



General Electric's Joint Ventures

Historically at General Electric, if you wanted to enter a foreign market, you either acquired an established firm in that market or you went alone, establishing a greenfield subsidiary. Joint ventures with a local company were almost never considered. The prevailing philosophy was that if GE didn't have full control, you didn't do the deal. However, times have changed. Since the early 2000s joint ventures have become one of the most powerful strategic tools in GE's arsenal. To enter the South Korean market, for example, GE Money, the retail lending arm of GE's financial services business, formed joint ventures with Hyundai to offer auto loans, mortgages, and credit cards. GE has a 43 percent stake in these ventures. Similarly, in Spain it has formed several joint ventures with local banks to provide consumer loans and credit cards to Spanish residents, and in Central America it has a joint venture with BAC-Credomatic, the largest bank in the region.

There are several reasons for the switch in strategy. For one thing, GE used to be able to buy its way into majority ownership in almost any business, but prices for acquisitions have been bid so high that GE is reluctant to acquire for fear of overpaying. Better to form a joint venture, so the thinking goes, than risk paying too much for a company that turns out to have problems that are discovered only after the acquisition. Just as importantly, GE now sees joint ventures as a great way to dip its toe into foreign markets where it lacks local knowledge. Also, in certain nations, China being an example, economic, political, legal, and cultural considerations make joint ventures an easier option than either acquisitions or greenfield ventures. GE believes it can often benefit from the political contacts, local expertise, and business relationships that the local partner brings to the table, to say nothing of the fact that in certain sectors of the Chinese economy and some others, local laws prohibit other entry modes. GE also sees joint ventures as a good way to share the risk of building a business in a nation where it lacks local knowledge. Finally, under the leadership of CEO Jeffrey Immelt, GE has adopted aggressive growth goals, and it feels that entering via joint ventures into nations where it lacks a presence is the only way of attaining these goals. Fueled by its large number of joint ventures, GE has rapidly expanded its international presence over the past decade. For the first time, in 2007 the company derived the majority of its revenue from foreign operations.

Of course, General Electric has done joint ventures in the past. For example, it has a long-standing 50-50 joint venture with the French company Snecma to make engines for commercial jet aircraft, another with Fanuc of Japan to make controls for electrical equipment, and a third with Sea Containers of the United Kingdom, which has become one of the world's largest companies leasing shipping containers. But all of these ventures came about only after GE had explored other ways to gain access to particular markets or technology. While GE formerly used joint ventures as the last option, they are now often the preferred entry strategy.

GE managers also note that there is no shortage of partners willing to enter into a joint venture with the company. The company has a well-earned reputation for being a good partner to work with. GE is well known for its innovative management techniques and excellent management development programs. Many partners are only too happy to team up with GE to get access to this know-how. The knowledge flow, therefore, goes both ways, with GE acquiring access to knowledge about local markets, and partners learning cutting-edge management techniques from GE that can be used to boost their own productivity.

Nevertheless, joint ventures are no panacea. GE's agreements normally give even the minority partner in a joint venture veto power over major strategic decisions, and control issues can scuttle some ventures. In January 2007, for example, GE announced it would enter into a



venture with Britain's Smiths Group to make aerospace equipment. However, nine months later, GE ended talks aimed at establishing the venture, stating they could not reach an agreement over the vision for the joint venture. GE has also found that as much as it would like majority ownership, or even a 50/50 split, sometimes it has to settle for a minority stake to gain access to a foreign market. In 2003, when GE entered into a joint venture with Hyundai to offer auto loans, it did so as a minority partner even though it would have preferred a majority position. Hyundai had refused to cede control over to GE.

Case Discussion Questions

- 1) GE used to prefer acquisitions or greenfield ventures as an entry mode rather than joint ventures. Why do you think this was the case?
- 2) Why do you think that GE has come to prefer joint ventures in recent years? Do you think that the global economic crisis of 2008-2009 might have affected this preference in any way? If so, how?
- 3) What are the risks that GE must assume when it enters into a joint venture? Is there any way for GE to reduce these risks?
- 4) The case mentions that GE has a well-earned reputation for being a good partner. What are the likely benefits of this reputation to GE? If GE were to tarnish its reputation by, for example, opportunistically taking advantage of a partner, how might this impact the company going forward?
- 5) In addition to its reputation for being a good partner, what other assets do you think GE brings to the table that make it an attractive joint-venture partner?