs is the common pattern for Chinese companies to enter the foreign market, which is based on academic and managerial interest. Accordingly, concentrating on the key factors of successful IJV performance and gaining practical development strategies are more meaningful and useful in the real world. However, in the existing research, most of the focus in developed countries such as USA, with little research from small developed European countries e.g. Hungary. This paper extends current IJV performance research by studying Chinese-Hungary IJVs. Based on literature review and ongoing research, the overview of potential key factors of IJV performance were divided into two main categories: IJV internal and external environment. A conceptual model was used analyse the determination of IJV performance. The results show that China RE has some key determinations to influence the performance of the company. For internal factors, the balanced control and commitment level, with the high support of cooperation from government. However, the company has the relatively low bargaining power in the internal factor and cultural conflicts are still existing. The last factor of trust level is relatively high. In external factors, China RE has great difference in politics. But the infrastructure and human resource are well-developed. Lastly, the company is at the positive level to regulatory environment due to the big impact and good relations with government.

Additionally, the development strategies can be summarized as: (1) companies could seize the opportunities from other side such as government instead of only focusing on the market, which might be a strong support; (2) creating the development opportunities from to benefit the company itself by building a educational institution to provide specific manager, which can be more efficient to the management; (3) business strategy and plan need to be merged or operated independently. (4) developing new market and defeat other competitor by attracting valuable customers and outstanding employees.

There are still some limitations in this research. Firstly, the number of case in this study is limited, which is not enough for more extensive generalization. Then, the cooperation in the case is Chinese-Hungarian IJVs, therefore, except based on analyzing the company in its own country, IJVs established by firms from foreign market is needed to be researched comprehensively. Thirdly, some tradeoffs may be considered between the different determinants of IJV performance, thus future research might include more Chinese-Hungarian IJVs for the purpose of having more quantitative analysis to allow research to be more accurate. Special attention still need to be paid in global political position. Sino-US trade war is now a hot issue, and political atmosphere also relates to development of economic environment. Thus, the business partner selection of foreign companies may also stand for their political positions.

Furthermore, this research only focuses on the one developed European economies and the future studies should analyse IJV in China from other countries e.g. Poland or Greece.

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