pioneering JV partners that are still around today, it's been a slow, steady learning process.

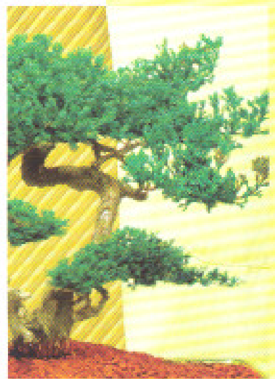
SABMiller, the Anglo-South African brewer, first entered China in 1994, with a 49% stake in a JV—the maximum shareholding allowed to foreign brewers at the time—with China Resources Enterprise. Although the result, China Resources Snow Breweries (CR Snow), is now the largest brewer in China, there have been plenty of setbacks along the way. Over the years, SABMiller and CRE's relationship, has, fortunately, "evolved" for the better, reckons Wayne Hall, SABMiller's China finance director, who is a senior consultant to the JV's CFO, with a dotted line to SABMiller's CFO for Africa and Asia. "What we have managed to achieve is a business model that delivers autonomy and accountability for operational management and an independent 'share holder' structure," he says. "This is an area of interaction that has left many JVs in China lacking in terms of delivering on... business goals."

Good governance has been pivotal, says Hall. For example, CR Snow's board consists of ten members, five each from SABMiller and CRE, with the chairman rotating between the partners every two years. Equally important are the crystal-clear processes and procedures in place—some of which come directly from SABMiller's London headquarters (such as budgeting and planning), while others are adjusted to take local practices into account (such as productivity and performance management). And there are clear reporting structures that prevent either parent from excessive meddling in the JV's day-to-day management, something that's been the downfall of many other JVs. "This is important because accountability is then clear," Hall says.

Yet even as other companies hone their JV strategies over time, some finance chiefs reckon their companies will increasingly want to focus more on WFOEs while unwinding their JVs. "From a strategic point of view, we're constantly evaluating the efficiency of our JVs," says a Shanghai-based CFO of a large European electronics company with a number of both WFOEs and JVs. And because of that, "there's now a tendency to go out and buy back shares from JV partners, especially if the value-added role is not there because the joint venture has changed over time. By streamlining your legal entities, and by even dissolving them, and moving across into a holding structure, you're basically unlocking a lot of the equity that's been tied up in the JV."

The telltale signs

If they only knew then what they know now, companies with failed joint ventures in China must be saying to themselves. But China experts say there are a number of telltale signs that should have alerted them that their JVs were about to go off the rails before too much damage was done, says Jürgen Kracht, head of Hong Kong-based Fiducia Management Consultants. Here are his top three warning signs:



1. Management standards: If your JV partner cannot tell a balance sheet from an income statement, alarm bells should ring. Accounting principles can vary immensely within China and are not up to par with western standards. Further, key performance indicators are often not established concepts in Chinese companies.

2. Nepotism: If Chinese employees are hired by a Chinese manager, be alert to nepotism. This can have a huge impact on both the formal structure of your JV (who reports to whom) and the informal information flow (who informs and will be informed by whom).

3. Hidden agendas: Competition created by a JV's own staff is not uncommon in China. Be alert if your JV partner has access to core product technologies that can be used to create a little "side business" (which is what Danone is accusing Chinese JV partner, Wahaha, of doing). ■

HAPPY ENDINGS

But often "streamlining" JV arrangements is easier said than done, especially if either or both of the parent companies are unhappy. As Baker & McKenzie's Burdett notes, "When it comes to unravelling a JV, you can't necessarily go back to the terms set out in the original agreement, which may be largely superseded by subsequent discussions and arrangements between the JV partners [over time]. It could mean big, if not bigger, negotiations than when it was set up, and could quite easily involve lawsuits."

This problem nearly ensnared Jim Xue Jianmin of Shanghai Tire & Rubber. The year after he joined as CFO in 2000, the firm took a 30% stake in a JV to produce passenger-car tyres with French tyre company Michelin, which very quickly began stumbling over one hurdle after another. Rather than the co-operation that Xue expected at the JV known as Shanghai Michelin Warrior Tyre Company, he sensed rivalry between the partners and growing suspicion among his colleagues that Michelin wanted to dilute his firm's shares in the JV. Disagreements, including about how much capital the partners should inject in the JV and whether it needed to undergo an independent audit, were frequent.

He grew more concerned when financial information was not forthcoming, fuelling his unease as sales at the new venture dipped to levels lower than when Shanghai Tire ran the unit on its own. So exasperated and wary had Shanghai Tire's management team become that Fan