7 Japanese-German Business Collaboration in Third Markets – The Case of China

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Introduction

At the end of the 19th and beginning of the 20th century, economic activity became increasingly internationalised and after the end of World War II this process accelerated. Since then phenomenal growth has taken place in international trade and in foreign direct investment. More and more countries integrate in the international division of labour and an increasing number of products are traded between countries. Particularly the last two decades of the 20th century saw some dramatic turning points and far-reaching changes in the business environment which have had a lasting effect on the way business is done.

The establishment of new dynamic businesses in fast-developing nations such as South Korea, Taiwan, Hong Kong and Singapore together with the increasing presence of businesses operating on a global basis from Japan and Germany and other Western industrialised countries are examples of the rapid changes the business world has undergone in recent years. The collapse of the planned economies in Eastern Europe, the economic transformation of China and the evolution and consolidation of large unified economic entities such as the European Union (EU), the North American Free Trade Agreement (NAFTA) and ASEAN have all drawn new features on the economic map of the world.

Features such as internationalisation, globalisation and interculturality now characterise this development, which is challenging management anew to maintain or gain competitive advantage. It poses demands on the strategies and organisational concepts of international companies, but also offers numerous opportunities for entrepreneurial creativity (Fieten 1997).

The increasing speed of globalisation will have a lasting effect on the way Japanese and German companies do business. For a long time, their national economies were dominated by companies whose imports and exports were scaled to the size of the business. Along with the globalisation of business and developments in information technology, businesses are increasingly forced to optimise all the stages of the value added chain at a global level. China has offered promising opportunities for participation to both German and Japanese businesses since it opened up at the end of the Seventies.

The conditions created by the rapid development of the Chinese economy in the last two decades gives rise to questions regarding the most appropriate internationalisation strategy in German and Japanese businesses. This economic area is new and unfamiliar to many companies and although it offers opportunities also involves considerable political, economic and social risks. German and Japanese management need to decide whether their targets will be better met by a traditional export or import strategy, or by a direct investment strategy, (for example, establishing a new subsidiary or acquiring a business in China). Furthermore, management also needs to consider the question of whether a collective strategy based on co-operation might be successful. One of the forms of collective internationalisation strategy is "third market collaboration". Third market collaboration is a particular kind of general co-operative business venture. The organisational forms of business co-operation are subject to strategic considerations. In concrete terms they are an expression of the collective internationalisation strategy of a business.

International management in a Japanese-German business collaboration involves planning, organizing, leading, and controlling the people working in the international co-operation on a worldwide basis in order to achieve the goals of the Japanese and the German parent company. The management of the Japanese-German business collaboration in China takes place in a global context, not only in China, where the four managerial functions, planning, organizing, leading, and controlling are performed in multiple, as opposed to single, political, cultural, and economic environment.

The focus of this chapter is on the strategic dimensions on international business co-operation, especially in a Japanese-German business collaboration in China. The chapter will provide the reader with an understanding of the complex theoretical context in which Japanese-German business collaboration takes place and investigate the reasons for German and Japanese management give for working together? The chapter also focuses on the question, where are areas of conflict in working together and what is the role played by trust in Japanese-German third market collaboration. In order to answer these basic questions we have to analyse and evaluate theoretical dimensions of collective internationalisation strategy, third country collaborations and research findings about Japanese-German business collaboration in China.

The collective internationalisation strategy

Management in a company that does business on an international basis confronts problems that go far beyond those faced by management active only on a domestic scale. International management has to deal with a number of questions which national management does not have to consider (Bartlett and Ghoshal 1985, 1989; Dülfer 1991). One of the most important questions for the management of an internationally active company is whether to move internationalisation forward by investing directly in foreign markets, or whether an export strategy, perhaps even a collective internationalisation strategy, might bring results. If the business decides on an export strategy, it must consider questions concerning the market, the competition and the culture. If management selects the direct investment strategy, it must decide which business functions (for example, setting up a branch sales office, acquiring foreign production locations, R&D) should be fulfilled in the foreign country (Dunning 1993; Haak 2001a).

The questions which international management must tackle can be assigned to different stages of the traditional management process: planning, organisation, deployment of personnel, management and control. The question of whether raw materials should be acquired or personnel employed locally will affect planning, and remuneration and appraisal of managers employed abroad is affected by the deployment of personnel and the management structures and culture (Staehle 1999).

Frequently, management approaches assume that planning has priority. The problem with implementing strategic plans is often only discussed on a scientific basis as an afterthought. Implementing a strategy in an internationally active business is always a process of not only intra-organisational but also inter-organisational development – a fact which the literature on international management does not take sufficiently into account (Sydow 1993, p. 48).

In more recent approaches the familiar management functions are also differentiated. However, the plan-related conceptualisation is replaced by a concept where all the functions have equal validity. Instead of being in a linear sequence the management functions planning, control, organisation, leadership and personnel deployment are given equal weighting in principle (Steinmann and Schreyögg 1997, p. 8).

Depending on the requirements of the situation in question, "one or other of the management functions might enjoy priority" (Sydow 1993, p. 48). The important point with this new conceptualisation is "that the strategy information is understood less as the result of formal planning but much more as an organised and self-organising process" (Sydow 1993, p. 49).

A large proportion of the problems of international management are solved within the framework of business and management studies. These are questions of strategy formulation, particularly that of why a company should do business on an international scale and the conditions under which a specific internationalisation strategy is given preference (please see Albach 1981, Pausenberger 1981, Lück and Trommsdorf 1982, Macharzina and Welge 1989, Welge 1990, Welge and Böttcher 1991, Dülfer 1985). It should be noted, however, that questions of strategy implementation have been given scant attention in business and management studies (Sydow 1993, p. 49).

In principle, companies doing business on an international scale have the option of pursuing their goals abroad through business alliances as well as through the traditional internationalisation strategies and direct investment. The opportunity to access the market and technology faster and the chance to share risk whilst remaining able to influence the alliance partner motivates companies to adopt the strategy of international co-operation. There are other motives: lack of own resources to internationalise completely, avoiding additional overheads and barriers to market access.

Formulation of collective internationalisation strategies is particularly important for global and transnational strategies (Cichon and Hinterhuber 1989, Porter 1985, 1986, 1990, Perlmutter 1969). Currently more and more international businesses are using "an organisational form positioned between the market and the hierarchy": collective internationalisation strategy. The key manifestations of collective internationalisation strategies such as joint ventures, added value partnerships, licensed production etc. combine hierarchical features with those of the market (Sydow 1993, p. 64).

Coalitions, strategic alliances, partnerships and co-operative ventures are conceptualisations which in association with the development of a collective internationalisation strategy are on the path to quasi-internalisation. The theory of international business infers the concept of internalisation where this concept means "the substitution of market trading relationships with hierarchical co-ordination". Quasi-internalisation does not assume however complete substitution of the market by hierarchy. Nevertheless purely market-related trading relationships are replaced by co-operative structures (Sydow 1993).

Conversely, quasi-externalisation focuses on the relaxation of previously hierarchical trading relationships i.e. intraorganisational co-ordinated trading relationships. Company-internal hierarchical relationships are complemented by external market-related elements. To give an example: as a result of quasi-externalisation a whole functional area which previously was attended to one business (e.g. research and development, certain production tasks) is now completely or partially carried out by a partner or by legally independent businesses arranged in a network.

If we consider the level of international business activity, we will see that the collective strategies for internationalising a business are not new in principle, but that they have become considerably more significant as the speed of globalisation has increased. In some respects, this organisational form has existed since companies do international business by exporting goods, services or knowledge (e.g. by licensing). The strategy of collective internationalisation which manifests itself in joint ventures, strategic alliances, value added partnerships or increased international subcontracting is a strategic alternative to both export and to direct investment. More than other organisational forms of internationalisation, collective internationalisation strategy for example allows multinational and global strategy or cost leadership and differentiation strategy to be pursued at the same time.

What is a collective internationalisation strategy? There is no generally binding definition for the term. However, it can be described by following characteristics which distinguish it from other forms of entrepreneurial internationalisation:

- legal and economic independence of the business partner,
- voluntary and unforced co-operation,
- explicit agreement from the business partner regarding the co-operative venture, frequently in written form,
- ex-ante co-ordination of business activity, agreed on both sides,
- a shared target,
- partners collaborate constantly on the strategic levels agreed.

A further key towards defining the term "collective internationalisation" is that it excludes ad hoc forms of collaboration. Concrete discussions about long-lasting business relationships form a central determining element of collective internationalisation strategies. Basically, the organisational forms of collective internationalisation strategy can be classified into those without shareholdings and those with shareholdings. Management and technical consultation contracts, licensing, subcontracting, joint ventures, turnkey systems, franchising and co-production, to name but a few, are the most widely seen manifestations or forms of collective internationalisation strategy. There are no limits to business creativity and unrestricted opportunity for innovation in the development of new organisational forms of these strategies (Haak 2000a).

The most intense form of collective internationalisation is the joint venture, which arises when two or more partners participate in a business, either by acquiring an existing business or by founding a new one. The classification of a joint venture as business co-operation depends on the extent of the shares held, as basically both partners need to have a say in management. Otherwise it would be considered a direct investment or a silent partnership.

It should not be forgotten that collective internationalisation strategies can include every element of the whole added value chain of a business. Viewed in this way, it is possible to differentiate between international collective research and development strategies, acquisition strategies and production and marketing strategies.

The development and implementation of collective internationalisation strategies frequently originate in the opening up of markets and sharper international competition in the course of globalisation. Many firms are not capable of dealing with these challenges on their own. For this reason, they try to combine their strengths with those of other companies.

In general, collective internationalisation means a long-term plan to create a union between companies to pursue jointly certain strategic goals. The partners are resident in different countries. Particularly central to the strategy is the definition of organisational domains, in other words, the form of collective strategy (e.g. joint venture, project, franchise etc.), specification of the target position amongst the competition, allocation and distribution of production and personnel and definition of the degree of autonomy in agreement with the chosen business partner. It should be noted here that the strategy is affected by the perception and the interpretation of existing organisational relationships with the environment and it in turn creates a framework for the interpretation of organisation and environment. Here the term organisation describes businesses as sociotechnical systems which ideally bundle non-material and material resources to a unique competence (Wernerfeldt 1984). In addition to a formal organisational structure, businesses use a specific organisational culture to achieve the organisational goals (e.g. profit targets).

In traditional Management Studies three levels of strategy are distinguished: corporate strategy, business strategy and functional strategy. Amongst other things, corporate strategy defines in which environment and in which networks a company should do business, which is important from the point of view of network research. The business strategy defines how the company or its various sections deals with competition (for example, cost leadership or product differentiation). The functional strategy is responsible for the concrete development of the corporate and business strategies for each functional area.

Under discussion is the question of enhancing these three strategy levels with an interorganisational perspective covering collective internationalisation strategy pursued by several companies jointly (Astley 1984, Bresser 1989). In the context of internationalising business activities with the faster expansion of globalisation, this collective internationalisation strategy is becoming increasingly important particularly with the creation of organisational forms such as strategic alliances, business networks and third market collaboration to achieve business goals in a global environment.

Japanese-German third country collaboration

Third country collaboration, which presents the expression of a company's collective internationalisation strategy is notable for the fact that both partners based in their own countries do business in a third country or third market. In the following we consider an alliance between Japanese and German companies which both want to do business on a foreign market. On the other hand it can be a Japanese-German third country collaboration with a foreign partner company from the third country, so that we have a three-sided form of (third country) collaboration. They might well be joined by other corporate partners.

Third country collaboration can be differentiated on the basis of the shareholding, because shareholding is not always necessary. Third party collaborations based often on shareholding, they can also take on different appearances. Third country collaboration are also distinguished on the basis of their duration. Some are of a short-term nature whilst others are set up with longer term co-operation in mind. Another criterion is the concrete form taken by the scope of activities. Some of these ventures include all the business activities in the partnership, others cover only some business functions which will be carried out in the third country jointly (e.g. building up a shared distribution network, developing a specific technology).

There are various motives for third country collaboration. The initial consideration given to this form of collective internationalisation is to gain competitive advantage by entering into a partnership for the chosen target country (third country). Partnerships can achieve competitive advantage which a company on its own cannot realise. Examples of key advantages achievable with third country collaboration are better use of company-specific resources, knowledge of the competition and of the market and technology-related considerations.

A key reason for third country collaboration is a company's lack of resources which might manifest itself in insufficient capital investment, but which frequently also shows up in too few employees to allow international expansion. Partners in the third country collaboration then serve to fill a gap in human resources. Insufficient funds often force businesses to co-operate with a foreign partner in opening up a new market, for example, or in searching together for raw materials for production in the home countries of the partners.

If for example a German business has in its possession a technology (e.g. a processing technology) which the Japanese partner does not have, but it has no financial resources with which to become active in the third country, then the German firm can contribute the technology and the Japanese company the necessary capital to the venture. Another case: the lack of capital in a Japanese partner can mean that the Japanese management contributes its knowledge of the target market and the German partner provides the capital to open up the market.

Insufficient knowledge of the market in the third country can also result in third country collaboration. Local partners in the third country can reduce the cost of the collaboration, allowing more resources for working on markets in other areas. Another reason for third country collaboration is that it might make expansion of the production program possible. Third country collaborative ventures are particularly interesting for the internationalisation of the partner companies when they all benefit from synergy effects.

Two indicators are used to classify third country collaborative ventures. On the one hand, the international collaboration in the third country can be based on contractual agreements. Then no new independent companies result from the co-operation. On the other hand, the international collaboration can result in independent business unions which are active in the third country, for example in China. Strategic alliances are positioned between the two. They can be based on a contractual agreement or result in the founding of business unions in third countries.

Third country collaborations are frequently created on the basis of sales and delivery contracts. A German company that plans to internationalise its business activities in Asia has the problem of how to set up its launch onto the various target markets in Asia. Each market operates under specific conditions and the German company needs to accommodate these requirements. Frequently, export is the first step towards internationalising business activities. In the context of an export-oriented internationalisation strategy, partners are sought with sufficient knowledge of the market in the target country. Japanese mediator organisations, which function as independent units in the target country, can then act between the German company and the customer in the foreign country. Large Japanese trading houses could be the partners in these collaborative ventures. In this case a contract is made between the German producer and the Japanese trading firm which establishes the specific activities for the third country collaboration in the target country. In this context, one can also talk of indirect export. This form of internationalising business activities is frequently the preliminary stage to proceeding independently in the target country at a later date (for example, a company will build up its distribution network in the Asian target country or found a subsidiary). Notice will then be given on the contractual third country collaboration or it might expire. Japanese-German third country collaboration can also arise as a result of technology contracts. There is a distinction between licence, expertise, technical help and advisory contracts.

Japanese-German third country collaboration in China

Does it make sense for Japanese and German companies to collaborate in third country markets? The People's Republic of China is becoming increasingly significant as a market and as a production location for Japanese and German companies doing business on an international scale. At the same time, the Chinese government considers that these companies represent one of the most important mainstays for the economic and technological development of their country. From the point of view of strategic management of internationally active companies, current investment in the Chinese market is being swept along by globalisation and sharper international competition (Konomoto 1997, 1998, Li and Li 1999; Taylor 1996, Haak 2003).

One thing is certain: many high-tech businesses are no longer tied to traditional locations. High tech products, such as cars, for example, can be manufactured all over the world in more or less the same quality. The particular features of the Chinese market and the specific benefits offered by its locations almost clamour for the commitment of internationally active businesses. Intercompany ventures, joint development, production and sales, trade of components and technology are basic factors in the success of strategic management in the international organisation of labour and decentralised production to secure a global presence. Only by being a leading technology producer based on faster and more target-oriented implementation of product and process innovation it is possible to gain long-term market leadership in China. Japanese and German companies are well aware of this fact and try to use the requirements and challenges of China as a market and a production location to their strategic advantage (Konomoto 2000; Kawashima and Konomoto 1999; Köllner 1997).

At the start of the new century, China is one of the most interesting but also one of highest risk markets in Asia. The Chinese economy is growing at a speed and on a scale that Germany and Japan had only experienced during the years of their "Wirtschaftswunder".

China's business dynamic has been maintained in recent years with investment from abroad and the increase in exports that this has initiated. The Chinese government is going further and building on more public investment, stimulating more growth. Joining the WTO is also fuelling development with sustained impact on international companies.

China is not a homogenous economic area. Commerce and buying power are concentrated mainly in the coastal areas, which is where most of the international companies have settled. In the North are the old heavy industry areas, Shanghai is developing into a modern technology and services centre in the East and since the formation of the first special economic zone, the economic dynamic in the Southern regions is developing along the lines of Hong Kong, the former British Crown colony, now a Special Administrative Region (Ohmae 2001).

The per-capita income of the population is rising, particularly in the industrial centres, and new groups of consumers are ready to buy high quality consumer goods, particularly modern products. German and Japanese companies being active on a global basis can no longer leave China as a production base and as a market out of their strategies. No globally active company can seriously afford to ignore the Chinese market in the long-term.

Market and technology leadership in China are considered to be the key to the long-term successful penetration of other markets in Eastern and Southeastern Asia. To achieve such market and technology leadership, some companies see third company collaboration as a promising organisational form. In 2002 there were 19 Japanese-German third country collaborative ventures active in different sectors, including mechanical engineering, textiles, food, chemicals, cars, services and IT (Haak 2003). From the point of view of Japanese and German management, what reasons are there to use a third country collaborative strategy to become active in China?

First of all, German management welcomes Japanese companies as partners as they are frequently well informed about China. Japanese management has at its disposal numerous contacts and personal relationships, is familiar with the different mentalities in China and due to the good market position enjoyed by the Japanese wholesale trading houses has access to various distribution channels into the different, dynamically developing Chinese markets. In large international projects, merging financial resources and technological expertise can cut costs, reduce risk and build up synergies on both Japanese and German sides (Haak 2003).

In principle, Japanese management is prepared to work with German companies in third markets – it is in their interest. Japanese intercompany networks are showing a tendency to break up (*keiretsu*) and a strategic realignment is taking place in the Japanese general trading houses (*sōgō shōsha*) with the result that Japanese companies are looking out for new business partners with whom to open up and dominate long-term the attractive but high-risk Chinese market.

Due to the excellent reputation that German technology and German quality enjoys in China, Japanese management is interested in German companies as partners. This applies not only to traditional industries such as mechanical engineering and plant construction, vehicle manufacturing, but also to young industries with potential for the future such as telecommunications and environmental technology (Haak 2003, also Hilpert and Taube 1997). This is true not only for large companies such as Siemens AG, Bayer AG, Volkswagen AG, BASF AG etc., which are securing their market position with extensive direct investment, but also for many medium-sized German companies, who have entered the Chinese market in recent years and made a name for themselves with their excellent products and manufacturing technology. It should also be noted that a German-Japanese partnership might be better received by Chinese customers than a German or a Japanese company going its separate way.

Basically, Japanese management hopes that co-operating with German businesses in China will bring an increase in the efficiency of existing activities or create new potential. Discussions with representatives of Japanese companies that work with German companies in China have revealed that four basic targets can be identified.

1. The fundamental goal of increasing profits from business activities in China, mainly by entering the market faster, using the expertise provided by the German partner and by complementing their own product range and acquiring financial help from both German government institutions and directly from the partner company.
2. Lower costs through economies of scale and avoiding duplicated investment by entering the Chinese market together and exploiting cost benefits by division of labour beyond the specific target market.
3. Targets to reduce risk by investing less capital and saving resources for other internationalisation activities or for restructuring businesses in Japan.

4. Gaining prestige by working long-term with internationally well-known and admired German business partners (Haak 2003).

The resources available to a Japanese company represent a deciding factor in determining the options for realising commercial alternatives in the internationalisation process. Resources are relevant for two reasons in co-operative strategy: firstly, the company's own resources form a supply pool for the potential partner and secondly the company needs the resources in order to exploit the benefits from the co-operative venture for its own ends. The key factors capital, expertise, competence and time show clearly that Japanese businesses are trying hard to enter into co-operative ventures with German companies in China.

Currently, capital investment is one of the factors limiting internationalisation of Japanese companies. Even large internationally active Japanese companies are not in a position to enter the market with a 100% subsidiary. Acquiring or founding a new company abroad with the aim of setting up a fully-owned subsidiary is even more out of the question for small and medium-sized Japanese enterprises. Frequently however, they are forced to go to China due to their obligations to deliver in the *keiretsu* even though they actually need to use their capital for restructuring in Japan (Haak 2001b). The investment made by small and medium-sized Japanese companies in China is not only limited by a lack of capital, but direct investment is considered to be a risk. Medium-sized businesses are only prepared to invest a substantial proportion of their capital in China if the associated risks remain manageable. Japanese management assumes that collaborating with a German company in China can reduce the risk of entering the Chinese market, particularly if the option of a step-by-step approach to the co-operative venture as experience increases is considered. If, for example, the goal of the venture is to enter the Chinese market, the co-operation strategy is the best solution to the problem of capital, even if a German partner already has the required knowledge of the market which could be used and, ideally from the Japanese point of view, it does not need to build up its own marketing organisation. Different emphasis in expertise frequently provides the reason for German-Japanese collaboration in China. German and Japanese management both bring specific knowledge of the markets in the Chinese economy. A company's competence, as well as its expertise, plays a crucial role for joint ventures in China (Haak 2003, 2001b).

In the following, competence, in contrast to expertise, is understood as the capabilities of a business, which as a rule cannot be captured in written form. Interpreted more broadly, it can also mean company culture, in this case Japanese and German company culture which might possibly merge into a new company culture in a joint venture with China, the target country. By combining the strong points of their company cultures, the German and the Japanese parent companies could create an outstanding competitive advantage. However, one should not lose sight of the fact that bringing together two different company cultures can also be associated with considerable difficulties, which can result in the failure of the co-operative venture. As yet there is no answer to the question of how to implement a new company culture into which the culture of each of the companies in the co-operation can merge. Currently we know more about the difficulties created when two different cultures meet than we do of ways to engender new and successful company cultures.

Competence should not only be understood as part of the package on offer from the company partnership, but also as the willingness of a company to enter into a co-operative venture. With direct investment only, a company can make its competence available to the subsidiary with no other influences. The prerequisite for this is however that the appropriate management qualities are available in the company. In a company with hitherto no experience abroad, direct investment without any knowledge of the market and the conditions overall represents a relatively high risk. For Japanese small and medium-sized businesses, co-operative strategies reduce the risk as the German partner's competence optimises the pooled resources.

Under the market conditions prevailing in China with product development becoming faster, the time factor is playing an increasingly important role in the profitable marketing of a product. Particularly in the case of high-tech products, the time it takes for research and development costs to amortise continues to decrease. Empirical investigations show that if a market launch is delayed by 10%, the company profits can be reduced by around 25% to 30%. The conclusion for both Japanese and German companies is that a business with a new technology is forced to market it on a global scale as quickly as possible. They do not have the time to build up their own marketing channels in foreign markets. Japanese-German third country collaboration might achieve a competitive advantage if each could share the established distribution structures of the other (Hilpert and Taube 1997).

Japanese-German third country co-operative ventures in China tend to enjoy the benefit of more flexibility compared to other forms of internationalisation. However this makes monitoring more difficult for the partners, as loose forms of co-operation do not allow fast and effective access particularly when changes to strategy are made in the parent companies. The advantage of flexibility is especially apparent when a Japanese-German co-operative venture comes to an end. Selling a foreign subsidiary is frequently very difficult and often incurs a loss whereas a third country co-operative venture can be brought to an end with comparatively little effort (Haak 2001b).

What are the criteria that determine the success of a Japanese-German co-operative venture in a third country? Compared to German or Japanese companies tackling the Chinese market on their own, a good partner is crucial for success. The venture has a good chance of success if the new markets to be opened up are in related areas. The success rates for Japanese-German co-operation are much higher here than where Japanese or German businesses already active in China are acquired whole or in part. Furthermore, both partners should come with the same assumptions and the venture should be equally important to both of them.

However, both sides do not only benefit of improved competitiveness and greater profit when they collaborate in the Chinese market. Third country collaboration is also accompanied by friction and conflict resulting from different objectives, varying amounts of available resources, contrasting management styles and, as mentioned above, different corporate cultures with different traditions in decision-making and problem-solving (Hammes 1993; Harzing 1999).

What are the areas of conflict that must be overcome when Japanese and German companies enter into third country collaboration in China? Assuming that the venture is put together from targets and means to achieve the goals set out by the company, it is possible to differentiate between target- and means-related conflicts (Hilpert and Taube 1997).

Target-related conflicts in Japanese-German third country collaboration are caused by the incompatibility of objectives for the partnership on the part of the German and Japanese parent companies. If one or even both of the partners pursue opportunistic goals, then the venture is very likely to fail in the short or mid term. Conflicts around target agreement irrespective of whether they existed initially or became apparent in the course of the venture are one of the central threats to Japanese-German projects in China, as they throw the basic consensus of the entire venture into doubt. A solid basic consensus on the goals of the Japanese-German collaboration is particularly crucial for success in the high-risk and dynamic Chinese markets. It can only meet the challenges of the competitive environment in China if the partnership has compatible targets. This competitive environment is extraordinarily dynamic in China; in some markets, double figure growth rates are targeted so that within the shortest possible time, the role of the market leaders and hence the position of the competition can change. Newcomers to the market are not a rarity under these dynamic conditions.

Target-related conflicts will encumber the Japanese-German third country co-operative venture from the beginning if there is insufficient discussion of targets in the preparatory phase and the individual corporate targets of the Japanese and German parent companies are not co-ordinated. For example, if objectives which directly affect the whole joint venture are not aired or only communicated incompletely, this can lead to misinterpretation and rapidly result in the destruction of the basis for any further co-operation. Problems could arise if the German partner ties the success of the venture in China to a financial result, whilst the Japanese partner is pursuing a longer term objective and accordingly values the knowledge that accrues from working together with the German partner more highly (Haak 2003).

Further it should be noted that target-related conflicts can arise not only between the German and Japanese partners, but where both companies are involved in China, the targets set by the local company can contribute to further conflict. In certain industries, including telecommunications, car manufacturing and the agroindustrial and chemical sectors, Chinese involvement is a legal requirement. The three-sided collaboration mentioned above opens up further areas of target-related conflict as under some circumstances, political and social objectives on the part of the Chinese partner enter into strategic and operative decisions.

Whilst German and Japanese companies are pursuing goals with the aim of opening up markets in China and using resources (labour force, power etc) Chinese partners are looking primarily for learning effects, in order to become independent eventually of the co-operative venture.

It is also possible that target-related conflicts will arise as the result of changes to the overall data relating to the German-Japanese third country collaborative venture in the course of the partnership. The reasons why a partner might shift its objectives are many and varied. For example, the significance of a partner might change over time. Technological innovation in a parent company might mean that one side becomes financially more powerful and better placed globally, whilst the other company might suffer a collapse in profits, losing its financial clout and becoming overall less attractive as a partner. There is also the danger that learning effects within the Japanese-German venture are distributed unevenly, allowing one partner to benefit more from working together than the other. Internal company changes, such as a new strategic alignment in association with newly appointed management or an increase in potential knowledge relevant to corporate policy might remove the basis for working together in the third country (Haak 2003).

As well as these target-related areas of conflict, there are conflicts which appear when the partners attempt to realise their joint targets, which are referred to as means-related conflicts. They take many forms and are a daily challenge to international management in Japanese-German third country collaboration. Unlike the target-related conflicts, however, most means-related conflicts do not represent a threat to the third country venture in China. The only problematic aspects are conflicts in the complementary nature of the resources, as the venture's right to exist is thrown into doubt when it transpires after the partners have started working together that they cannot contribute the amounts expected to the project or that these amounts are being knowingly withheld. Parallel to this is the much more frequently encountered situation where one of the partners develops capabilities or finds resources in the course of the partnership which fills gaps in its competence that existed before it entered into the partnership. If there are no other factors in favour of continuing the partnership, it is no longer meaningful for the newly strengthened partner to work with the other, as a weakened partner can become an encumbrance (Hilpert and Taube 1997).

The weight can shift between Japanese and German partners in third country ventures when, whilst they are working together in China, one side is able to work up more competence in areas such as technology, expertise or customer contacts faster or to a greater extent than the other. This also means that there is a risk that the strengthened partner will end the co-operative venture as it will not be prepared to nurse the weaker partner along.

What is the role of trust in handling conflict in Japanese-German third country collaboration? Unlike conflict, trust is almost always associated with economically desirable consequences, which show up in more open communications, simpler co-ordination, lower transaction costs, additional opportunities to act, more effective learning processes and stable interpersonal and interorganisational relationships. Braney and Hansen and Fukuyama even ascribe trust at organisational level the property of generating competitive advantage. For virtual organisations, trust is indispensable as a basis, although here it is particularly difficult to engender. It appears to be economically impossible to transact many payments or services without a minimum of trust. Trust is particularly relevant for complex deliverables, which could only be produced with difficulty or perhaps not at all without the specification of those involved (customer, partner in the group of companies or work partner).

Japanese-German joint ventures in China can only succeed if there is interplay between contracts and trust. This is not a static value, but a dynamic process, which is under the influence of both the different histories and cultures of the partners and the changing conditions. Without a minimum of mutual trust, on an institutional or a personal basis, a

Japanese-German joint venture in China will become dysfunctional very quickly. On the other hand, Japanese and German collaboration also needs contractually fixed parameters to guide the venture to success through its different phases. These contractually fixed elements are intended to prevent opportunistic behaviour on the part of one partner. The rules, formulated jointly, set down the way to solve differences of opinion (Beechler and Stucker 1998; Beechler and Bird 1999; Champell and Burton 1994).

Contracts and trust can be seen as the central mainstay of a Japanese-German third country collaboration. There is a difference, which should not be underestimated in the way that German and Japanese management weight these two important aspects for the success of a third country collaborative venture. German managers consider the contracts more important than do the Japanese managers. From the German point of view, the contracts should be as detailed and comprehensive as possible. The personal relationships based on trust are ranked as much less significant.

In contrast, personal relationships and the existence of mutual trust are of supreme importance for Japanese management. The contractual relationship is seen as the manifestation of trust between the German and Japanese partners and does not form the actual basis of the business alliance. Japanese managers do not consider the contractual rendering of the relationship between the partners dogmatic. In their view, it is perfectly possible for them to renegotiate it in the course of the alliance and adapting the internal and external conditions as required presents no problems. These different points of view and patterns of behaviour present problems when the contracts governing the alliance are designed and drawn up. Different demands are made on the amount of detail in the contracts and there is also a discrepancy in the willingness to draw up flexible contracts.

The distribution of the rights to take decisions and control over the companies involved is closely tied to the question of how much weight should be accorded to trust and to the wording of the contract. There is a risk that one of the partners will dominate the partnership and take decisions over the heads of the other. Whereas too great a concentration on the decision-making power can lead to a partner's rights being removed, there is also the danger that if control is too evenly distributed, work will be obstructed and possibly completely stifled (Haak 2003; Hilpert and Taube 1997).

Communication problems represent another level of means-related conflict. The organisation and the structure of the communication process in the Japanese-German third country collaboration determines whether and how quickly the decision makers involved in a joint project can supply the employees carrying out the project with the relevant information. Breakdowns in communication can prove to be serious problems for third country collaboration. Reasons for the breakdown might be that too little time was planned for dialogue with the partner or even that the wrong group of people is taking part in the briefings. The different languages and the sociocultural character of the employees represent the central problem for Japanese-German third country collaboration in China. It is misleading to believe that the barrier between the German, Japanese and Chinese languages can be easily overcome with the use of English and the employment of interpreters. Japanese is a context-dependent language – meaning and sense can only be derived from the context. Even if the Japanese and German management speak English, there is still a difference in communicative behaviour (Haak 2002, 2001b; Hilpert and Taube 1997; Abegglen and Stalk 1985).

Japanese and German managers interpret the verbal messages of their partners according to the context of behaviour and values that they are familiar with. Under certain circumstances this can mean that verbal signals are misinterpreted and that non-verbal signals are not even noticed. The sociocultural conditionality of communication is the biggest problem in the communications process between Japanese and German managers, which can become more critical when a three-sided alliance requires communication with Chinese management.

Lack of knowledge of the partner's sociocultural background can lead to misunderstandings which delay or obstruct the daily routine of the business in a Japanese-German third country collaboration. This can also delay the trust building process, when for example traditional customs are not observed when invitations are issued or gifts exchanged (Hilpert and Taube 1997).

In the past, trust has only been investigated on an interpersonal level. Up to now it has remained in the domain of psychoanalysis and social psychology. However, trust is conceptualised in many different ways. Sociologists such as Luhman and Giddens try to associate the rational with the emotional, the cognitive with the affective, the descriptive with the normative in a systematic conception of trust. It is often assumed that a relationship based on trust can develop into a stronger personal emotional-normative secure relationship. However, one should not lose sight of the fact that the person exhibiting the trust is always taking a certain risk. Trust always implies an advance payment with risk made in the expectation of later returns. The management in the Japanese-German third country collaboration must be aware of this in order to establish a basis of trust in regular, mutual exchange of resources and information which is sufficiently resilient to take on the challenges of competition in China.

The top management of the Japanese-German business collaboration has a central role to bring the joint project to success. The central role and importance of the manager in the success of a Japanese-German business collaboration in China cannot be overemphasized. Such a person is usually selected by one of the partners. Depending on specific cases, the chief executive officer may be appointed by the major partner of the collaboration. Depending on the specific skills (knowledge about the market situation in China, logistics skills etc.) that a partner brings in , the main position would be held by a manager sent from this particular partner. The role and responsibilities of the head of the Japanese-German business collaboration change with every stage of the relationship. Understandably the person in charge of the business in China wears several hats in order to play various roles, often mediating between the demands and expectations of the various owners. In the early stages, the Japanese-German business collaboration is a strategic sponsor, a combination of a visionary and an emissary. Such a general manager is able to translate and communicate for all employees in the venture, the visions and goals of the partners. The general manager of the Japanese-German business collaboration is also an advocate for the interests of the venture. As the Japanese-German business collaboration grows and flourishes, coordinating various activities become really important. The general manager has now the role of a networker and facilitator, linking functions, people, business partners, and resources. Because conflicts could occur, another role served by the general manager of the collaboration – the role as a mediator, as a honest broker who resolves conflicts for the good of the venture. If the manager is an expatriate, and this is often the case in the Japanese-German business collaboration in China, the manager also plays the role of an "ambassador" to the business and government community. And do not forget, in addition to all these roles, the person is also a manager with the task of running the business of the Japanese-German collaboration and achieving its goals. Combining the Japanese and the German different corporate cultures and assuring employees of continued opportunities require strong and imaginative leadership skills, so, the selection of the right general manager is clearly one of the central important factors for the success of a Japanese-German business collaboration in China.

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