

Biographical Notes

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The Determination of Front-End Financial Targets in IJVs: A Decision-Making Model for MNEs

by Yan He and Fu Long

I. Introduction

It still remains a daunting task for multinational enterprises (MNEs) to establish a reliable front-end financial target in international joint venture (IJV) negotiations with emerging economic countries (EECs). This is particularly true when MNEs take joint venture partnership with state-run enterprises or those entities under the heavy influence of host-government policies. The intricacy simply derives from multifaceted interactions among different stakeholders involved (Lenway and Murtha, 1994; Brouters and Bmossy, 1997), their respective objectives and expectations (Grosse & Behrman, 1992; Beamish and Killing, 1997), and various concerns that MNEs have in the phase of operations. Consequently, not only the decision-making process is characterised by the complication of setting up a reasonable financial parameter to determine the front-end target therein, but also the target determination for MNEs is often shadowed by environmental uncertainties.

Various studies have so far been extended in this area, from establishing a conceptual framework of concerning criteria (Contractor, 1984) to elaborating the environment impact on IJV operations (Kashlak, 1998; Berdrow and Beamish, 1999). Yet how an MNE measures and determines its front-end financial target in a justifiable manner still calls for further exploration, with some critical concepts left undefined and questions unanswered. In particular, what is the "financial range" for an MNE's front-end target in the first place? What are the known factors vis-à-vis the contingency factors in the course of establishing this range? In addition, why and how does an MNE's financial target vary upon the effect of environmental contingencies? How does an MNE measure these contingencies in a comprehensive manner in order to settle on a reliable financial target?

This study attempts to establish a decision-making model by which MNE's front-end financial target can be evaluated and determined. It first explains and defines the financial range wherein the front-end target is considered for MNEs. To do so we identify MNE's strategic concerns (such as IJV excess value) that should be taken into the consideration for an unequivocal understanding of financial range. Then the study explores the pattern of front-end financial target variation and the process of its determination. For this, we construct an IJV investment supply-demand model to determine the equilibrium financial target that can be reached between MNEs and EECs. Finally, based upon this model, the study elaborates how contingency factors in international operations exert direct impacts on the variation of MNE's front-end target. Given these deliberate efforts,