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Abstract

This paper attempts to study Hong Kong-Japanese joint ventures from the perspectives of firm-specific advantages provided by both partners. The analysis focuses on the local partner's perspective of establishing international joint ventures (IJVs) with a Japanese multinational retailer. First, the background of the local partner, especially the company's organisational restructuring immediately before the formation of the IJVs is examined. Second, the development and consolidation of the IJVs between the two partners by a series of IJV activities in Hong Kong, Asia, and China is described. Third, the motives behind both partners to establish the IJVs are examined. Finally, an evaluation of the IJVs of whether the IJVs have fulfilled the local partner's motives is conducted. It is found that the IJVs have provided an opportunity for the local partner to overcome the increasing Japanese competition in the Hong Kong retail sector since the mid-1980s. Nevertheless, the local partner needs to overcome many management problems resulted from the IJVs partnership which may have hindered the local partner to achieve its objectives in the IJVs.
Introduction

After the yen appreciation in 1985, there was a sudden surge of Japanese investment in Hong Kong. Among the Japanese investors, Japanese retailers were one of the most aggressive investors in the latter half of 1980s. Therefore, locally-owned department stores had come under increasing pressure from Japanese competition. In recent years, as the local retail market has become saturated, some of these local stores started to look for a more lucrative market in China. However, some local retailers such as Wing On had learnt a tough lesson in 1949 when the Communist Chinese Government took over her properties in China, which made her hesitant to invest in China again, especially after the Tienanman Square Incident in 1989. Under the internal and external pressure, Wing On managed to resolve this problem and increased her competitiveness by entering into international joint ventures with a Japanese multinational retail giant, the Seiyu Ltd.

Objectives of This Study

The objectives of this study is to find out why Wing On entered into the IJVs with Seiyu and how the IJVs impacted on Wing On’s performance in the retail business. Almost all the existing studies in international joint ventures (IJVs) focus on the study of the foreign partners, however, this study focuses on the study of the local partner, Wing On. Under what situations were Wing On and Seiyu motivated to team up with each other? After more than six years’ teaming up with Seiyu, has Wing On managed to achieve what it originally expected from the IJVs? Have the IJVs changed Wing On’s corporate strategy and performance? These issues are examined in the following.

Methodology

This research used a case-study approach based primarily on intensive interviews with the executives and managers involved in the IJVs supplemented by secondary data - annual reports, company reports, in-company staff magazine and newspaper clippings of both
companies. The author had access to the informants of both companies as a result of her past working experience in Seiyu immediately before and during the formation of the IJVs.

Background of Wing On

In 1907, Wing On Company Ltd. (WOC) was incorporated to operate department store and warehouse business. After losing all her properties to the People’s Republic of China in 1949, the company changed her business policy in Hong Kong. Wing On abandoned to operate her major business in the textile industry and kept the department store business which is still considered as an important portion of business. Furthermore, she diversified into finance and insurance business which can be liquidated easily and quickly (Chai, 1981, p.145). In order to diversify her business, Wing On set up Wing On (Holdings) Ltd. (WOH) and the WOC became a subsidiary of WOH in 1979. WOH became the parent company of the Wing On Group.

Internal Re-organisation of Wing On

In February 1989, Wing On re-organised her business by transferring the department store business in WOC to a new investment vehicle incorporated in Bermuda called Wing On Department Stores (Bermuda) Ltd. (WODSB). WODSB was a wholly-owned subsidiary of WOC and became the holding company for the Group’s department store operations. The Wing On Department Stores Ltd. was renamed as Wing On Department Stores (Hong Kong) Ltd. (WODSHK), a wholly owned subsidiary of WODSB. This internal re-organisation involved the transfer of inventories, furniture, fittings and the department store properties: Wing On Plaza and a go-down in Kowloon Bay to WODSHK. According to Russell Kwok Chi-yan, director and general manager of WODS, the reason for this re-organisation was “to facilitate future expansion of the department store operations in Southeast Asia, North America and Australia . . . [since] the Bermuda-based company would be financially independent and its performance could be assessed separately so as to facilitate its future overseas expansion” (Ko, 1989).
In October 1991, Wing On (Holdings) Ltd. and Wing On Company Ltd. also redomiciled to Bermuda and became Wing On International Holdings Ltd. (WOIH) and Wing On Company International Ltd. (WOCI). WOIH became the new parent company of the Group (see the organisational structure, figure 1). According to Wardley Data (1991) the reason for the re-organisation was:

in view of the increasingly international nature of the group's assets and the significant proportion of the Company's share capital held by overseas shareholders, the Directors consider that it would be beneficial to establish a new overseas holding company for the Group. This will provide the Group with greater flexibility to structure international investments.

Figure 1: Organisational Structure of Wing On's Retail-related Business

[Diagram showing the organisational structure]

Source: composed by the author based on the information of Wing On.
International Joint Ventures Between Wing On and Seiyu

The reason for Wing On’s internal re-organisation was "unveiled six month later [in August 1989] as the manoeuvre was the first step for Seiyu to take a 40% stake in Wing On Department Stores . . ." (Anonymous, 1990b, p.95). After the initial step of Wing On teaming up with Seiyu, both partners carried out a series of IJV activities in Hong Kong, Asia and China to consolidate the IJVs.

In Hong Kong

According to Root (1987, p.46) joint ventures can be formed by foreign partner's acquisition of a partial ownership interest in the existing local company. The initial entry mode of IJVs between Wing On and Seiyu took this form. Both companies signed the joint venture contract on September 18, 1989. Wing On Company Ltd sold 40 percent of her wholly-owned subsidiary, Wing On Department Stores (Bermuda) Ltd. to Seiyu for a cash price of HK$356 million. The IJVs between Wing On and Seiyu developed further. In February 1990, Wing On Company Ltd. entered into another joint venture with Seiyu to operate a new department store in Shatin under the name of Seiyu (Shatin) Department Store. However, instead of acquiring interest from Wing On, Seiyu sold 40 percent interest of the Shatin operation to WOC by HK$12 million.

These two partners opened a number of new store outlets. In 1990, they replaced the previous Mongkok store by a new and larger store, and opened a new store in Tsuen Wan. In 1991, they opened two more store outlets in Whampoa Garden and Hunghom, and renovated the main store in Sheung Wan. In 1992, they opened their twelfth store outlet in Aberdeen. In 1993, they redeveloped the Yaumatei store (Wardley Data, 1993). The redevelopment of the Yaumatei store was completed in 1996.

In Asia

Apart from their co-operation in Hong Kong, Wing On and Seiyu established links in Southeast Asia. In 1990, Joel Kwok Chi-ho, the executive director of Wing On Department
Stores disclosed that the two companies would entered into further IJVs which was disclosed in August 1991. Russell Kwok Chi-yan, director and general manager of Wing On Department Store, announced that Wing On had teamed up with Seiyu to form an Asian Retailer Affiliation Network (ARAN)\(^1\) with nine retailers in the Asia Pacific region (Lai 1990). Russell Kwok stated that “through collective purchase of merchandise, the competitiveness of the nine ARAN members is increased through broadening their purchase sources and lowering the unit merchandising costs. Furthermore, exchange of views in store design and opening new store outlets jointly may be possible in future” (Anonymous, 1991b). Their first ARAN project was in Singapore’s Bugis Junction. Wing On and Seiyu opened a 25,000 sq. ft. store in the Bugis Junction in mid-1995 (Lee, 1992).

Three months after the team up of ARAN, Wing On entered another joint venture with Seiyu in November 1991. They formed a joint-venture company called Mujirushi Ryohin Bermuda Ltd. under the Ryohin Keikaku Co., Ltd., a subsidiary of Seiyu (see figure 1). This joint-venture company was 80 percent owned by Wing On and 20 percent by Ryohin Keikaku. According to Sito (1991) “this move is in line with Wing On’s strategy to expand her retail business in Asia with Seiyu.” It was reiterated by the Chairman of Wing On, Angela Chan (Annual Report, 1992, p.6):

The agreement is to carry on in Asia (other than Japan) a joint venture business to distribute and sell goods and operate stores and outlets under the brand name: Mujirushi Ryohin . . . We consider that Mujirushi Ryohin has considerable potential for successful expansion throughout Asia. In November 1992 they opened the first Muji store in the Ocean Centre, Hong Kong. It is followed by the second Muji store opened in Seibu Department Store, Pacific Place in April 1992.

\[ In \text{ China} \]

After the IJVs with Seiyu had been consolidated in 1992, Wing On Company International decided to return to China after some 40 years. WOCI set up a shelf company,

\(^1\) The nine retailers in ARAN are: Wing On Group (Hong Kong), Seiyu (Japan), Family Mart (a subsidiary of Seiyu in Japan), Panvest Group (Taiwan), C P Group (Thailand), Lion Group (Malaysia), Hero Group, Pasaraya Group (Indonesia) and Gem of Hawaii (USA) [Annual Report, 1992b, p.5].
Amma to enter into a joint venture with another company, China Development Inc. by taking a 25 percent stake in the company. Under this joint venture, Wing On invested in China again by forming the Wing On Department Store in Wuhan.

The Motives of the International Joint Ventures

Wing On and Seiyu were competitors in the retail industry. Why did they team up to form the IJVs? In search of a joint venture partner, each company has different rationale to enter into IJVs which may dictate the process of finding a partner. Wing On has the following motives which have governed her to choose Seiyu as a foreign partner.

Wing On’s Motives in the IJVs

In explaining the rationales for joint ventures, Brown, Rugman and Verbeke (1988, p.227) stated that “joint ventures are preferred if the two partners possess firm-specific advantages (FSAs)\(^2\) which complement each other. Only if the FSAs of the partners are compatible will that co-operation lead to additional cost-reducing or differentiation-enhancing potential.” Seiyu’s FSAs which had attracted and complemented Wing On to enter the IJVs include the following motives.

Retail technology and know-how

When Wing On chose her joint venture partners, she considered Seiyu’s established position in Japan and know-how in product development and retail technology. Local department stores had become less competitive to the Japanese department stores since Japanese retailers possessed more advanced marketing, promotion and merchandising techniques. The management of Wing On understood that it would take considerably more effort and cost to catch up with the level of retail technology achieved by the Japanese. According to the announcement to employees through the company’s newsletter, the Voice of

\(^2\) The concept of FSA refers to a company’s proprietary know-how in terms of unique skills that reduce costs or differentiate products.
Wing On (1989), one of Wing On’s motives to enter into the IJVs with Seiyu was Seiyu’s strength in retail innovation:

Up to February 1989, Seiyu has been operating 258 retail outlets in Japan. They include department stores, general merchandising stores\(^3\), supermarket chain stores and convenience stores. Seiyu holds a strong market position in Japan by its strength in new product development, and has set the trend of merchandising in Japan. The company has developed many brand names and product concepts such as the *Mujirushi Ryohin* (No-name Brand), *Shoko-no-sachi* (Food Abundance), *Shufu-no-me* (Housewife’s Eye), N-10 Series, Colour Box and *Furusato Meihin* (Hometown Favourites) . . . Therefore, the IJVs with Seiyu will enhance Wing On’s know-how in the purchasing and management of merchandises. In addition, it will also help us to expand our retail business in Southeast Asia.

By means of the IJVs, Wing On expected to acquire technical assistance directly from Seiyu in the adoption of retail technology. According to Russell Kwok, this factor was one of the most important considerations for the IJVs:

In the traditional operation practice of department store business, we do not have supermarket or fast food section. Thus we lack the know-how to operate these two sections. Nevertheless, because of the market demand, the operation of food and supermarket sections have become profitable. We are considering to open the food section in our department stores in future. It is convenient for us to learn from Seiyu since we are IJV partners. Furthermore, we can learn the operational techniques in supermarket and fast food sections directly from the joint venture operation in Seiyu (Shatin) as well (personal communication, 1990).

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\(^3\) In Japan, retail stores which sell merchandises of clothing, household and food from lower to medium prices are classified as general merchandising store. It differentiates from department store which sell the same range of merchandise in a upper market.
Risk spread

Another important factor for Wing On to enter the IJVs with Seiyu was for spreading risk. Long before Wing On intended to revamp her China business, the Kwok family had been approached by the Shanghai Municipal Council, an organ of Chinese government, in mid 1980s to buy back her former Shanghai department store which was turned into a state-run Tenth Department Store (Anonymous 1986, p.3). Instead of buying it back, the Managing Director of Wing On Investment (China), David Kwok, only signed an agreement to renovate the store (Mayerson, 1985). Wing On hesitated to get involved in China business because “in 1949, we have lost all our properties in China. We do not intend to take the risk to invest in China again” (personal communication with Russell Kwok, 1989). Since Wing On had a bad experience in China before, she tried to minimise her risks in the investment in Hong Kong and China. Nevertheless, the China risk factor was greatly decreased by teaming up with Wing On. The Personnel Director of WODS, William Wong Russell Kwok stated:

The joint venture with Seiyu has minimised our risks in losing our operations in Hong Kong and China because Wing On Department Stores (Bermuda) Ltd. is no longer a locally-owned but a foreign Japanese-owned company. I do not think our company would be confiscated by the Chinese government again like what happened in 1949 because we are a foreign-owned company. Therefore, we have less risk to expand our operation in Hong Kong after 1997 and expand our business in China (personal communication, 1991).

After minimising the China risk, WODSB started to invest in China by forming a joint venture retail business in Wuhan in 1992. In 1993, it opened the first joint venture children specialty store in Wuhan. It was a drastic change in Wing On’s corporate strategy since 1949.

Speed of entry in Southeast Asian market

Another FSA of Seiyu was that the IJVs helped to speed up Wing On’s entry in the Southeast Asian markets. Wing On planned to invest in the international markets of the United States, Australia and Southeast Asia. The expansion plan in Asian markets coincided
with that of Seiyu because of the economic boom in the Asian countries. The Bugis project in Singapore was their first IJVs project in Asia. Since Seiyu had already had a majority of interest in the Bugis project, Wing On could access the market of Singapore easily by opening a department store jointly with Seiyu in 1995. According to Miyake, the Chairman of Seiyu (Shatin), “we have further planned to expand our stores in other Southeast Asian countries such as Indonesia, Thailand, Malaysia and so on (personal communication, 1990).

Economies of scale

Wing On regarded that Seiyu could provide wider but cheaper sources of merchandises in good quality and design since “Seiyu has taken the product development as one of its major areas of operation in international business” (Annual Report, 1992b). Wing On could benefit from obtaining favourable purchase through economies of scale from the regional organisation, ARAN. The Executive Director of Corporate Planning and Controller, Joel Kwok, pointed out, “after WODS and Seiyu have succeeded in their planned expansion in Southeast Asia, we expect WODS would have a more than 15 percent growth in sales turnover in 1990 as a result of the economies of scale from a bigger operation” (Lee, 1990).

Seiyu’s Motivates in the IJVs

On the other hand, the FSAs of Wing On that had attracted Seiyu to enter into the IJVs are as follows.

Access to prime locations and markets

Seiyu intended to expand its overseas store as one of its long-term international business strategy. According to the Chairman of the Seiyu Ltd., Seiji Tsutsumi, “Seiyu considers Hong Kong as the centre of its investments in Asia outside Japan” (Cabatit, 1989). Nevertheless, almost all major Japanese retailers had already invested in Hong Kong by the latter half of 1980s. Seiyu was a late comer and it became difficult to set up stores in Hong Kong as most of the prime locations had either been taken up by other Japanese and local competitors or too expensive to lease and purchase in the overheated property market in Hong
Kong. Seiyu found that the access to these locations and markets could rely on the joint venture with Wing On which had owned many prime retail locations in various part of Hong Kong.

**Speed of entry**

Another FSA was the availability of Wing On’s long established business infrastructure. Seiyu managed to move into Hong Kong market quickly because it could make use of many facilities already available in WODS. For example, as pointed out by Managing Director of Seiyu (Shatin), Miyake:

> We have little need to invest in peripheral business related to department store operation in Hong Kong. We can make use of the services of insurance, banking, security and property provided by our joint venture partner, WOH’s subsidiaries. Furthermore, we can make use of the services of warehousing, transport and computer and information system provided by WODSHK. In other words, we have only invested HK$18 million but can obtain all other related services (personal communication, 1990).

**Evaluation of the International Joint Ventures**

Both partners have expanded locally and internationally since the formation of IJVs. It appears that both partners have benefited from the joint ventures. Nevertheless, strategic success of the IJVs depends on a mix of factors. The performance of the IJVs are evaluated from Wing On’s perspectives of whether her motives in teaming up with Seiyu were achieved.

**Status of Wing On**

According to Allen (1990), the immediate effect of the IJVs was an increase in Wing On’s net profit and thus an increase of rewards to its shareholders:
Wing On Co. yesterday posted an impressive 41.5 percent jump in profit from HK$139.9 million to HK$192.2 million for the year to December 1989. The Kwok family . . . celebrated its success by rewarding shareholders with a generous total dividend of 40 cents a share, almost double its 1988 pay-out of 22 cents . . . The balance sheet was boosted by an extraordinary gain of HK$170.1 million, compared with only HK$12.3 million the year before. It resulted from the sale of a 40 percent stake in its subsidiary, Wing On Department Stores, to the Japanese retail giant Seiyu.

Furthermore, the IJVs had greatly improved the financial health of Wing On since she had not only fully paid her debts but also had an account surplus that was the first time in many years (Dai, 1990). Some financial analysts even stated that Wing On’s link with Seiyu was considered as an aid to Wing On’s declining department store business. Wing On managed to maintain her interim result satisfactory in face of the strong Japanese competition in the early 1990s (Ko, 1990). After the first year’s good results, Wing On’s net profit and her rewards to shareholders continued to increase:

Wing On reported a 38 percent jump in net profit yesterday for the year ended last December . . . It recorded net profit of $260.88 million with $189.43 million in 1989 . . . Turnover rose by 21 percent to $1.9 billion . . . Directors declared a final dividend of 30 cents a share, making a total pay-out of 45 cents (Anonymous, 1991a).

Compared with the other local department stores which were just surviving in the Japanese competition, Wing On managed to open many new store outlets under the IJVs. Thus, Wing On was considered as the most outstanding local department stores among the retailers in Hong Kong. The increase of profit, improved financial health and aggressive expansion had enhanced Wing On’s status among the local retailers as Kirby (1991) stated, “Wing On is one of the last indigenous department store groups in the territory”.

Advancement in Retail Technology

Wing On obtained considerable assistance from Seiyu in upgrading her retail operation. According to a Japanese expatriate manager of Seiyu (Shatin), Ms Tanaka, when Wing On renovated the main store in 1992, a design team coming from Seiyu Japan assisted Wing On to
renovate the main store by a Japanese-style store layout approach (personal communication, 1992). Furthermore, Russell Kwok pointed out, “as a result of the IJVs with Seiyu, we can learn the retail information technology from Seiyu. For example, we have jointly purchased some modern cash register machines which can increase our company’s efficiency” (Anonymous, 1990a). Basically, Wing On has implemented electronic point-of-sales technology which has improved the overall operational efficiency.

Changes in Wing On’s Corporate Strategies as a Result of Risk Spread and Economies of Scale

After teaming up with Seiyu, Wing On had changed some of her corporate strategies. First, Wing On’s investment in China signified a drastic change in her corporate strategy in China’s market. The IJVs with Seiyu had greatly reduced the China risk in the PRC markets which had been avoided for some forty years by the Kwok family. According to Mark Kwok, corporate manager of Wing On Department Stores, the investment in the Wuhan store was not small since “the venture’s paid-up capital is just US$50,000 but some US$1.2 million has earmarked for renovation and equipment cost” (Ward, 1992). Angela Chan, the Chairman of WOIH, stated, “Wing On did not expect significant profit contribution from the PRC activities in the short term. However, the company’s expansion of department store business into the PRC formed a key part of Wing On’s development strategy and its long term prospects were encouraging” (Annual Report, 1993).

Second, Wing On has re-organised internally and set up a complicated network of cross-shareholding among different subsidiaries of both partners with which they have commercial dealings. The cross-shareholdings of the partner companies support a subtle blend of financial independence and commercial cooperation. Furthermore, it leads to less risk, sharing resources with the joint venture partner and lower tax. The joint ventures have an immediate effect of turning Wing On into a profitable company. Shareholders become more optimistic of Wing On’s business as a result of the team up of and the backup from Seiyu. Wing On has become more international in terms of store and merchandise operation. She has shown to the Hong Kong public that she will not transfer more capital out of Hong Kong but will invest more in China as a result of the joint ventures.
Furthermore, Wing On has changed its purchase and merchandising policies. Retail specialists pointed out, “After joint venture with Seiyu, Wing On seems to have become more open in her business practices. In the past, Wing On mainly purchased European and American merchandises that are more expensive. Now, Wing On purchase mainly from the Southeast Asian countries” (Anonymous, 1990b).

Control of Joint Ventures

As a result of the IJVs, three Japanese executives joined the Board of Directors of Wing On International Holdings Ltd. The rest of the seven members were the Kwok family (Wardley Data, 1993). Although holding a minority interest in the joint ventures, Seiyu could gain certain extent of control over the joint ventures. As Root (1987, p.153) pointed out:

Minority partner can also exercise control through bylaws that grant it certain rights, e.g., the selection of key executives, management contract, issuance of voting and non-voting stock shares . . . the minority interest may also be protected by holding veto rights over key decisions in the joint venture, such as dividend declaration or new capital investment.

Both partners had certain control in the decisions of each other - Seiyu over WODS and Wing On over Seiyu (Shatin) which might help safeguard both partners’ interest to a certain extent. Both partners co-operated very well at the beginning. Karl Kwok stated, “We believe the successful partnership of Wing On Department Stores group with Seiyu will assist a profitable growth of our department store business in both Hong Kong and internationally” (Annual Report 1990, p.9).

Performance of the Joint Ventures and the Responses of Wing On’s Management

After two years of increased net profit as a result of the joint venture, Wing On turned into a loss from 1991. According to Horne (1992), Wing On’s link-up with Seiyu “took its toll on the Hong Kong company’s profitability last year [1991]. Its latest profit figures include a loss of $15.6 million being its share of losses of associated companies, most of which is
believed to be linked with Seiyu”. Another analyst, Dai (1993) commented that Wing On’s investment in joint venture projects in Seiyu (Shatin) Department Stores and the Mujirushi Ryohin has not only led to lower profitability but also incurred losses. According to Karl Kwok, the high operating-cost environment had affected the business of Wing On Department Stores. Angela Chan, the chairman of the Board of Directors WOIH, reiterated that operating profit decreased owing to the high operating cost environment in Hong Kong. She commented that Mujirushi Ryohin chains of shops, in its development phase, “had no significant impact on Group results. The Seiyu (Shatin) Department Store . . . continues to suffer from the same pressure which affect our department store business in Hong Kong” (Annual Report 1992a, p.6). Nevertheless, the IJVs of Seiyu (Shatin) Department Stores and Mujirushi Ryohin have gradually picked up their business during these four years which put less pressure on the Group results. The major pressure on the Group result is the economic downturn of Hong Kong since the mid-1995 which is affecting Wing On’s performance and profitability (personal communication, 1996).

**Potential Problems**

It appears that the joint ventures have run into some problems. Some scholars commented that international joint venture are bounded to have many problems owing to the cross-cultural differences (Brown, Rugman and Verbeke, 1988; Young, Hamil, Wheeler and Davies, 1989). Furthermore, Pucik (1992, p.245) argued, “In a competitive collaboration, the strategic intent of achieving dominance makes the long term win/win outcome highly unlikely in the partnership”. In addition, a major factor here is to understand the competition. When these two companies invest in the two projects in Seiyu (Shatin) Department Store and Muji Stores, they have better to access their local competitive positions, obtain a consensus in company commitment, maintain competitive initiative, focus resources on their competitive advantage, monitor strategies and change the strategies as the business evolves.
Conclusion

The collaboration between Wing On and Seiyu may appear to be a double-edged sword, capable of both aiding and injuring Wing On. The injuring effect occurs when Wing On incurred a loss in the last four years of the joint venture with Seiyu. However, a successful joint venture requires a continuous and ongoing effort and negotiation by both partners. As Geringer (1988, p.187) pointed out, "unanticipated changes in the internal and external environment will occur . . . strict reliance on the initially negotiated contract may produce less than satisfactory performance . . . unless modifications are implemented." This may help solve the problem of the partner who feels victimised by disparate outcomes. Since a balanced perception of both partner in the joint venture is essential to the maintenance of trust and harmonious relationship. In other words, continuous efforts are required from both Wing On and Seiyu in order to maintain a viable international joint venture.
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December 1996
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