

Choosing between acquisition or joint venture

Both international joint ventures and acquisitions facilitate the entry of companies into new markets and business domains.

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International joint ventures (IJVs) are generally considered safer than acquisitions. Research suggests this is due to information barriers often inherent in the acquisition process.

IESE Prof. [Africa Ariño](#) joined Jeffrey J. Reuer (Krannert School of Management, Purdue University), Tony W. Tong (Leeds School of Business, University of Colorado) and Beverly B. Tyler (College of Management, North Carolina State University) to investigate how executives address information asymmetry and adverse selection surrounding international joint ventures (IJVs) and acquisitions.

Executives can address such hazards not only through their governance decisions, as prior research indicates, but also through their selection of exchange partners.

This study, "[Executive Preferences for Governance Modes and Exchange Partners: An Information Economics Perspective](#)," complements prior research on firms' governance choices in three ways:

- By incorporating multiple potential exchange partners, rather than taking a single partner as given for a realized transaction.
- By accommodating multiple potential entry modes to address interdependencies across governance structures.
- By providing direct evidence on executives' assessments of IJVs and acquisitions.

Boosting information symmetry

Executives are more inclined to acquire a firm if they are more familiar with its resources, unique competencies and capabilities. However, this requires having certain information; not having this information poses certain problems for sellers and buyers.

As an acquisition is a terminal sale, sellers may inflate claims on their resources and market prospects, withholding negative information in order to obtain the highest sales price, while lead buyers often discount their offer.

Also, sellers may have difficulty revealing certain attributes of the firm to prospective buyers, because they are tacit. Sometimes, a clear understanding of the firm's attributes may require firsthand experience, which can only come after the transaction has been completed.

Many acquisitions, which could be successful, fail to transpire, due to such problems of asymmetric information.

These problems are particularly common in a global context, where it can be costly for a foreign firm to evaluate a local exchange partner. Particularly in emerging markets, there is a paucity of market and comparable company information.

Joint ventures seen as less risky

Joint ventures are seen as less risky than acquisitions for several reasons. Since exchange partners share the investment and can stage their commitments, rather than make lump-sum payments, joint ventures can lessen overpayment risk.

They also have a number of unique features that can help relieve information asymmetries between exchange partners.

Specifically, they enable the partners to pool resources in a separate business, which allows a firm to accumulate direct experience with the other's resources and capabilities.

Furthermore, joint ventures are governed by a joint board, which eases control, facilitates knowledge transfer and reduces information asymmetries.

China as a context

The authors asked high-level executives to evaluate the attractiveness of 30 different

investment opportunities in China as potential joint ventures or acquisitions.

China provided an ideal context for the study, since China has attracted a substantial amount of foreign direct investment in recent years and is among the fastest-growing economies in the world. While there are tremendous opportunities in China, investors face a host of risks. Many of these risks are due to a lack of well-developed information institutions in the country.

The authors posit that when firms are leaning toward an IJV rather than an acquisition due to lack of information, it might be optimal to consider a partner that offers greater information symmetry, rather than dismiss the idea of an acquisition entirely.

By the same token, executives should seek optimal information symmetry when forming an IJV, and not assume that it will pose less risk than an acquisition.

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