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*The East-West Joint Venture:
BC Torsion Case Study*

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Comments Welcome

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The East-West Joint Venture: BC Torsion Case Study¹

by

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Summary

The case is about the origin and the development of the operations of the joint venture BC Torsion established between the Slovak company PSB and the French company DIRICKX. BC Torsion was founded shortly after the fall of the Iron Curtain in 1991 as the first Czechoslovak-French joint venture in manufacturing. It has produced mostly hexagonal galvanized and plasticized wire fencing for both the domestic and foreign markets.

The case consists of two parts. The first part describes the establishment of the joint venture between the parent companies from two different economic systems: one from a developed market economy and the other one from an economy in transition. This part deals with the motivation of partners and the problems of setting up a joint venture in a transitional economy. It covers the first two years of the existence of the joint venture.

The next part deals with the problems of strategy and management of the joint venture in conditions of the transitional economy from its establishment till today. It is also focused on the complicated relationships of the joint venture and its parent companies as well as of the parent companies to each other. Special attention is also paid to the growing competition facing the joint venture and its impact on the BC Torsion's current and future position.

The case can be used in courses on business issues in transitional economies, international business, international management, and corporate strategy.

Case structure

Part A – Establishment of BC Torsion

Part B – Managing operations of BC Torsion

Suggested questions for class discussion

Appendixes

¹ This case was prepared by Sonia Ferencikova, Associate Professor of International Business, University of Economics Bratislava, Slovakia in consultation with Vern Terpstra, Professor Emeritus of International Business, Business School, University of Michigan, USA in 1998 as a basis for class discussion. The research for this case study was funded by a grant from the William Davidson Institute. We gratefully acknowledge the assistance of Brad Farnsworth, Michal Kruzliak, Joanne Oxley and the cooperation of BC Torsion and Dirickx Groupe, especially Tibor Lazarovic and Jacques Dirickx.

The East-West Joint Venture: BC Torsion Case Study

Part A – Establishment of BC Torsion

Introduction

In 1989 a drastic change swept through Czechoslovakia. The Velvet Revolution put an end to the old communist regime and ushered in a new era of democracy as well as the transition from the socialistic planned economy to a market economy. Although the Czechoslovak economy was one of the most developed among the Soviet Bloc economies, the country's companies often struggled competing in the developed Western markets. The companies lacked the knowledge, quality, modern technologies and contacts of the Western markets. The state controlled all foreign trade in most socialist countries including Czechoslovakia. As a result, manufacturers were forced to go through commodity export organizations established by the state. These state-imposed foreign trade organizations thus acted as intermediaries between Czechoslovak manufacturers and foreign customers. Other forms of cooperation between local firms and foreign partners were rare. Several firms had entered into licensing agreements with western partners, but the vast majority of international trade and cooperation happened with companies from the former Soviet Bloc. In the 80's the state enacted legislation enabling companies to cooperate with western firms under certain conditions; however, this step did not lead to any significant growth of such collaboration.

Consequently, domestic firms were in a difficult situation after 1989, when their old "safe" and relatively easy markets of CMEA² countries practically collapsed (as did CMEA itself) and domestic demand experienced a fast drop. Domestic firms then had to redirect their orientation towards the exacting markets of the West, while facing countless problems associated with the transition to a market economy: insufficient funding, obsolete technologies, inadequate marketing and management knowledge, complications with their own privatization (practically all companies and capital had been owned by the state), unsettled ownership relations in the process of privatization, growing competition from western firms' entering the Czechoslovak market, frequent legislative changes, etc. At the same time, the entire society was undergoing transformation as democracy was being born and the Slovaks and Czechs were trying to rearrange their mutual relations in the federation. Eventually, on January 1, 1993, following a mutual political agreement, the Czech and Slovak Federated Republic dissolved and two separate states—the Czech Republic and Slovakia—were formed. Both nascent states embarked on their paths of independence, intending to continue building their market economies in accordance with the fundamental legislative norms that had been adopted in the two years before the split to govern the activities of domestic as well as foreign enterprises, the privatization process, the liberalization of prices and so forth.

² CMEA – Council of Mutual Economic Assistance – the former socialist equivalent of the West European economic groupings (European Economic Community, European Free Trade Association).

After the political situation changed in 1989 and the necessary legal conditions had been created, foreign capital began flowing into the country. Foreign investors found that both Czechs and Slovaks had a solid industrial base and educated work force and that their market was largely unsaturated and fairly big compared to some other European countries. (Czechoslovakia's population was approximately 15 million, a third of which lived in Slovakia.) Czechoslovakia's advantageous geographic location in the center of Europe also played its part in attracting foreign investors; to an extent the Czech and Slovak territories served as a bridge between western Europe and the countries of the former Soviet Union. However, direct entry of foreign investments was complicated by the concentration of capital in state ownership. (The so-called green field investments were rare.) Foreign investors often had to negotiate with representatives of different state ministries/organs to reach an agreement with company management. Nonetheless, thousands of investors—ranging from small business organizations to the multinational corporations such as Volkswagen, Siemens, ABB, Procter & Gamble, Henkel, Phillip Morris, and Rhone Poulenc—entered Czechoslovakia.

1. Parent Companies of the Joint Venture

BC Torsion is a Slovak-French joint venture headquartered in Brezova pod Bradlom, a small town in Western Slovakia. It was founded in 1991 as one of the first joint ventures in Slovakia and as the first jointly owned industrial enterprise with French capital in the former Czechoslovakia. The two parent manufacturing companies are PSB Brezova pod Bradlom, a Slovak company which was still state-owned in 1991, and DIRICKX, a French family-owned firm, located in Congrier.³ (See appendix A1).

1.1. PSB Brezová pod Bradlom

The company PSB Nets-Springs-Engines in Brezova pod Bradlom was established in 1953 in the era of the so-called socialistic industrialization of Slovakia. Before the transition the company employed about 2,100 employees. At the time the joint venture was founded in 1991, the main operations of the Slovak parent company consisted of manufacturing and selling various wire nets, fences, wire-rock baskets, wire-rock mattresses, springs, and single-purpose engines for different industries, especially the engineering industry.

Table A1 shows the company revenues for 1988-1991.

³/ Besides PSB, the Slovak insurance company Slovenska poistovna also participated in the joint venture establishment. Since its investment in the joint venture was just portfolio, we will not study it more closely.

Table A1 PSB's Revenues

Year	Revenue in mil. Kcs
1988	444
1989	439
1990	418
1991	450

Source: Zemanovi• ová, D - Roux, D. (1992)

Note: The company revenue in 1991 at the then exchange rate USD-Kcs (Czechoslovak crown) reached approx. 20 mil. USD.

In 1991 PSB's basic capital was 348 million Kcs (approx. 15 mil. USD), and its average annual investments reached around 30 million Kcs (1.3 mil. USD). The company then employed 1,600 people, whereby it still belonged to the big-enterprise category. The technical condition of PSB's equipment was rated good, but, due to its use of single-purpose engines, the company lacked adequate automation. The price and quality of PSB products were about the same as those of domestic competitors (BAZ a. s., Drotovna Hlohovec and small manufacturers); PSB's competitive advantage was its "good will." In Czechoslovakia, they were well-established and well-known. Internationally, PSB's products were of comparable or slightly lower quality, but they were mostly lower-priced.

Revenue from export represented less than 20% of total company revenues, which left much to be desired. The geographic structure of PSB exports was relatively well balanced, with products sold in most European countries as well as in the Far East. PSB's sales were strongest in Germany, France and the Netherlands.

1.2. DIRICKX

Mr. Armand Dirickx founded DIRICKX in 1921 in Congrier, France. Its steady growth was most dynamic in 1964 - 1965. Since 1984 the original founder's grandson has run the firm. At the time the joint venture was established, DIRICKX's most significant expansionary activities were:

- various construction projects, whose total area reached 40,000 sq. meters in the beginning of the 90's,
- the introduction of new products, for example decorative edging and protective netting,
- installation of new plastification lines ensuring high adhesion.

The firm's manufacturing activities at the time of the joint venture formation can be divided into two areas:

1. fences & various woven wire nets, fence posts (FAPEX, OPPIDUM ®, and system AXIS ®), different components, doors, bars, industrial locks, and equipment for sport centers
2. covering/roofing.

The company's economic performance prior to BC Torsion's existence is shown in French francs (FF) in Table A2.

Table A2 DIRICKX's Economic Performance

Year	Revenue (000 FF)	Export (000 FF)	Profit (000 FF)
1988	190,007	8,870	3,452
1989	201,140	12,300	1,874
1990	206,330	7,537	3,780

Source: Zemanovi•ová, D. - Roux, D (1992)

In 1991 DIRICKX had 250 employees, 10,715,000 FF in assets, and its annual investments amounted to 20 mil. francs. The company was not export-oriented as about 95% of its production was directed at the domestic market.

At that time the firm was a leading manufacturer of wire netting in France. With a 20% market share, it ranked second. Its greatest competitors were filial companies of foundries, such as the French Trefilunion, German Thyssen, and Luxembourg Arbed, as well as Italian manufacturers and the Belgian concern Bekaert, which is presently the world leader and the biggest exporter into France.

Among the company's competitive advantages were its high technical standards, frequent innovation, customer loyalty and good reputation. Numerous awards serve as proof of the firm's technological superiority. Its research led to the development of a new plasticizing technique by means of liquefaction—now registered under the name DT Plast—which ensures perfect adhesion of PVC to the surface of zinc wire netting. For more than 15 years this technology represented one of the company's greatest assets. The machinery installed at the company's site in Renaze in 1991 was one of a kind in Europe. To illustrate the company's successful activities aimed at creating public awareness and building a strong reputation, the company engaged in the following: publishing DIRICKX MAGASINE, opening the DIRICKX Boutique (1981), (which won the prestigious Oscar PLV), producing a film about the company, continuously improving its information services for customers at the point of sale, and presenting its products through Minitel (since 1988).

2. The Establishment of the Joint Venture

2.1 Motivation behind Its Establishment

The initiative came from the French side, although their original idea about future cooperation had little to do with the idea of starting a joint venture. As the political climate over Eastern and Central Europe changed in the late 80's, DIRICKX became interested in the opportunities that presented themselves in the former Soviet-Bloc countries. It was mostly interested in importing raw materials (wire) needed for production in France. To explore the possibilities of doing that, the Chairman and Managing Director Jacques Dirickx visited Slovakia in 1990. The French delegation visited three manufacturing

enterprises and found Mr. Borgula, the then director of PSB, most responsive to their needs. That same year the first negotiations took place, and the notion of creating a joint venture gained popularity. For DIRICKX this was taking two new steps: one was going abroad, the other one forming a joint venture – none of which was done before.

Understandably, the two sides' motives differed. According to Mr. Dirickx, "the French market had been saturated and it was necessary to look for new demand elsewhere." At first he just wanted to buy from PSB hexagonal wire netting, which his firm did not make. DIRICKX produced classical rectangular wire netting (so-called chain-link fence). Hexagonal wire netting would supplement its product line, enhancing its competitiveness in France. However, he gradually arrived at the conclusion that by entering the Slovak market early, his firm could benefit from several advantages: hexagonal wire netting produced at a low cost due to inexpensive labor, energy and materials; a new market (then still Czechoslovakia) for its products produced in France; and the possibility of creating an export base for the entire Central European region. PSB's contribution to the joint venture was to include buildings and machinery for the production of hexagonal wire netting. The machinery may have been somewhat obsolete (some of it dated back to 1937), but thanks to lower labor cost in Slovakia, the production process would still be profitable. For DIRICKX this meant it could expand its product line on the French market without incurring high overhead costs and new capital investment.

Mr. Borgula, the director of the Slovak enterprise, said, "We were looking for access to modern technology which would improve our production processes and the quality of our products and enable us to compete on the more developed western markets, as we did not have the funds to procure such technology." Furthermore, he presumed that the joint venture would give his company a competitive edge on the Slovak market as well as an easy access to foreign markets through the French partner's existing distribution channels. This would help offset the imminent decline in sales due to the collapse of CMEA markets. The creation of the joint venture was even in compliance with PSB's long-term strategy, which was designed to divide PSB into smaller entities that could be better managed and more responsive to market needs. The management of PSB also lacked experience in operating under market economy conditions, especially in managing human resources and in marketing.

The negotiations about cooperation took about six months. Both sides agree that there were no difficulties in their direct communication but that translating official documentation was more problematic. The availability of relevant information about the potential partner was also rather limited—limited to only some bank data on the Slovak side. No problems appeared to arise from any cultural differences. The chemistry between these two partners was remarkable: the two countries seem to share about the same values, and modern history contains ample evidence of official and unofficial cultural interactions between France and Czechoslovakia—their people and institutions.

The legal arrangements were immensely complicated. The circumstances at that time necessitated the acquisition of two basic licenses:

- a license from the Federal Ministry of Finance in accordance with the laws (# 173/1988 Zb. & 112/1990 Zb.) regulating enterprises with foreign capital presence.
- a license from the Slovak Government based on the contents of §45 Law # 92/1991 Zb describing the conditions of state property transfers onto other legal entities.

Since the Czechoslovak Federal Ministry of Finance required a decree from the Slovak Ministry of Finance, which in turn first had to hear from the Slovak Ministry for Privatization of National Property as well as from the Economic Ministry, the whole process of obtaining the necessary licenses took a few months more than expected. As a result, instead of the anticipated beginning at 1-1-91, the joint venture Brezova-Congrier Torsion (BC Torsion) could not commence operating until 5-1-91. Legally, the new company did not exist until its registration as a private corporation, which took place on 5-25-91. The French side insisted on this legal form, which it regarded as providing the greatest measure of security in the era of unsettled, constantly changing legislation in Czechoslovakia.

2.2 Contractual Basis of the Joint Venture

Taking place shortly after the collapse of centrally run economy, the establishment of the joint venture was marked by a lack of hands-on experience on the Slovak side. Due to a shortage of reputable law firms in Slovakia, Francis Lefebvre, a French company out of Paris, was chosen to draft the agreement.

The contractual basis of the joint venture is characterized by a two-tier composition. The actual constitution of the joint venture is built on the „Agreement about the Establishment of the French-Czech-Slovak Company.“

The Joint Venture Agreement is an official agreement between the two main partners, i.e. DIRICKX and PSB. Since the PSB representatives also protected the interests of Slovenska poistovna, the insurance company gave up its right to actively participate in the development of the agreement. It delineates the basic character of the cooperation between the parent companies. On the other hand, the joint venture constitution deals with its internal setup. The agreement takes precedence over the constitution in case of a discrepancy. The main points of the agreement can be summed up as follows:

- the creation of the joint venture and its mission
- basic capital structure, contributions of individual partners
- administration and management
- escape clause, termination of the joint venture
- relations between the joint venture and individual parent companies
- accounting and finance
- guidelines for the selection of personnel
- other issues of the cooperation

An important feature of the agreement is the fact that both sides' involvement would go beyond their capital contribution; their ongoing cooperation was expected. As an example of such cooperation DIRICKX was to train official representatives of the joint venture for both France and Slovakia, provide general technical documentation for the company's manufacturing operations, and organize financial, business and technical training sessions. PSB's part was to obtain all licenses necessary for launching the joint venture's operations, arrange the supply of raw materials as well as access to the existing infrastructure including electricity, gas and water, assist in employee-hiring, and help ensure all legal/bureaucratic formalities are taken care of. In assigning their responsibilities, it is apparent each party tried to contribute its strengths and create favorable conditions for the joint venture's successful operation.

Another feature of the agreement is its contractual mechanism that ensures the joint venture serves its original purpose. Namely, the escape clause sets rules in the event that the partners disagree about a vital issue. In case of the break-up the agreement then does not allow either parent company to sell its shares to a third party; instead, the shares must go to the partner who wants the joint venture to continue. Any transfer of shares apart from termination (break-up) must be ratified by the Supervisory Board's unanimous decision. Possible conflicts are resolved according to the rules of Vienna's Chamber of Commercial Arbitration. French is agreed on as the official language of such proceedings. The original agreement itself is in French, and its French version is legally paramount.

Capital Contributions of Partners

Upon establishment in 1991, the joint venture's basic capital in the amount of 45,675,000 Kcs (ca. 2 mil. USD) consisted of three partners' contributions as shown in Table A3.

Table A3 Individual Partners' Contributions to BC Torsion

Partner	Amount in Kcs	Share in %
DIRICKX, S.A.	23,294,250	51
PSB, a.s.	18,270,000	40
Slovenská pois• ov• a, a.s.	4,110,750	9

Source: BC Torsion Internal Information

These contributions were in the following form:

PSB, a.s., Brezová pod Bradlom: buildings and land,
 DIRICKX, S.A., Congrier: the amount in cash (3,500,000 FF of the total amount was designated as payment for part of the plasticizing line, and 962,500 FF was deposited in BC Torsion's account as working capital),
 Slovenská pois• ov• a, a.s.: the amount in cash.

In 1992, with the purchase of a machine for making welded wire netting, the joint venture's basic capital grew by 20 mil. Kcs (since 1993 SKK – Slovak crowns), all of which came from DIRICKX and SP. The joint venture's ownership structure changed as shown in Table A4.⁴

Table A4 Shares of Partners in BC Torsion since 1992

Partner	Amount in Kcs	Share in %
DIRICKX, S.A.	33,495,000	51
PSB, a.s.	18,270,000	28
Slovenská pois• ov• a, a.s.	13,840,000	21
Tibor Lazarovi• (executive)	50,000	0
Peter Malák	20,000	0

Source: BC Torsion Internal Information

Governing Bodies of the Joint Venture

The General Assembly, the Executive Board and the Supervisory Board (until 1992 the "Governing Board") comprise the governing bodies of the joint venture.

The General Assembly includes all partners regardless of the amount of their contribution (shares), which does, however, determine the number of votes they get. The Assembly acts by majority vote. It handles issues within its competence as described in the Book of Commercial Regulations as well as other issues according to the company constitution. In dealing with critical issues (amendments to the constitution/the agreement, capital adjustments, mergers or termination), the Assembly requires a two-third majority, which in practice enables minority shareholders to block the decisions of the majority shareholder (DIRICKX). For all other issues, the Assembly needs only a simple majority of present votes. As a result, DIRICKX can decide on most general issues without the support of the other partners.

Of great significance to running the activities of the joint venture is the Supervisory Board, comprised of six members elected by the General Assembly for two-year terms. Members of the Supervisory Board represent individual partners in the joint venture as follows:

- three members are elected from among DIRICKX candidates (at present, these are the CEO, CFO and the Marketing Director),
- two PSB candidates,
- one candidate for SP.⁵

The Supervisory Board names the president of the company from among DIRICKX candidates and the vice president from other candidates.⁶ It supervises the company management, decides on the company strategy, prepares the operating budget, and approves loans and capital budgeting.

⁴ It has remained the same till today.

⁵ Before the increase in basic capital, the Governing Board had three DIRICKX and three PSB representatives..

⁶ Until 1992, from PSB candidates.

The composition of the Supervisory Board is proportionate to the capital contributions of individual partners. DIRICKX's leading position is further strengthened by item 4.3 in the Agreement, which gives the president the decisive power in case the votes are tied. The Supervisory Board thus creates a platform for partners' cooperation but leaves the final decision-making power in French hands.

Between sessions of the Supervisory Board (which take place every three months), the Executive board—headed by the Chief Executive, who answers to the Supervisory Board—is in charge of running the company.

Assessment of Partners' Contributions

Prior to signing a contract, the assessment of individual partner's contributions to the joint venture is generally considered to be a sensitive matter. What can be perceived as overvaluing one partner's contribution and undervaluing the other's could weaken their mutual trust and lead to potential conflicts.

Prior to signing a contract, two independent foreign firms—the Italian TELOS MANAGEMENT CONSULTANTS and the French FRANCIS LEFEBRE—were hired to assess the contributions of PSB and DIRICKX respectively due to the Slovaks' lack of experience. The substantial value method was used to appraise the machinery, comparing the values of similar new and used machines on the international market. Appraisals of buildings were based on educated estimates taking into account their reconstruction cost. Supplies and the effectiveness of the plasticizing line operations were evaluated using PSB's manufacturing costs with minor adjustments. Subsequently, the entire assessment process was reviewed by Interconsult, a Slovak research, counseling and information agency, which stated the appraisals were accurate and fair.

2.3. The Financing of the Joint Venture

Before launching production, BC Torsion had to buy the following:

- from PSB the machinery used to manufacture the hexagonal wire netting (16 spiral-making machines & 5 coilers),
- from DIRICKX part of the plasticizing line.

As the partners' contributions could not cover such an extensive investment, BC Torsion was forced to look for other sources of funding and get an investment credit. The company chose to finance the deal through the French bank BNP France because Slovak banks were not doing so well and charged as much as 22% interest. A total credit of 6,048,600 FF was extended in collaboration with VUB—a Slovak bank, teamed up with BC Torsion—and the Czechoslovak Commercial Bank, which had entered into an agreement with BNP France. DIRICKX conducted the negotiations with BNP France and provided the collateral. The credit terms were acceptable in that it was a medium-term 5-year credit with the interest rate pegged to the French inter-bank rate PIBOR, which did not exceed 11.5% at any point during the repayment period. Since the credit was de jure extended to the Czechoslovak Commercial

Bank, which in turn made the funds available to BC Torsion in the local currency, the joint venture did not have to obtain a foreign currency license from the Slovak National Bank.

The firm's second investment credit was used for the purchase of the welded wire netting machine in 1992, mentioned earlier. It was a 20 mil. SKK, 4-year credit from the Slovak Istrobanka with 19% initial interest rate, which later fell.

In the beginning, BC Torsion did not take advantage of any investment support programs, i.e. such as that offered by EBRD in Central and Eastern Europe because most of them did not exist at that time.

2.4 Technical Equipment & Transfer of Technology

It is important to understand the technological options in the production of wire netting. It can be made in three different forms: (a) hot galvanized, (b) plasticized and (c) galvanized+plasticized.

(a) Hot galvanized wire netting is the oldest of these and has a long tradition in Slovakia. It lasts a relatively long time but tends to rust as early as three years into its use, losing its esthetic appeal.

The production of plasticized wire netting utilizes one of two technologies:

1. method of extruded plastic (b)
2. method of liquefaction (c)

In the case (b), plastic-covered wire is interlaced, whereby air gets in between the wire and the plastic. Due to temperature fluctuation, moisture then condenses in these air pockets and causes the wire to rust quickly, drastically shortening its lifetime. (This method is not used either by DIRICKX or by BC Torsion).

The method of liquefaction (c) used by DIRICKX and BC Torsion utilizes the modern technological process of melting PVC powder and resin mixture onto an already finished galvanized wire netting. The plastic coating created in this fashion perfectly adheres to the wire and resists extreme temperatures, UV radiation, sulfur oxide and salt water. Compared to the old methods, this process uses less zinc and produces a product (combined zinc – galvanization and PVC – plastification) that is superior both practically and esthetically. (The average lifetime of this wire netting is 20 - 30 years.) In comparison with hot galvanization, this kind of plasticizing lowers the cost of production to allow for a 15% decrease in the selling price.

The wire netting can be interlaced (old method) or welded (new, progressive method). Welded wire netting is simply a galvanized wire grid with the wire welded together instead of interlaced. As a result, considerably less material is used, which translates into its lower price (by 10%). The absolutely best possible combination is to plasticize the welded galvanized wire by liquefaction. This type is called welded plasticized wire netting.

BC Torsion's machinery, acquired from PSB, is old. The classic weaving machines date all the way back to 1937-39; nevertheless, the company is able to profitably operate on them. About 10% of the

weaving machines are more modern—from 1983. The state-of-the-art technology available to BC Torsion since its establishment is the new plasticizing line—the best of its kind in Europe—even better than similar equipment the parent company has in France. Designed as a closed circuit recycling different materials, this equipment generates minimum waste and meets both Slovak and French environmental standards.

Italian producers who supplied this equipment also trained the Slovak personnel on it. The French too sent their experienced technical assistants to share their knowledge of setting up and operating the equipment. They were of great help in the first weeks of its operation. In 1992 a machine for making welded wire netting was purchased from the Slovak parent company, which had built it itself. The effect of this last investment would therefore be two-fold. Thus, this was the second-generation contribution resulting from the French investment.

BC Torsion started out with a focus on the production of hexagonal hot galvanized wire fencing. Upon the installation of the new plasticizing production line, the product line was extended to include plasticized wire fencing; after the purchase of the welding machine, welded wire fencing was added. Besides, the company imports products from its French parent company, which are mostly unique on the Slovak market.

2.5 The Transfer of Know-How and Human Resource Management

Besides the technical area, the transfer of know-how was also needed in other areas, such as management, marketing, statistics, accounting, finance and information systems. Frequent exchanges of workers between the Slovak and French parent companies for training purposes were common in the first months of the joint venture. BC Torsion and the French parent company covered all expenses associated with such exchanges, which was a part of its contribution to the joint venture. Instrumental in the transfer of know-how has been the Supervisory Board. For instance, it arranged the financial and accounting system of the company to ensure accurate bookkeeping consistent with that of DIRICKX. (The knowledge transfer program has now been completed. Long stays in France are no longer needed except for new managers/supervisors who still receive additional training there). The French parent company's prevalent influence was evident in the development of the joint venture's organizational structure. (See Appendix A2).

The company's new-employee hiring is regulated by the Supervisory Board and its selection guidelines. Direct involvement of the French parent company in the selection process depends on the importance of the position to be filled. DIRICKX has been most involved in the selection of BC Torsion's CEO and his immediate subordinates (directors of administration, finance and trade) who were hired externally—not from within the Slovak parent company. In these cases, French language proficiency was more of a qualifying factor for the candidates than their professional background. Nevertheless, the

winning candidates have taken their positions so seriously that in some areas of management they say the French are now learning from the Slovaks for a change.

As mentioned, the Chief Executive Officer Lazarovic was hired from the outside. He was a person with business experience in Algeria and fluent in French. This case is unusual, because in Slovakia joint ventures are usually run by the former directors or managers from the Slovak parent companies. Since the beginning, Mr. Lazarovic is not only CEO, but also director of trade & marketing department.

In choosing other personnel, DIRICKX's involvement wanes. As opposed to the top management, most other workers were simply transferred from PSB to BC Torsion. PSB and SP have had practically no say in the selection of management and other staff. In 1991 the company started with 81 employees and one year later it had 97 employees.

Workers in production get an hourly wage, which is reevaluated every six months according to their performance. (Formerly, they were paid based on piece rate). The minimum wage set by the company is twice the legal minimum wage, and it can be raised by up to 50% based on performance. Furthermore, BC Torsion raises wages and salaries annually in adjustment to inflation. BC Torsion employees do not seem to lack motivation, and there appeared to be a great demand for employment with the company in the region. What undoubtedly helped to create such a demand for employment at BC Torsion was the fact that its workers' average monthly pay was nearly in one third higher than that of an equally qualified worker in PSB. The worker's average monthly pay reached about 200 USD in the first two years of the existence of BC Torsion. The employees are not organized in an union, but the company's social policy ranks among the best in Slovakia. The company, for example, helps fund the Workers' Council, which brings together the representatives of all company departments. When choosing its workers, the management of the joint venture applied an interesting concept, about which CEO Lazarovic said: „People are applying for work here, so we have many to choose from; we have decided to follow a preference principle, whereby we prefer to hire family members of existing good workers.“

Initially, the management of BC Torsion was under major influence of the French parent company, mostly owing to the acute lack of know-how in Slovakia. Later all executive decisions concerning the firm's common operating activities have been within the competence of its Slovak management, which acts independent of all partners. (In accordance with the joint venture agreement and constitution, strategic issues are handled by the Supervisory Board.) BC Torsion's management has always been all Slovak. The managers' income consists of fixed salary (60%) and quarterly bonuses (40%) depending on the firm's effectiveness and profitability. It is about 3-4 times other workers' income. Headquartered at an odd small-town location, the company still experiences a shortage of highly qualified people for management positions because the mobility of the Slovak workforce is very limited.

The East-West Joint Venture: BC Torsion Case Study

Part B – Managing Operations of BC Torsion

1. Strategy of the Joint Venture and Interests of its Parent Companies

1.1 BC Torsion's Strategy

BC Torsion is a joint venture of two manufacturing companies. Mr. Dirickx expressed his company's strategic objective in Central and Eastern Europe by saying, „We want to become the leader from the Baltic to the Adriatic.“ After having got 25% market share in France, DIRICKX thus wants to become number one in its area of business in Central and Eastern Europe. With that in mind, in 1991 the firm entered into its first and only manufacturing joint venture in this area—in BC Torsion. According to Mr. Dirickx, his company is not concentrated on profit in the first place. More important is getting market share, creating competitive advantages such as complete offerings, services, and serving customers. In his opinion, there is a difference between French and Central and Eastern European markets resulting from the stage of “market maturity”, however it is possible to copy and to implement “French strategy” with some changes there.

As BC Torsion's CEO Lazarovic commented on the ambition to become a leader “from the Baltic to the Adriatic”, “It is as if a soccer team was to become the world champion; one ought to have an idea whether and how it is achievable, what steps to take ...” Asked about BC Torsion's strategy, Mr. Lazarovic said it was being re-negotiated with representatives of the French parent company. Since all investments and basic intentions are subject to the Supervisory Board's decisions, in Mr. Lazarovic's opinion, little room is left for BC Torsion's management to formulate its own strategy. According to its company documents, BC Torsion's objective is to completely cover the market in the Slovak Republic, with the image of an innovator. This company strives to set itself apart from the competition in Slovakia by superior quality and enhanced convenience for costumers by offering long-lasting products with low maintenance, a wide selection of product options (i.e., fencing types, colors, etc.) and the option of installation of fences.

Mr. Lazarovic stated, „the strategies of DIRICKX and BC Torsion cannot be the same; BC Torsion's management carries total responsibility for its operations but not total power over them.“ Their relationship is based on trust, however, it is not without some tension as their opinions often differ. DIRICKX naturally protects the interests of the group; BC Torsion management is after its company's prosperity. BC Torsion strategy is formulated only for the domestic, Slovak market, but the company exports about three quarters of its production (of which about one third to the French parent company, next third to its Czech subsidiary and the rest to other foreign markets).

The Slovak parent company apparently has only one strategic objective: to maintain its position and survive, avoid bankruptcy. The relationship between the Slovak parent company and BC Torsion

appears much more controversial than that between BC Torsion and DIRICKX, because PSB is interested in division of profit rather than market share. On top of that, one of the division of PSB (SIETE) competes in certain segments with BC Torsion. To make the mutual relationships more transparent, it is necessary to analyze the development of both parent companies after the establishment of the joint venture.

1.2 Situation in the Slovak parent company PSB

After the joint venture had been established, the Slovak parent company underwent radical changes, which influenced its relationship with BC Torsion. In 1990, the then state enterprise PSB split up into separate manufacturing divisions which did not represent separate legal entities. The task of selling the products of the individual divisions on foreign markets was consigned to GB Trading, a corporation founded on 8-27-91 in Bratislava with some of its shares owned by the British company Metalforce.⁷ In the same year some months later, BC Torsion was born. On 5-1-92 the state enterprise PSB became PSB a. s. Brezova pod Bradlom, a public corporation (joint stock company) with 100% of its shares owned by the state. In this form the company appeared in the first round of coupon privatization, which offered its stock for sale to individuals and investment groups. The management of PSB acquired 40% of PSB shares through GB Trading in accordance with a ratified privatization project. Since GB Trading did not have sufficient funds for the transaction, it opened a line of credit at Slovenska Poistovna (SP), the Slovak insurance group. Unable to make payments on the credit, GB Trading lost its PSB shares, which had served as a collateral for the loan, to the creditor (in compliance with the result of a negotiation between GB Trading and Slovenska Poistovna). SP's shares in PSB thus went up to 49%.

Simultaneously, PSB's divisions were in the process of becoming separate legal entities. Upon completion of this process in 1995, the responsibilities of PSB a. s. were reduced to renting, warehousing and providing services. In 1997, PSB consisted of only about 50 employees who provided counseling and information services and rented out storage space and machinery. The newly spawned independent legal entities continue their original manufacturing/service programs. PSB a. s. still owns 49% of each, while the majority 51% in each daughter company is held by its own management. Listed below are the most significant of them⁸ (see appendix B1).

SIETE, spol. s r.o. - production of chained wire fencing/netting

NOVA-S, a.s. - development, production and modernization of single-purpose machines and tools

PFS, a.s. - production of springs

GALVANIKA, a.s. - surface finish of springs by galvanization, blackening & cadmiuming

⁷ At that time many state enterprises outsourced their sales activities as a way for their management to prepare for future privatization. By lowering prices for the outsourced seller, the management knowingly shortchanged its own state enterprise to accumulate funds for the acquisition of shares in the next privatization. The official reason for creating such sales companies was inadequate experience of domestic firms with foreign markets, following the breakup of state monopoly in international trade.

⁸ The equivalent for a.s. is public corporation and for spol. s r.o. private corporation.

BRADLEX, a.s - managing of apartment buildings & recreational facilities

ENERGOBLOK, a.s. - supply of energy of all kinds

INFOS-B, spol. s r.o. - computing services.

The first three of these daughter companies have gradually bought out PSB's shares in PSB; combined, they now have 51% of PSB's shares. (The rest belongs to investment groups, the National Fund and small shareholders.) The directors of the first three daughter companies are also members of PSB's Supervisory Board. It is important to note these relations because—in the course of their development—BC Torsion and SIETE entered into direct competition against each other. Alongside other products, they both produce different types of substitute products (e.g., wire netting). Headquartered next to SIETE on the PSB grounds, BC Torsion even rented a warehouse from SIETE for 1 mil. SKK a year. Based on revenues, at present SIETE and BC Torsion are approximately the same size. The first three mentioned companies continue the main activity of the former PSB. Their turnover in 1997 reached following numbers: SIETE – 115 mil.SKK , NOVA-S – 140 mil. SKK and PFS – 180 mil. SKK. At that time the turnover of PSB reached 10 mil. SKK .

The situation in PSB and SIETE is complicated: in the early nineties, hundreds of employees were released (at present, the PSB' daughter companies employ about 900 people). In 1995 PSB a. s. recorded a loss of approx. 60 mil. SKK (ca. 2 mil. USD), and SIETE, spol. s r. o. also lost about 8 mil. SKK (260 thousand USD). Two years later, SIETE recorded a loss of approx. 9 mil. SKK and PSB in 1997 almost went into bankruptcy. There are several reasons for this situation: slow restructuring, drop in demand as a result of economic recession in the country, slow reorientation towards other markets, growth of competition, ownership and management changes, etc. As PSB did not fulfil its obligation and did not transfer any money to the state funds for health, disability and retirement insurance and to the Unemployment Fund, the state institutions in 1997 applied their right to put some of its property (land, shares) in executory sale to cover this debt. Considering that seven years ago, PSB had about 350 mil. SKK (about 15 mil. USD) in assets, this deteriorating set of events demonstrates how quickly a company can be adversely affected by transition.

As for BC Torsion, regarding to the situation in the Slovak parent company, its representatives were mostly interested in dividends and when the joint venture did not prove as profitable as they expected, they accused it of transfer pricing and for not charging enough for its export to DIRICKX network.

Mr. Dirickx commented on the situation: "It is a pity that there is no cooperation, no common project with PSB or SIETE. They do not have any interest, any strategy and their management has changed often and fast, without a break. It is even difficult to figure out who are decision-makers in these companies..."

1.3 Situation in the French parent company DIRICKX

Since the early nineties, DIRICKX as the leading French manufacturer of fencing and slate hooks has expanded its activities in two new areas. Firstly, it moved beyond simple production and created the first French network of "fence creators" ESPACE CLOTURE. Having realized that to complete a fence is not only a fitting problem, but it is a complete activity which must be done by real specialists, it has diversified its activity into services. Specialists of ESPACE CLOTURE located all over the country analyze the project, help to choose appropriate products for industrial, residential, agricultural, high security or administration market, build the fence and offer an after-sale service.

Secondly, DIRICKX recognized the opportunity arising after the fall of the Iron Curtain in Central and Eastern Europe and has intensified its activity there. Its internationalization started in 1991 with the creation of the joint venture BC Torsion in Slovakia manufacturing hexagonal galvanized, plasticized and welded wire netting. All other subsidiaries, such as DIRICKX Bohemia (established originally by BC Torsion in 1993 in the Czech Republic), DIFA Trading (1995 – Slovenia), DIRICKX Stanmark Polska (1996 – Poland), DIRICKX Ferronet Kerites (1998 – Hungary) are predominantly DIRICKX' commercial subsidiaries. (In Slovenian, Polish, and Hungarian subsidiaries there is a very small production of wire netting without DIRICKX' direct involvement.) One commercial subsidiary was established also in Great Britain in 1992 for sales of industrial and high security products on the English market. The organizational, ownership and geographic structure of DIRICKX Group is presented in appendix B2 and B3. Appendix B4 presents basic economic indicators of DIRICKX subsidiaries.

Expansion of the company is reflected in the growth of turnover and employment (Table B1).

Table B1 Turnover and employment in DIRICKX Group

Year	Consolidated turnover (mil. FF)	Growth of turnover (%)	Number of employees	Turnover/employee (mil. FF)
1990	212	-	265	0.8
1995	259	22	419	0.6
1996	314	21	521	0.6
1997	368	17	610	0.6

Source: Dirickx Internal Information, calculation

At the beginning of 90's the turnover grew by 22% in five years, but since 1995 it has grown almost so fast every year (the plan for 1998 is 450 mil.FF, i.e., growth of 22%). Company employees number more than 600 people, of which about 450 are in France (350 in Congrier, 100 in the network ESPACE CLOTURE and about 150 abroad (100 in Slovakia, 25 in Poland, 20 in Czech Republic, 3 in Hungary, 3 in Slovenia and 5 in Great Britain).

2. Operation and Marketing of BC Torsion

2.1 Product Line Formation

Founded in 1991, BC Torsion started out with a focus on the production of hexagonal hot galvanized wire fencing. Upon the installation of the new plasticizing production line, the product line was extended to include plasticized wire fencing; after the purchase of the welding machine, welded wire fencing was added. Thus the production plan of BC Torsion concentrates on wire fencing. Besides, the company imports products from its French parent company, offering its Slovak customers a complete assortment of this type of products. This can be divided into five main categories:

1. Fencing (welded, chained-wire and tied):

AXIS ® System – easy-to-assemble welded fence which consists of panels and stakes. It is suitable for the protection of gardens, parks, industrial parks/factories, administration buildings and sport centers. It could be supplied in 180 colors and shades and belongs to the best, even revolutionary **DIRICKX** products.

PROVENCE – extra thick and resistant chained wire fence with round ends.

VERCORS – chained wire fencing with massive wires (interlaced diagonally) and spikes at the top. This product is designed to provide security to property and restricted areas.

ARMOR – decorative fence with round top ends, suitable for use in garden and park architecture.

UNITA a FAPEX – welded fence ready for immediate use without the need for a stretch wire. Its originality resides in that its mesh sizes vary, increasing towards the center.

OBORA – welded wire fence with more, smaller meshes at the bottom, keeping most animals away. It is designed especially for use on hunting grounds and ranches.

FLUIDEX – plasticized rectangular wire fencing.

ARAVIS – multipurpose welded fencing with little interstices.

Chain-link fences (rectangular fencing) – sturdy undoable fencing for universal use.

Hexagonal fencing – suitable for use in construction and farming, double-plasticized wire excellent for use in vineyards.

2. Stakes/Pickets

3. Gates - swinging open on hinges, sliding open with or without a track with the best product **OPPIDUM ®** in this category

4. High security fences (bent, barbed tape, plasticized barbed wire).

5. Supplements & accessories for setting up fences (galvanized or plasticized).

The quality of the plasticized products rivals that of the top European manufacturers; the galvanized fencing meets the European standards but tends to be higher-priced than the competition because of a thicker zinc layer. Both products can come in custom packaging along with informational inserts, which is a new feature introduced on the Slovak market by the French parent company.

While BC Torsion practically has a monopoly on the production of wire fencing plasticized by liquefaction in Central Europe, competition in the classic galvanized wire fencing has grown. Inexpensive hexagonal galvanized wire fencing is imported from China, and local competitors produce chain-link fences (rectangular galvanized wire fencing). This development led BC Torsion in 1997 to discontinue making this kind of fencing. This move was precipitated by the fact that SIETE—another daughter company of PSB, neighboring BC Torsion—raised the price BC Torsion had to pay for galvanization. (Not having the technology to do so itself, BC Torsion had had its hexagonal wire fencing galvanized by SIETE.) BC Torsion's canceling its regular galvanization order cost SIETE ca. 20 mil SKK a year (at that time ca. 660,000 USD), which further increased tension between them. Likewise, the discontinuation of this product deprived BC Torsion of a quarter of its annual revenue (ca. 39 mil. SKK or 1.3 mil. USD). To offset this loss, the joint venture pushed its plasticized wire fencing sales as well as the sales of DIRICKX's products in Slovakia. As a result, BC Torsion's production now concentrates on modern types of chained-wire fencing: welded and plasticized.

The company needs two basic materials for its production: steel wire and PVC powder. Early in the joint venture's existence, Drotovne Hlohovec was the only supplier of wire in Slovakia. To prevent the supplier from taking advantage of its monopolistic status, the management of the company decided to diversify the structure of its suppliers and buy half of its wire from DIRICKX Trading, which gets it in Ukraine for all subsidiaries of DIRICKX. ZD Bohumin of the Czech Republic supplies a tiny amount of galvanized wire.

BC Torsion gets all of its PVC powder from the Italian company ROA. Thanks to the coordinated effort of DIRICKX and BC Torsion, ROA has agreed to lower its prices.

2.2 Distribution and Pricing

Until 1990 the Slovak fence market had a simple, transparent structure with two state distribution networks: Domace potreby and Feron. With these gone, companies in Czechoslovakia as well as BC Torsion were forced to build their own channels of distribution. BC Torsion initially relied on sales representatives and (contract) retailers, but later three wholesale warehouses under fixed contract conditions arranged further distribution to retail establishments and small buyers. Three major geographic regions comprise Slovakia (Western, Central and Eastern), and there is a wholesale warehouse in each of these regions:

- Stavmix's warehouse in Stupava (Western Slovakia),
- Technik's warehouse in Zvolen (Central Slovakia),
- Agropotreby's warehouse in Hanusovce nad Toplou for Eastern Slovakia.

A fourth wholesale warehouse has been recently opened in northwestern Slovakia (Raven Povazske Podhradie), where distribution has been sluggish. Customers also have the option of buying directly from the manufacturer, but if they wish to continue doing so, they must sign a contract to honor

the price level agreed on. The company's pricing policy offers quantity discounts for end users. When dealing with wholesale buyers, BC Torsion applies the system of recommended prices, although their range in some cases appears inadequate, and wholesalers want higher margins.

One of the biggest problems of the company is a seasonal fluctuation of demand, which is the highest in spring and in autumn. To satisfy market needs in these seasons, the company increases production in these periods, plus in anticipation of growing demand, it manufactures a certain quantity of goods in advance in winter and in summer and stores them in a rented warehouse by the factory.

Since about 75% of BC Torsion's production is exported, foreign distribution networks mean a great deal to the company. In France the company simply relies on the existing distribution channels of its parent company. After the breakup of Czechoslovakia, BC Torsion established BC Torsion Bohemia, a successful subsidiary in the Czech Republic. Later DIRICKX decided to take over 68% of its shares, in effect making it one of its own subsidiaries. (BC Torsion still owns 24% of BC Torsion Bohemia, leaving 8% for the local director.)

DIRICKX's new subsidiaries in Poland and Slovenia handle BC Torsion's export to those countries. In its Polish subsidiary DIRICKX Stanmark Polska, DIRICKX owns 77% of the shares; the remaining part is in the hands of the Polish partner. In 1996 70% and in 1997 95% of DIFA Trading, the Slovenian subsidiary, belongs to DIRICKX; the rest to the local partner. The joint venture has several permanent and a few occasional customers in Hungary, where it uses a customer's consignment warehouse. DIRICKX has recently negotiated the establishment of a new joint venture DIRICKX Ferronet Kerites, of which it owns 51%, with a Hungarian manufacturer of chain-link fence. Export to the rest of Europe takes place directly.

Since its establishment BC Torsion has built its network of customers and distributors in Central Europe. Having a lot of experience here, its management considered to establish its own subsidiaries on the neighboring markets (especially in Poland and Hungary), but later DIRICKX took the initiative. To access these markets, now BC Torsion has to go through the new DIRICKX's subsidiaries, whose markup raises the prices of its products. However, after some discussions BC Torsion had managed to ensure it could continue directly exporting its hexagonal plasticized wire fencing to Hungary to its old costumers. According to BC Torsion's management, on the other Central European markets BC Torsion first has to fill the subsidiaries' orders before it can sell directly to other customers. Because of his distribution arrangement BC Torsion's management is afraid of losing its old customers on these markets.

Mr. Dirickx commented on it, "From political and strategic point of view, it is better to have subsidiaries in every country in the region. BC Torsion accepts this strategy. BC Torsion is not forbidden to enter these markets directly. All we do is the price policy coordination – let's say if BC Torsion sells in Poland to its direct customer and to the subsidiary, they have to coordinate price policy."

2.3 Customers and Communication

Four major customer segments comprise the joint venture's customer base in Slovakia: industrial customers, state orders (communication, highways, railways, state institutions), homeowners and agricultural customers. Moreover, the company provides fences for hazardous, restricted and/or high-security areas (e.g. power plants, airports, prisons, etc.), sport arenas, and various construction sites.

Industrial customers used to represent the leading segment with highest demand, especially for the AXIS® products with the easy-assembly system and a wide range of available colors, sizes and types. Combined with gates, AXIS® provides top-quality universal fencing. The private sector already represents two-thirds of this customer base (with sufficient funds available). On the other hand, totally dependent on government funding are most restricted/high-security zones as well as state orders.

Homeowners represent a customer segment with a special set of needs. Both AXIS® and plasticized wire fencing tend to be highest in demand here. For these customers, the company highlights its full service option including the setting up of fences and gates with locks. It also offers an unprecedented ten-year warranty. This customer segment has now started to grow, showing a lot of promise. In 1997, this segment became a leading segment replacing industrial customers in this position.

In contrast, the agricultural customer segment has shown little growth due to its lack of funding.

Table B2 Share of segments
on BC Torsion's sales in Slovakia in 1997 (%)

Homeowners	38.7
State orders	19.7
Industrial costumers	19.2
Unidentified costumers	16.2
Agriculture customers	4.6
Security	1.0
Sport	0.5

Source: BC Torsion Internal Information

Overall, the sales of hexagonal plasticized wire fencing have been up and maintain their upward trend, while the sales of hexagonal galvanized fencing seem to be on the decline. Construction companies, which used to be the major buyers of hexagonal galvanized wire netting for insulation, have switched over either to a similar but cheaper product from China or to a completely new insulation material.

For its advertising needs and promotional materials, BC Torsion has turned to an advertising agency Mark/BBDO, which is the local subsidiary of BBDO. Their advertising campaigns mostly target individual customer segments separately through the appropriate media. In the mainstream periodicals

the emphasis is on individual homeowners, who may wish to put a new fence around their houses. In addition to newspaper/magazine advertising, the company uses pamphlets, posters and other promotional material. A successful pamphlet compared examples of plasticized versus extruded wire fencing to make the customer aware of the differences and to distinguish BC Torsion as the producer of the higher-quality plasticized wire fencing. Furthermore, BC Torsion participates in annual product fairs and expositions. It is the only Slovak manufacturer of wire fencing to maintain good public relations. Among other things, it organizes short visits for the public and company days for architects and others. It also engages in programs of cooperation with universities and journalists and sends computer disks with fence designs in the CAD program to architects, who then tend to incorporate these into their construction plans, raising public awareness and BC Torsion's sales. The company holds regular training sessions for its distributors and receives frequent visits from the French parent company.

Mrs. Vrstiakova, the head of the marketing department, said in 1997, "Our marketing budget is prepared to accommodate all the activities we would like to carry out. It is about 4 mil. SKK a year. We advertise both the wire fencing we make and the fences we import from France. We want the consumer to know our brand name and to understand the difference in quality between our products and those offered by the competition." According to the market research done in 1997, BC Torsion's brand recognition is 54%, i.e. the highest among producers of fencing in Slovakia (the main competitors rank between 7 – 27%). Therefore the decision of its French parent company about the change of BC Torsion's brand name in favor of DIRICKX's brand name in communication of the company since 1998 was not fully welcomed by BC Torsion management. Since its origin in 1991 BC Torsion invested into building its own brand and differentiation from local producers. After having reached high brand recognition, DIRICKX decided to establish its own brand as dominant in all countries in Central and Eastern Europe where it had established subsidiaries, including Slovakia. This step is, of course, seen by the Slovak management as a superfluous obstacle in its communication with costumers, which in addition has to be paid from its marketing budget. As a result of DIRICKX's decision BC Torsion now uses a dual-branding strategy.

2.4 Competition

The dominant factor in determining BC Torsion's position on the Slovak market is the absence of plasticized and welded wire fencing manufacturers. With these products, the company wields absolute monopoly.

A certain degree of competition on the market in plasticized wire fencing is represented by companies which import extruded wire from the Czech Republic (Technika Borcice is the biggest producer) and use it to make wire fencing. Examples of such companies are SIETE Brezova pod Bradlom (PSB's daughter company) and JAKOS Kostoliste. When considering this competition,

however, one should note the substantial difference in quality between wire fencing made from extruded wire and liquid-plasticized wire fencing.

BC Torsion is in a similar situation with welded wire fencing. Although Drotovna Hlohovec has recently introduced this product and SIETE makes welded wire fencing with little interstices, the quality and applicability of their products fall short of the standard set by BC Torsion.

Quite different is the situation in the market for standard galvanized wire fencing, preferred by many Slovak customers for its low cost. Although BC Torsion was the only Slovak producer of hexagonal galvanized wire fencing, the competition stiffened because of cheaper imported goods available on the market. Stiff competition also makes it difficult to sell chain-link fence, which is manufactured by several Slovak companies, especially:

- Drotovna Hlohovec – offers the least expensive product although it has just recently begun its production,
- SIETE Brezová pod Bradlom – used to be the only manufacturer of the chain-link fence in Slovakia for a long time,
- RETIC Nitra – concentrates on trade (imports various products from Bekaert) and, despite its limited product line, offers a wide variety of related products. (Besides, its owners are former employees of BC Torsion, which gives them a competitive advantage of having inside information about its competitor.)

According to market survey from 1997, the share of BC Torsion on Slovak market of fencing is 46%, RETIC 16%, SIETE 10% and Hlohovec 10%.

Besides the above-mentioned competitors, there are a few small companies on the market. Banking on their geographic proximity to the customer, these small companies can satisfy the needs of only a few neighboring counties. Their manufacturing capacity and share of the market are low (from 1% till 3%).

BC Torsion had a hard time selling its galvanized wire fencing, made on the old machinery, in the rest of Europe. The old technology used caused the zinc layer to be up to four times as thick as that of the competition. This fact resulted in a high price of the product, which could no longer compete on the European markets. To solve this problem, BC Torsion dropped galvanized wire fencing from its product line.

A dominant position on the European markets is occupied by the Belgian giant Bekaert, which has in recent years acquired the German producer Rossler and the French Trefilunion. Bekaert's share of the entire European market has thus increased drastically, enabling it to dictate sale prices and to enforce the condition of exclusive representation. Bekaert is also one of three European companies with the technology to make plasticized wire fencing by the liquid submersion method (the third one being the Italian Cavatorta), so it is in direct competition with BC Torsion. However, BC Torsion can capitalize on its flexibility and ability to satisfy customers' special requests. Thanks to these competitive advantages,

BC Torsion managed to throw Bekaert partially out of the Dutch market. Obviously, Bekaert's product lines are not limited to wire fencing. In the Czech Republic it has spawned two joint ventures: one producing wires and the other fibers.

BC Torsion CEO Lazarovic stated, "In wire fencing, Bekaert is number one in the world. Its total annual revenue reaches about FF 75 billion. It has 68 subsidiaries in 28 countries. Bekaert employs about a thousand workers in the production of fences, but is only one of its various activities. Number two in Europe is DIRICKX. The entire DIRICKX Group including all its subsidiaries and daughter companies generates approx. 370 mil. FF a year in revenue and employs about 600 people. DIRICKX produces about 20 mil. tones; we [BC Torsion] do some 4 mil. tones. But we employ about 100 people. Overall, we make approximately one sixth to one fifth of DIRICKX's total production output. Bekaert, DIRICKX and BC Torsion have one thing in common: they are the only manufacturers of hexagonal plasticized wire fencing. But let's get back to the biggest companies. The third biggest European company was Trefilunion & Trefilarbed, which had merged and then split again. Bekaert then bought the French part."

2.5 BC Torsion Market Position and Results

According to Mrs. Vrstiakova, the head of the marketing department at BC Torsion, in comparison with its Slovak competitors, the company has the following strong points: a complete product line, high quality, delivery of fencing equipped with a lock, flexibility, manufacturing capacity, conceptual communication policy, resourceful advertising and connection to foreign capital. BC Torsion's management sees the company's position on the market as shown below:

Table B 3 BC Torsion's Position on the Slovak Market

Public awareness of the company	Average
Innovation	Good (PVC, welded wire fencing)
Production potential	High (the highest except for SIETE and Drotovna Hlohovec)
Production machinery	Some obsolete; state-of-the-art plasticizing & welding
Production flexibility & lead times	Good for the Slovak/Czech Republic
Product quality	Excellent (few returns)
Product pricing	Higher than average in Slovakia; competitive abroad
Distribution system	Average (until recently it was poor with minor customers) and improving
Sales organization	Average
Qualification of intermediaries	Average to good for about 2/3 of them; average to poor for the rest

Communication policy	Above average, the only company with conceptualized policy
Vertical forward integration	Possible – setting up fences in the Slovak/Czech Rep.
Production & sales program	Above average (including French products)
Customer purchasing power	Average to poor
Human resources	Good when compared to Slovak/Czech Republic
Headquarters	Disadvantageous location - rural
Company expenses	Relatively bad situation due to constantly increasing costs of material
Financial resources	Average
Management	Above average
Productivity	Above average for the Slovak/Czech Republic

Source: BC Torsion Internal Information

When starting out, manufacturers of consumer and industrial goods generally take five years to break even and begin profiting. Yet BC Torsion reached a moderately positive economic result in its third year of existence. Its economic results in the past years are shown in Table B4. In six years of existence, the company quadrupled its revenue. According to the CEO's words, if revenue from its original subsidiary BC Torsion Bohemia is taken into account, BC Torsion's revenue quintupled in five years. The most important economic indicators (balance sheet and statement of loss and profit) of the company are displayed in appendixes B5 and B6.

Table B4 BC Torsion's Economic Results in 1991-1997

Year	Revenue (in thousands SKK)	Profit before Taxes (in thousands SKK)
1991	35,313	175
1992	103,910	582
1993	103,975	567
1994	124,488	1, 661
1995	126,224	7,196
1996	139,826	2,881
1997	138,960	688

Source: BC Torsion Internal Information

The company is strongly export-oriented. Revenue from export reached 60% of the total revenue in 1992, and its portion of total company revenue has since grown steadily, now reaching 76%. The number one export destination is France with the parent company as the dominant buyer. The Czech

Republic represents the second biggest market for BC Torsion's export. One-fourth of BC Torsion's sales comes from the other foreign markets.

Table B5 The Structure of Revenue from the Sales of BC Torsion's Products (in mil. SKK)

	1991	1992	1993	1994	1995	1996	1997
Sales in Slovakia*	18.72	52.25	22.02	22.61	28.78	26.28	27.45
Sales in the Czech Rep.	---	---	25.65	25.27	31.82	30.36	24.02
Sales to DIRICKX (France)	15.40	33.40	35.11	33.95	28.16	39.69	25.57
Other export	---	12.78	13.22	25.70	24.67	31.90	36.51
Totals	34.12	98.43	96.00	107.53	113.43	128.23	113.55

* Until 1992 the data include sales in the entire Czechoslovakia

Source: BC Torsion Internal information

Table B6 Sales Structure of BC Torsion's Products (%)

	1991	1992	1993	1994	1995	1996	1997
Sales in Slovakia*	55	53	23	21	25	21	24
Sales in the Czech Rep.	---	---	27	23	27	23	21
Sales to DIRICKX (France)	45	34	36	32	25	31	23
Other export	---	13	14	24	23	25	32

* Until 1992 the data include sales in the entire Czechoslovakia

Source: BC Torsion Internal Information

Table B7 The Structure of BC Torsion's Export in 1996 and 1997

Country	1996 Export (thousands SKK)	1996 Percentage of Total Export (%)	1997 Export (thousands SKK)	1997 Percentage of Total Export (%)
France	39,697	39	25,567	30
Czech Rep.	30,362	30	24,021	27
Germany	13,063	13	9,494	11
Holland	2,655	2	-	-
Hungary	7,017	7	11,650	14
Poland	1,311	1	3,316	4
Iceland	2,107	2	2,443	3
Other	5,752	6	9,616	11
Total	101,95	100	86,107	100

Source: BC Torsion Internal Information

The export orientation of the company is welcomed also from macroeconomic point of view. Slovakia as well as the most transitional countries has struggled with a trade deficit and tried various measures to get it under control (import deposits, import surcharge) or to support exporters (compulsory contribution into Export Support Fund and Eximbank), but paradoxically, export-oriented companies like BC Torsion are also hit by these measures: they pay more for imported materials and goods and on top of that, they contribute create funds for weaker Slovak exporters. However, the non-tariff barriers are going to be abolished by the end of this year under the pressure of WTO, and some analysts predict an early devaluation at the same time which creates a new advantage for BC Torsion and other export-oriented companies.

The results point to the success of the joint venture in Slovakia. According to CEO Lazarovic's words, they succeeded mostly thanks to their early entry on the market, state-of-the-art technology, dynamic product, close cooperation with the French partner and the ensuing advantages, application of modern management and marketing methods and apt Slovak personnel.

The company has lived through its first successful years, and it has proved itself on the Slovak market as well as abroad; indeed, over half of its sales are in Western Europe. However, none of that means it is without its problems. The year 1997 was especially difficult: after BC Torsion had dropped galvanized wire fencing from its product line as a result of the growing competition as well as the requirement of SIETE to pay more for its galvanization, it had to replace this product by the increased sales of other products. BC Torsion's management succeeded by increasing sales of DIRICKX's products (Table B8). As the whole import from DIRICKX was placed on the Slovak market, the total turnover of BC Torsion on the Slovak market for the first time consisted of two almost equal parts: one half was the sale of the BC Torsion's own products, the other half was the sale of DIRICKX's products. In April 1997, BC Torsion as the first Slovak fencing manufacturer started setting up fences. It has established a small group of 3 people for testing the market and the result is encouraging – such a service has been welcomed by many customers.

Table B8 Structure of BC Torsion Revenue (in mil. SKK)

	1996 mil. SKK	1996 (%)	1997 mil. SKK	1997 (%)
Sales of BC Torsion products	128	92	113	82
Sales of DIRICKX's products	11	8	25	18

Source: BC Torsion Internal Information

2.6 Brief Assessment of the Joint Venture

BC Torsion was founded as a capital joint venture of three partners. The motives that led up to its creation may have differed, but they were compatible enough to allow for a match of strategic interests. For the French investor, BC Torsion can be described as a majority joint venture, which renders certain advantages to DIRICKX. A smooth integration of the joint venture into DIRICKX's organizational structure, coordination of the joint venture's strategy with that of the DIRICKX Group, relatively high degree of discretion to decide major issues concerning the joint venture and strong influence on the management of the joint venture are some of the notable benefits DIRICKX has reaped. The French parent company has also had the advantage when the joint venture splits its profits and hands out its dividends.

DIRICKX's decision-making power and influence on BC Torsion stems not only from its major capital presence but also from a relatively passive approach of the other two partners. Negative evaluation should be given especially to PSB's approach; after two years of close cooperation with DIRICKX, PSB lost interest to the point of failing to attend the Supervisory Board meetings. Among the reasons behind PSB's conspicuous lack of interest are system changes and other difficulties the management of PSB had to wrestle with at the time. The emergence of a competitive situation between BC Torsion and other daughter companies of PSB cannot be ignored either.

The opposite trend characterizes the participation of SP, which was dissatisfied with BC Torsion's initial economic performance (with no dividends paid out until 1995) but which then acquired more of its shares, gaining seats on the Supervisory Board. However, SP's part in controlling the joint venture remains rather perfunctory. Consequently, it can be stated the portfolio characteristic of this partner's investment has stayed largely unaltered. The expectation of PSB and SP to get high dividends every year were not met.

On the other hand, in evaluating the joint venture, it is necessary to point out the fact that BC Torsion got state-of-the-art technology, which was unmatched in Europe at that time and which even today represents the highest standard, as opposed to many other East-West joint ventures' equipment consisting of scrapped assembly lines, whose worthwhile operation is feasible only with cheap labor. The size of the investment also suggests that the foreign investor's intentions were not to create a short-term joint venture maximizing its use of comparative advantage but to start a business of long-term strategic importance.

Now, after seven years of BC Torsion's existence, it can be said that most of the objectives the partners had in mind when they established the joint venture have been reached. BC Torsion acquired ultra-modern machinery that enabled it to raise its product quality and to gain a competitive advantage both at home and abroad. The French parent company helped the company obtain credit from the French bank and enter some foreign markets. The transfer of all needed technical and managerial know-

how was realized. BC Torsion employs four top-managers and 107 well-trained other employees that are paid better than the local and Slovak average (Appendix B7).

The joint venture exists under a standard contractual agreement. The French partner's power to settle issues of strategic importance is limited by the two-thirds majority requirement. Some months ago, DIRICKX's and BC Torsion's management had a lot of trouble to persuade the representatives of PSB and SP about the enlargement of the mission of the joint venture by providing services (setting up fences). In this case the Slovak side was afraid that the new activity would lead or contribute to a loss of the company. However, the Supervisory Board's decisions on the common issues concerning the joint venture's operation are virtually at DIRICKX's discretion. (Even if both SP and PSB's representatives voted against DIRICKX, resulting in a tie, the president of the company—another representative of DIRICKX—would then have the final word.)

From DIRICKX's standpoint, the joint venture helped it achieve its goals as planned. The hexagonal wire netting extended its product line on the French market; lower labor costs improved its economic results, and Slovakia became its base for export to other central European countries.

It is not clear which way the relations among the partners involved will develop and whether the current ownership structure will change or not. However, regardless of possible changes, BC Torsion must take certain measures to maintain and develop its position on the market.

3. The Fundamental Problems and the Future of the Company

During seven years of the existence of the joint venture various problems in its managing have arisen – some of them seem smaller and solvable, some of them are difficult to solve. The relationships among all players (BC Torsion and parent companies, parent companies to each other) seem to be the most complicated. These relationships also influence the strategy and tactics of the joint venture, which faces threats and growing pressure from its competitors on the domestic as well as foreign markets.

The most transparent (however, not without problems) is the relationship between DIRICKX and BC Torsion. The establishment of BC Torsion marked DIRICKX's first investment in the countries of Central and Eastern Europe. The strategic objective of the investment was to become the number one player in fences in this region. In June, 1998, evaluating the performance of the joint venture, Mr. Dirickx says, "Globally, I am satisfied. I don't regret establishing joint venture in Slovakia. The reasons of its success are its good team, the good cooperation with our company, and the high-quality products they manufacture and offer. In my opinion, BC Torsion could reach higher turnover."

BC Torsion began operating within the former Czechoslovak federation. The breakup of the federation, dated 1-1-93, translated into a substantial decline in the company's access to the Czech market, so BC Torsion responded by establishing BC Torsion Bohemia in Havlickov Brod. Originally, this subsidiary was 100% owned by BC Torsion, but later the ownership structure changed in favor of its CEO, who got 8% of the basic capital as an incentive. Sales in the Czech Republic make up the primary

operating activity of the subsidiary. To date its performance substantiates its existence. For example its 1995 revenue was up by 80% from 1994, and it took part in numerous major projects (putting up a fence around the power plants in Tusimice and Temelin, and around military buildings). The DIRICKX Group formulated its strategy in the entire region from the Baltic to the Adriatic Sea based on its model from the former Czechoslovakia. The objective is to maintain its dominant position on the market and to remain the leading manufacturer and seller of plasticized wire fencing. In order to accomplish this goal, the DIRICKX Group spread to Poland and Slovenia in 1995, and later to Hungary.

The original subsidiary of BC Torsion in the Czech Republic was taken over by DIRICKX. DIRICKX explained this by the lack of transparency in its organizational and ownership structure and the problems that go along with it (banks' mistrust). A similar development of events transpired in Poland, where BC Torsion was in the process of setting up its own daughter company which ended up established by DIRICKX instead. As mentioned earlier, according to the management of BC Torsion it has sometimes its hands tied in the interest of the DIRICKX Group, although it believes it could penetrate foreign markets, especially in Central and Eastern Europe, more efficiently without having to go through DIRICKX's subsidiaries.

Another problem emerges in connection with the penetration of foreign markets—the problem of strategy. The BC Torsion's current strategic objective is to become the leader in the Slovak fence market. However, BC Torsion is an export-oriented company; in 1997 it exported 76% of its production. Even without the French and Central European markets, the joint venture exported 25% of its production in 1997 to the rest of western Europe. BC Torsion's management often questions whether or not it is the best strategy to follow only DIRICKX's goal of becoming the leading seller of fences in Central and Eastern Europe.

The next problems concern BC Torsion's and DIRICKX's relationship with the Slovak parent company PSB. While the BC Torsion - DIRICKX relationship is relatively straightforward with DIRICKX's dominance, the relationship between BC Torsion and PSB is much more complex. As noted earlier, PSB has undergone a complicated transformation. One of its subsidiaries is SIETE, which competes with the joint venture and the headquarters of which is also on the original PSB grounds. BC Torsion and SIETE, both PSB's daughter companies, are located literally a few feet apart from each other. Losing money, PSB wanted to sell its share of BC Torsion to DIRICKX for 20 mil. SKK.⁹ A compact arrangement of BC Torsion's buildings was worked out along with an agreement about the sale. (The buildings of BC Torsion are still spread all over the place, and BC Torsion does not have its own warehouse yet.) Eventually, no sale took place because PSB attempted to raise the price and DIRICKX refused the whole deal. PSB was then legally forced to sell some of its own shares, whereby its three subsidiaries including

⁹ In 1997 and in the first half of 1998 the exchange rate is 1 USD = 35 SKK

SIETE acquired a majority in PSB ownership. This way SIETE gained representation in the governing bodies of BC Torsion and access to all internal information about its plans.

The offer of PSB for DIRICKX to buy its share in BC Torsion is still valid. According to Mr. Dirickx, "They want 3 – 4 mil. FF for it, but if we buy it, we still have to solve the warehouse problem. We do not need to buy their share, because 51% is enough for decision-making. On top of that, they did not want to sell us the buildings for warehousing we want." According to some managers of BC Torsion the buy-out of PSB's shares would give to DIRICKX the two-third majority needed for amendments to the joint venture constitution and agreement, capital adjustment, mergers or termination, simply more strategic power, plus it would exclude the representatives of PSB from governing bodies of the joint venture. On the other hand, the French side seems to calculate on the growing problems of PSB which could result in lower price offer, or on the devaluation of the Slovak crown which is expected to happen after the autumn parliament election this year.

To complicate things even more, SIETE also recorded a loss and tried to sell BC Torsion two completely furnished warehouses for 26 mil. SKK (one of them was rented by BC Torsion). BC Torsion rejected the offer as too farfetched, since it could, for instance, get the simple warehouse it needed for 6 mil. SKK near Bratislava, the Slovak capital. The relationship between SIETE and BC Torsion suffered another setback when BC Torsion did not renew its galvanization agreement with SIETE, which thereby lost a considerable source of income (approx. 20 mil. SKK). It is evident there is a lot of tension, but that is not all.

In the meantime, SIETE entered into negotiations with Leon Bekaert, one of the members of Bekaert's family, and sold him one building and the two above mentioned warehouses for 13 mil SKK – half of its offer to BC Torsion. Now the buildings of BC Torsion and those of Bekaert are located a few feet apart from each other and BC Torsion has to rent a warehouse from his company (the rental agreement was signed for two years). Bekaert established a subsidiary BeGe there, which produces gates and garage doors. (Location of BC Torsion, SIETE, BeGe and other companies on the ground of PSB see in appendix B8). This is the first manufacturing site in Slovakia under Bekaert's name. The Bekaert company already established three joint ventures in the Czech Republic and according to unofficial information it also negotiates the entry into the Slovak wire producer Drotovna Hlohovec, which is a wire supplier of BC Torsion and at the same time its competitor in certain segments.

As mentioned, in addition to its fundamental strategic questions, BC Torsion is facing several operational problems. Warehousing and insufficient storage space are one of them. The company does not own any warehouses; it is renting some from PSB and the biggest one from BeGe. With so much tension in relations on PSB grounds, the lease can easily be revoked. A warehouse or warehouses of sufficient size are critically important to BC Torsion as the demand for wire netting/fencing tends to fluctuate a great deal. Spring and fall are the two busy seasons, when the company operates in three

shifts and still cannot keep up with the demand. The rest of the year is relatively slow with winter having the slowest sales. This fluctuation creates the necessity for the company to overstock (during the slow seasons) even though it means an extra cost. The insufficient warehouse capacity and relatively disadvantageous location of the company also result in a logistical problem—a problem with the timely delivery of sufficient supplies to wholesale warehouses. The need to buy their own warehouse with sufficient capacity seems to be obvious. The question is: Where? Related to this is the following question: Should the company stay on PSB grounds or should it move its headquarters?

To have the headquarters in a small town in western Slovakia is to the company's disadvantage. There is no freeway nearby (the distance to the nearest access on the freeway in the city Piestany is 25 kilometers and the mostly narrow road from the factory to it runs through a hilly region), and just an insignificant local railroad leads up to the town. Moreover, BC Torsion's next-door neighbor is its local and, according to the latest development, transnational competitor. Moving the company to, or at least buying a warehouse in, Bratislava or the surrounding communities or at least nearer to the freeway has been considered. (The Bratislava area has attracted more than 60% of all direct foreign investments in Slovakia.) On the other hand, despite all the advantages of the capital city, Bratislava has an eccentric location off to the southwest of the country, near the Austrian, Hungarian and Czech borders (For location of BC Torsion and its distribution centers, Piestany and Bratislava see appendix B9). The location of the company causes also problems in hiring managers who prefer to work in bigger cities or in Slovak capital. Recently, the company even had problems to attract new qualified and reliable workers.

However, the idea of moving BC Torsion is according to Mr. Lazarovic almost impossible, because of costs and the local, specially trained labor force whose poor mobility in Slovakia is due to lack of apartments and also cultural factors (people are usually deeply attached to their dwellings, relatives, friends, environment, etc.) low in comparison to Western standards. Mr. Lazarovic considers the situation to be urgent and tries to seek a fast solution on or near PSB grounds. Having been in financial troubles, PSB offered for sale a big piece of land of 15,000 sq. meters adjacent to its former production area for only 1.5 mil. SKK. His idea was to buy it and to build BC Torsion's own warehouse there, which was practical considering the company financial situation. Besides the warehouse BC Torsion would also get the space for the future possible expansion there, because its current location among other buildings does not allow it. The French parent company did not agree with the purchase of this land, because the idea of its management was to move warehousing nearer either to a highway or to the capital.

The typical operational problem could have an interesting global framework: some managers of foreign-invested companies in Slovakia are afraid of the enlargement of their operations here, because currently Slovakia is not among the Central and Eastern European countries that are supposed to become EU members in the first round. It could happen that their local Slovak subsidiaries would not benefit from the early accession to the EU (free movement of goods, capital etc.). However, Mr. Dirickx is not afraid of it and according to his words, he did not plan a relocation of BC Torsion's production in a

different country in the region for this or any other reason. In his opinion Slovakia will easily catch up with other countries in the accession process. According to Mr. Lazarovic, an entry of Slovakia into the EU would mean an advantage for BC Torsion (non-tariff import of PVC powder from Italy as well as DIRICKX's products from France) and an advantage for DIRICKX too (FDI-protection according to the EU legislation). On the other hand, in his opinion, it could lift the wage level in Slovakia, which is one of its important competitive advantages.

Besides location and warehousing, another problem concerns the company's technical equipment. BC Torsion did not have the galvanization machinery for its wire fencing. It had SIETE carry out its galvanization, but the thick layer of zinc caused a high price and low competitiveness of the product. Besides, this type of product had a very competitive environment created by domestic and, most of all, Chinese producers. Eventually, BC Torsion discontinued this product, giving up a fourth of its revenue. To compensate, it sold more plasticized wire fencing and more of DIRICKX's products (The examples of BC Torsion's offer see in appendix B 10). Within the company it has been suggested that BC Torsion buy new galvanization technology as well as new wire-weaving machines. The existing production line for hexagonal wire netting is obsolete. Last year even the new welding machine malfunctioned and caused a major problem as the available supply seriously lagged behind the demand and the lead times got extended. According to some managers, it makes no sense to buy a galvanization technology because of the cheaper Chinese production on the market. In their opinion, a real threat for the company could also arise if the Chinese producers acquired plastification technology.

Financially, BC Torsion presently does not have any major problems. It has easily repaid its first two big loans for plastification and welding technology. BC Torsion's CFO Kubisz noted, „BC Torsion's financial situation is good. Once in a while we may not be able to pay, but such inability is always just momentary. The situation gets resolved with credit. The banks that we work with regard us as a trustworthy client. As to our liquidity, we have no problems there. I wish our profitability were greater, especially if we are to invest. If we got a third major loan, I would not anticipate any problems with its repayment. Rather than by the company's financial health, I am troubled by the current trends and growing competition in our field of business.”

What can be done about this situation and how can it affect the future of BC Torsion?

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Questions suggested for class discussion

Part A – Establishment of BC Torsion

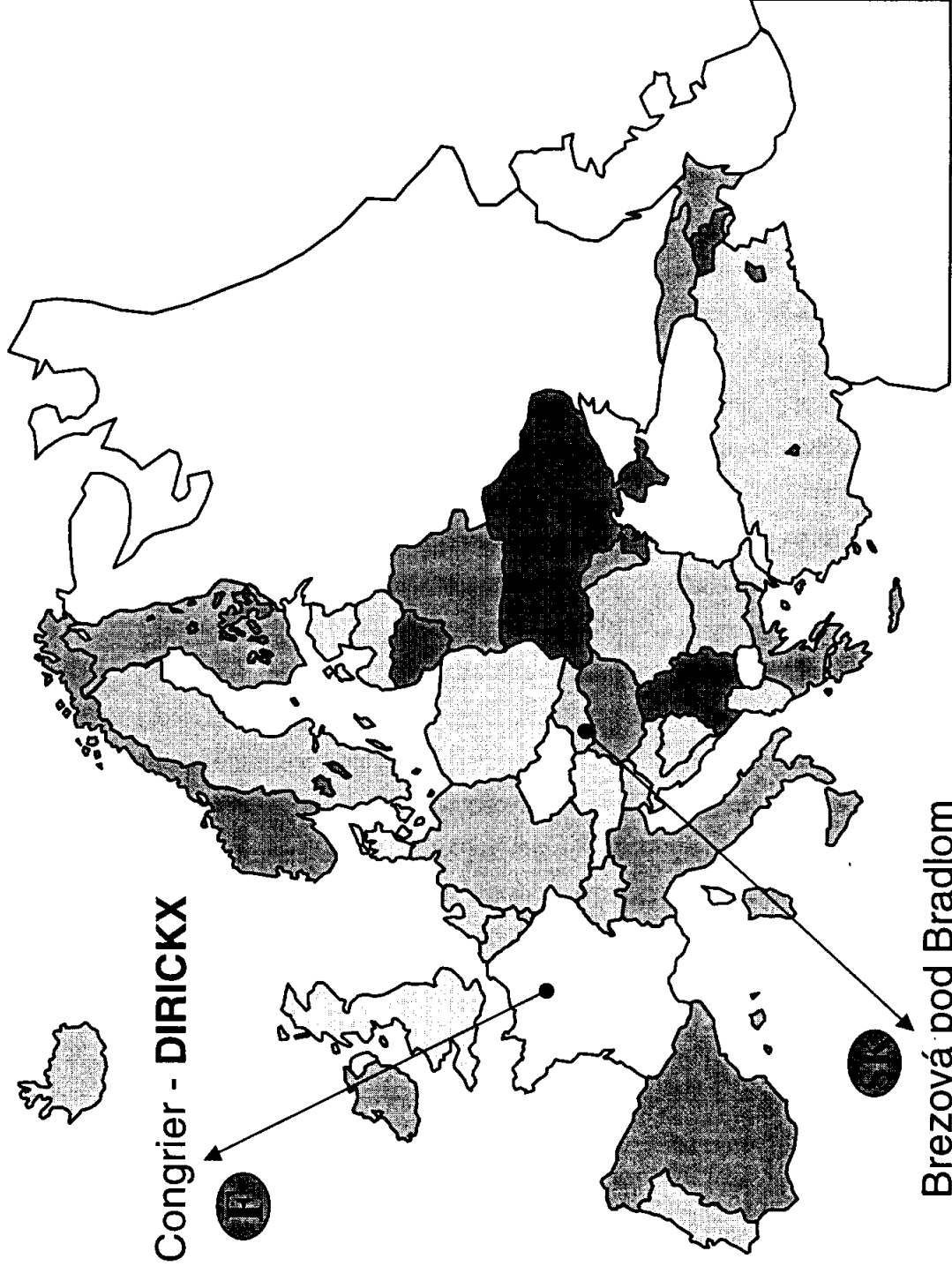
- 1) What were the motives for the cooperation of both parties involved? If you were the ceo's of DIRICKX and PSB, which kind of cooperation would you consider and which effects would you expect?
- 2) What were the strengths and weaknesses of PSB and DIRICKX? Do you consider them to be suitable and compatible partners for the establishment of the joint venture? What are the pros and cons of this form of cooperation?
- 3) What information and analysis are necessary for the decision about the creation of the joint venture? Which were made or passed by the heads of the parent companies? If you were the ceo's of DIRICKX and PSB, what else would you need for your decision?
- 4) Try to evaluate the internal risks for the joint venture (managing the joint venture, relationship between parent companies, different goals of parent companies, etc.). What role would you ascribe to a joint venture agreement in managing internal risks?
- 5) Try to evaluate the possible opportunities and threats for the joint venture from its external environment (based on political and economic development in a transitional country, liberalization, privatization, and the growth of private sector, etc.)
- 6) What positive and negative effects could the establishment of this joint venture have on the host economy?

Part B – Managing Operation of BC Torsion

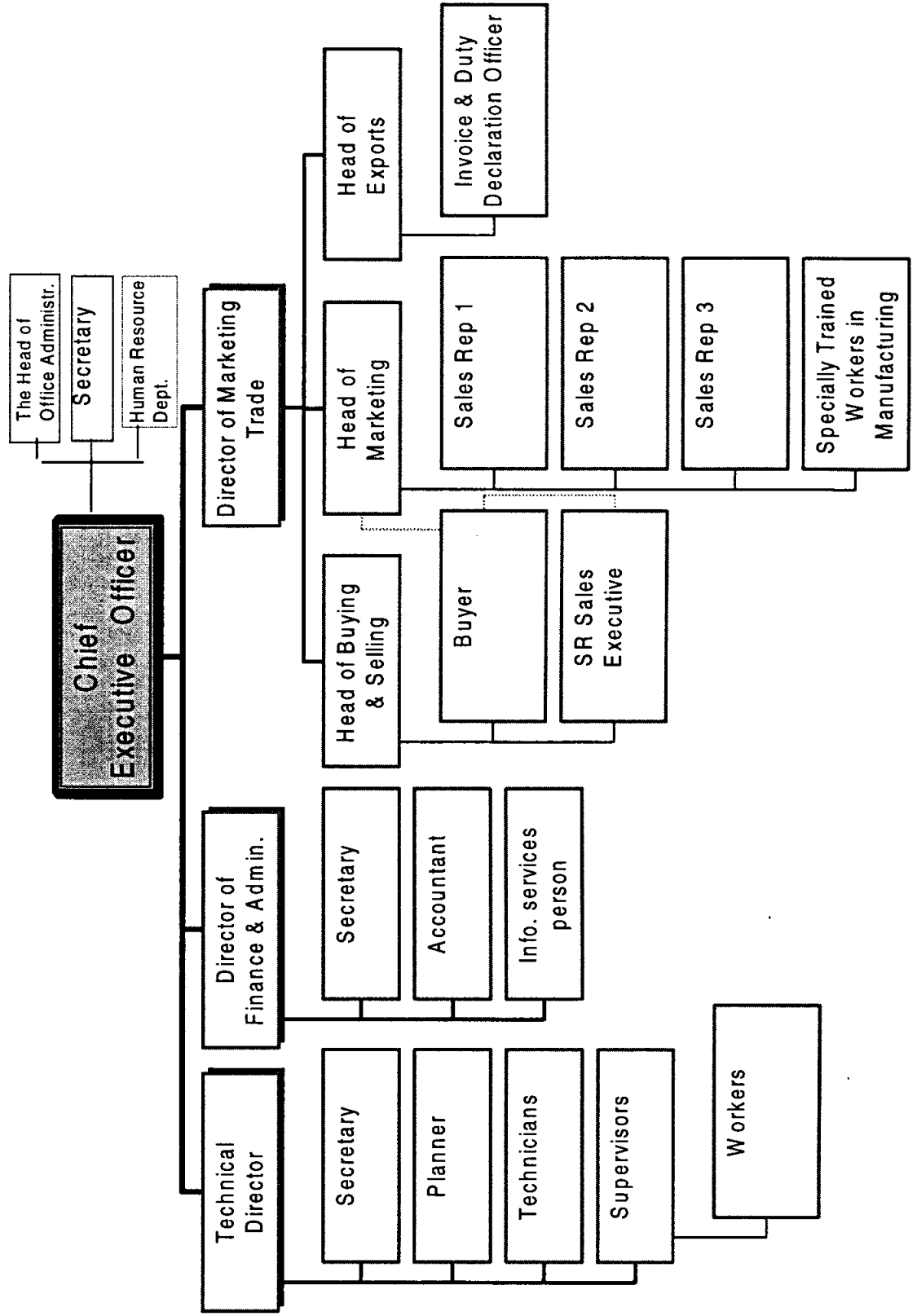
- 1) Identify three main players and their strategic interests. How compatible are their strategies for a successful joint venture? What problems have arisen and what conflicts might arise when the parties pursue their strategic goals? What actions can the parties take to resolve the problems and to continue?
- 2) Is the current strategy of BC Torsion adequate and appropriate? How would you formulate BC Torsion's strategy? What goals should it try to accomplish abroad? Should there be a difference between BC Torsion's strategy in Slovakia, Central and Eastern Europe on one hand and in Western Europe on the other hand? Should it be in a complete coherence with its parents' strategies?
- 3) How would you divide the competencies between DIRICKX and BC Torsion on Central and Eastern European markets? In your opinion is the required exclusivity of DIRICKX's subsidiaries correct or would you give more discretion in entering these markets to BC Torsion's management? How would you explain your decision?
- 4) What is your opinion about the buy-out of PSB's shares in BC Torsion by DIRICKX? Are you in favor or against this step? If you were Mr. Dirickx, how would you decide and how would you explain your decision?
- 5) How would you try to solve the location and warehousing problem of BC Torsion? What other factors would you consider and what information would you need to make a proper decision? Do you tend to agree more with Mr. Lazarovic or Mr. Dirickx about this problem?
- 6) How would you develop the technology equipment of BC Torsion? In which areas and under which conditions is it most feasible for BC Torsion to resist the competitive pressure of Bekaert and other competitors, to keep or to gain competitive advantage on the domestic and foreign markets? What is the role of corporate learning here - could BC Torsion in its future projects copy the strategy of DIRICKX on the developed French market?
- 7) If, in the future, the neighboring countries of Slovakia are admitted to the EU, what impact would it have on BC Torsion's business? Discuss the influence of governmental policy on businesses of this type.

List of Appendixes

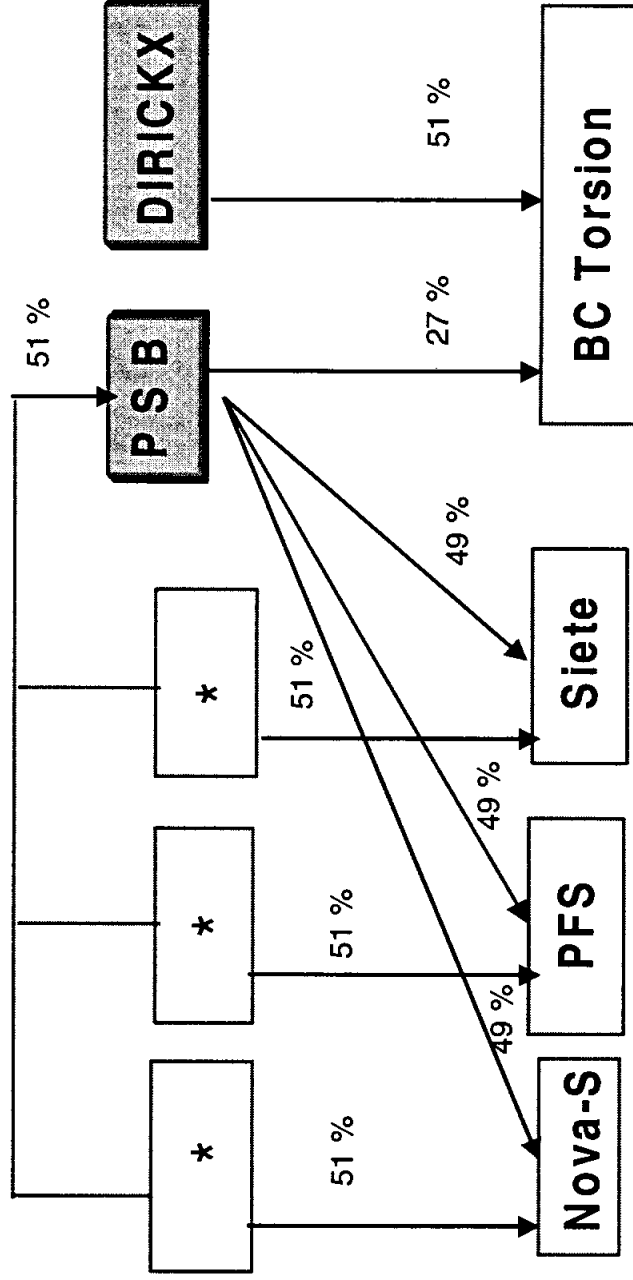
- A1 – Location of DIRICKX, PSB and BC Torsion
- A2 – Organizational structure of BC Torsion
- B1 – Ownership structure of PSB
- B2 – Ownership structure of DIRICKX
- B3 – Location of DIRICKX's foreign subsidiaries
- B4 – Turnover and economic results of DIRICKX Group
- B5 – Simplified balance sheet of BC Torsion
- B6 – Simplified statement of loss and profit of BC Torsion
- B7 – Development of employment and wages in BC Torsion
- B8 – Location of companies on PSB's grounds
- B9 - Location of BC Torsion and its distribution centers within country
- B10 – Some advertisements of BC Torsion's products



BC Torsion's Organizational Structure

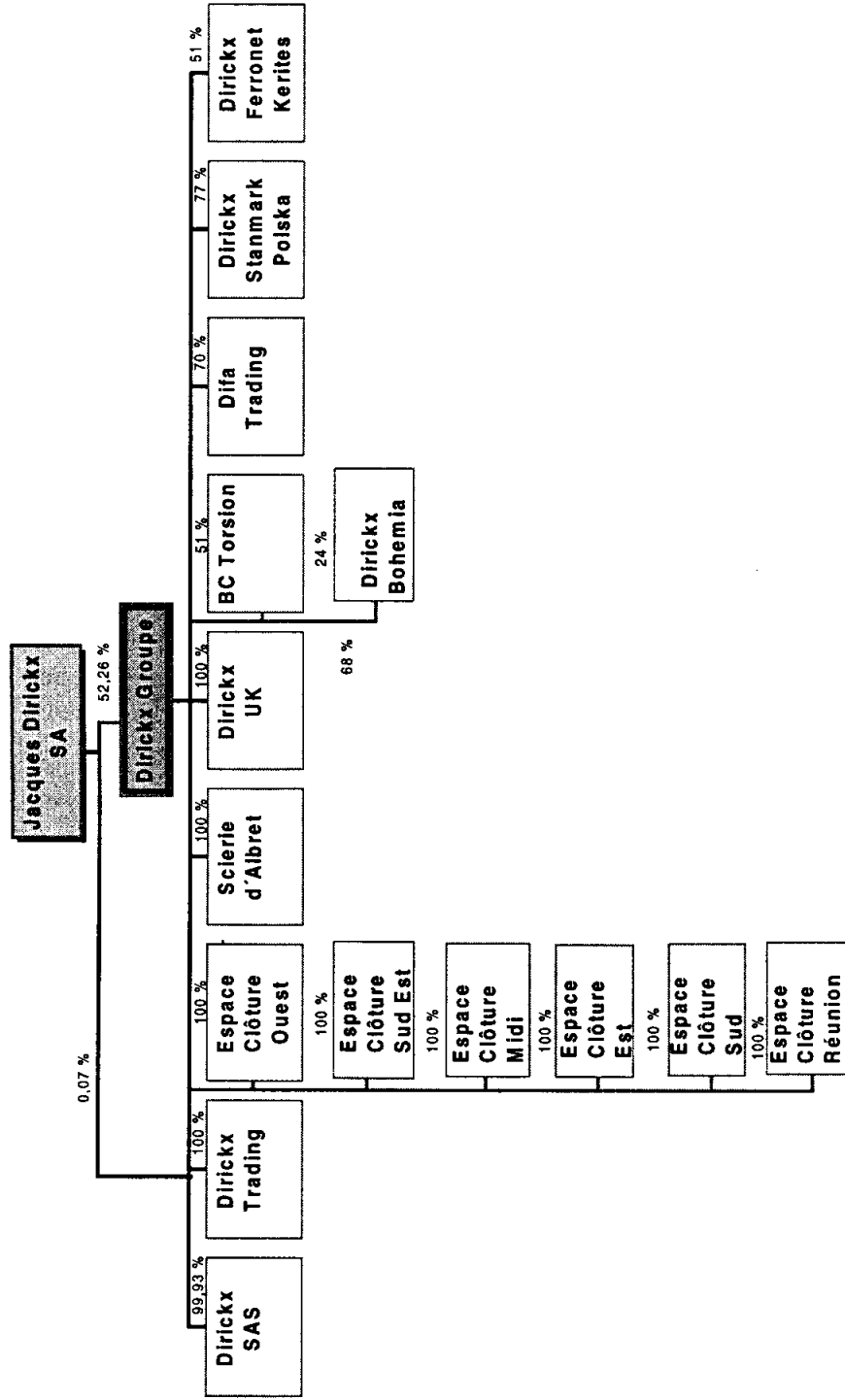


Ownership Structure of PSB



Note: * Companies owned by the management of the corresponding PSB's daughter companies controlling 51 % of PSB's shares

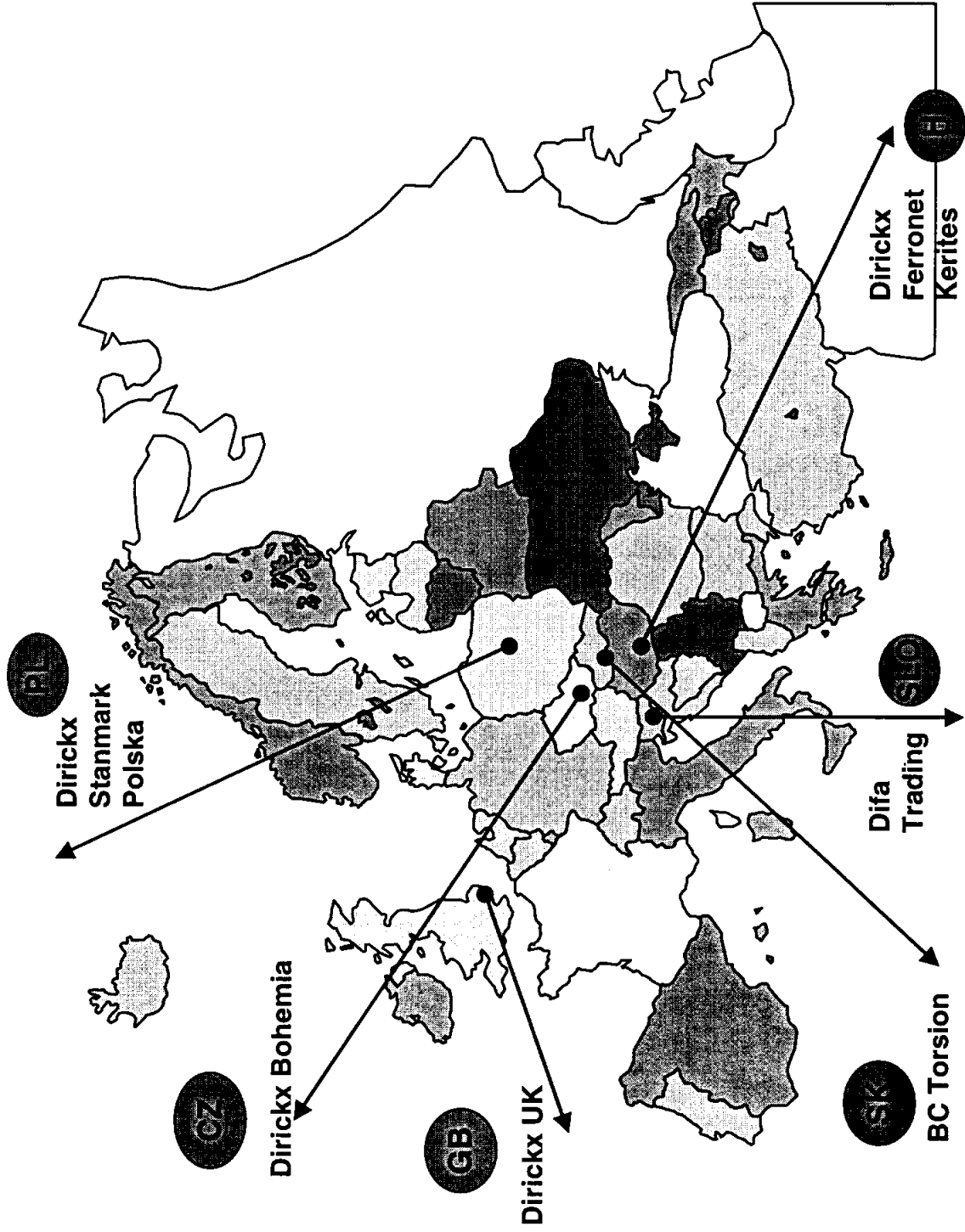
Ownership Structure of DIRICKX



French Manufacturing, Trading and Service Subsidiaries

Foreign Manufacturing and Sale Subsidiaries

Location of DIRICKX Foreign Subsidiaries



Appendix B4

Turnover and Economic Results of DIRICKX Group in 1997 (thousands FF)

	Consolidated turnover	Consolidated results (profit/loss)
TOTAL	368,173	1,693
DIRICKX GROUP	174	2,453
SCIERIE D'ALBERT	1,961	17
BC TORSION	14,725	-99
DIRICKX BOHEMIA	20,404	81
DIFA TRADING	7,896	-629
DIRICKX STANMARK POLSKA	9,918	-1,573
DIRICKX UK	12,267	123
DIRICKX TRADING	13	27
ESPACE CLOTURE OUEST	33,288	-44
ESPACE CLOTURE SUD EST	12,873	-362
ESPACE CLOTURE MIDI	13,599	88
ESPACE CLOTURE EST	7,543	-1,122
DIRICKX SAS	217,905	2,741
ESPACE CLOTURE SUD	6,584	-15
ESPACE CLOTURE LA REUNION	9,023	105

Source: Dirickx Internal Information

Simplified Balance Sheet of BC Torsion in 1997 (thousands SKK)

Total Assets	127,503
Total Fixed Assets	72,153
Intangible Assets	116
Fixed Assets	71,686
Financial Investment	351
Total Current Assets	54,116
Inventory	30,329
Accounts Receivable Long-term	0
Accounts Receivable Short-term	21,825
Cash	1,962
Transitory Assets Accounts	1,234

Total Equity and Liabilities	127,503
Total Equity	64,846
Capital Stock	65,675
Capital Funds	312
Funds of Profit	188
Profit/Loss (Previous Years)	-91
Profit/Loss (Current Year)	-1,238
Total Liabilities	61,038
Reserves	490
Long-term Accounts Payable	0
Short-term Accounts Payable	32,335
Bank Loans	28,213
Long-term Loans	0
Short-term Loans	28,213
Transitory Liabilities Accounts	1,619

Source: BC Torsion Internal Information

Simplified Profit and Loss Statement of BC Torsion
in 1997
(thousands SKK)

Sales of Merchandise	25,406
Costs of Sales	17,681
Markup	7,725
Production	115,230
Sales of Own Products and Services	113,554
Change of Stock	1,676
Production Costs	85,590
Labor Costs	21,613
Taxes and Fees	597
Depreciation	9,664
Sales of Assets and Materials	985
Operating Income	6,553
Financial Operations Income	-5,956
Income Tax	1,926
Current Profit/Loss	-1,330
Extraordinary Profit/Loss	92
Total Profit/Loss	-1,238

Source: BC Torsion Internal Information

Simplified Profit and Loss Statement of BC Torsion
in 1997
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Extraordinary Profit/Loss	92
Total Profit/Loss	-1,238

Source: BC Torsion Internal Information

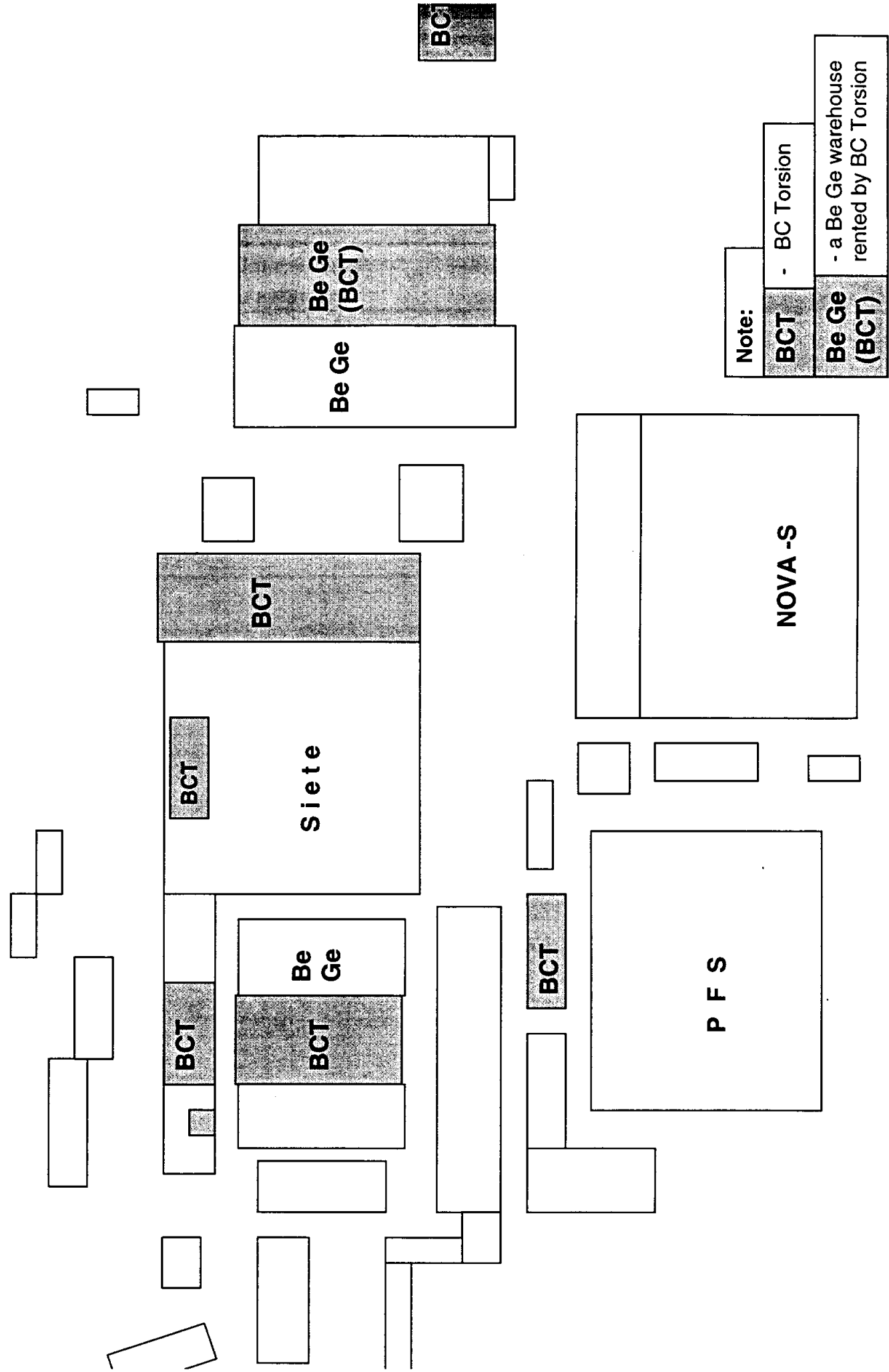
Development of Employment and Wages at BC Torsion

Year	Average number of employees	Average monthly income (SKK)	Growth index (%)
1991	81	4,750	22
1992	97	5,800	22
1993	94	7,070	17
1994	103	8,270	15
1995	98	9,510	12
1996	114	10,650	9
1997	111	11,560	

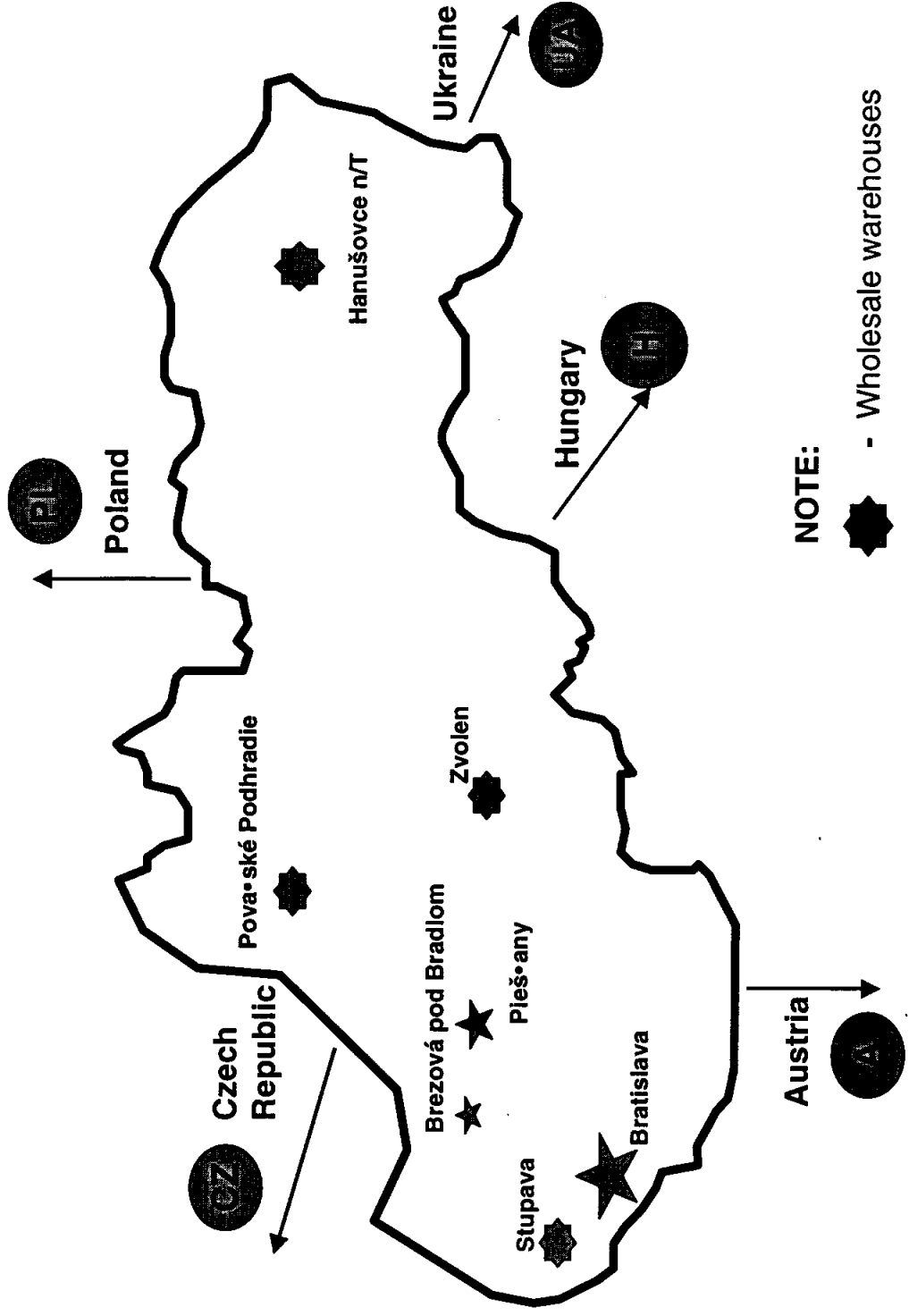
Source: BC Torsion Internal material

Note: The company average monthly pay reached 330 USD in 1997, which exceeded the national average by approx. 100 USD.

**Appendix B8 Location of BC Torsion and Other Companies
on PSB's Grounds**



Location of BC Torsion and its Distribution Centers in Slovakia





DIRICKX

PLOTY, KTORÉ SA OPLOTIA



AXIS - zváraný pozinkovaný plot, chránený vrstvou vysokopriľnavého plastu sa skladá z panelu a stĺpika. Tento veľmi odolný systém je možné montovať bez ďalšieho príslušenstva. Vhodný je predovšetkým na ochranu záhrad a parkov, priemyselných závodov, administratívnych a športových objektov. Je k dispozícii v širokej farebnej škále, ktorá umožňuje výber podľa miesta a účelu použitia.



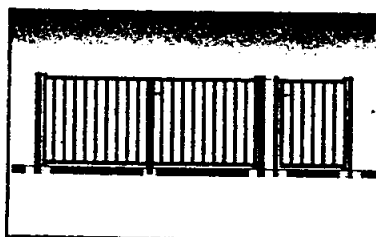
PROVENCE - tkaný pozinkovaný plot, chránený vrstvou vysokopriľnavého plastu spája v sebe robustnosť a eleganciu. Je mimoriadne pevný a odolný. Vďaka zaoblenej hornej časti chráni bez rizika poranenia. Vhodný je na ohradenie domov, historických objektov, škôl, hrísk, parkov a verejných záhrad.



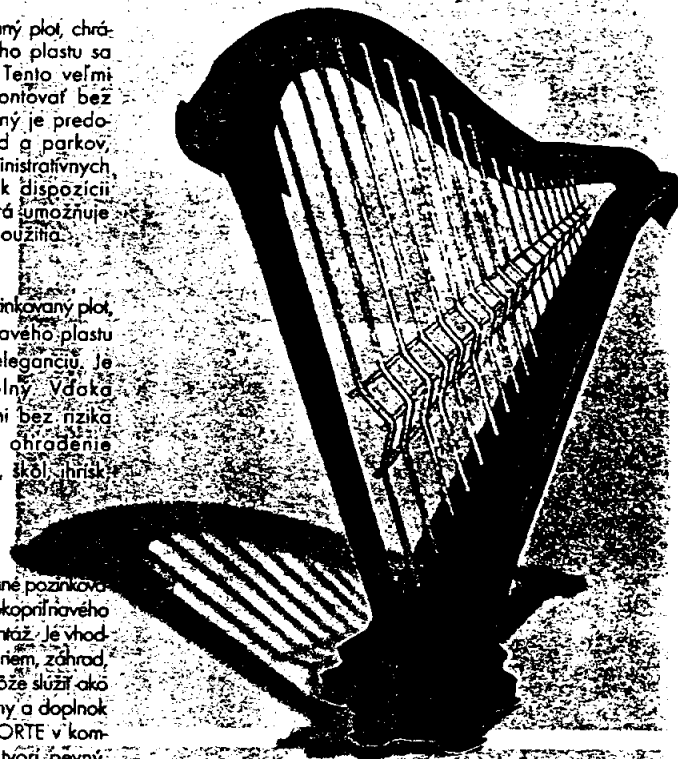
UNITA FORTE - zvárané pozinkované pletivo, chránené vrstvou vysokopriľnavého plastu, je určené na okamžitú montáž. Je vhodné na ohradenie domov, chat, fariem, záhrad, sádov, parkov a pod. Zároveň môže slúžiť ako opora pre husté popínave rastliny a doplnok živých plotov. Pletivo UNITA FORTE v kombinácii so stĺpkami UNIVERS tvorí pevný, jednoducho montovateľný plot.



STANDARD - novinka medzi plotovými stĺpkami. Vďaka jednoduchému spôsobu upevňovania je vhodný pre mnohé typy pletív. Je vyrobený z trubky, ktorá má dvojitzú povrchovú ochranu na báze plastu. Jednoduchá montáž stĺpika a pletiva, bez nutnosti farbenia či inej údržby počas celej životnosti, sú jeho veľkou prednosťou. V spojení so štvorhranným poplastovaným pletivom FLUIDEX tvorí plot, ktorý je pevný a nepotrebuje žiadnu starostlivosť.



ESPACE FIX - bránka a brána, určená na vstup k rodinným domom a iným budovám. Je vyrobená zo zváraného štvorhranného profilu, ktorý je povrchovo chránený dvojitzou vrstvou na báze plastu. Preto nepotrebuje žiadne farbenie ani údržbu po celý čas užívania. Jednoduchá elegancia a pevnosť jej umožňujú univerzálne kombinovanie s akýmkoľvek typom oplotenia.



KLASICKÁ ELEGANCIA

Ploty **DIRICKX** od tradičného slovenského výrobcu **BC Torsion** sú výnimočné originálnym antikorozyzným systémom, vytvoreným ochrannou vrstvou zinku a dokonale príľnavou vrstvou plastu. Jedinečný antikorozyzný systém poskytuje nielen účinnú ochranu pred chemickým a mechanickým poškodením, ale zvyšuje i estetickú a praktickú hodnotu.

Blížšie informácie o produktoch, predajných miestach a cenách Vám poskytneme.

Infolinka: 0905/440626, e-mail: bct@secom.sk

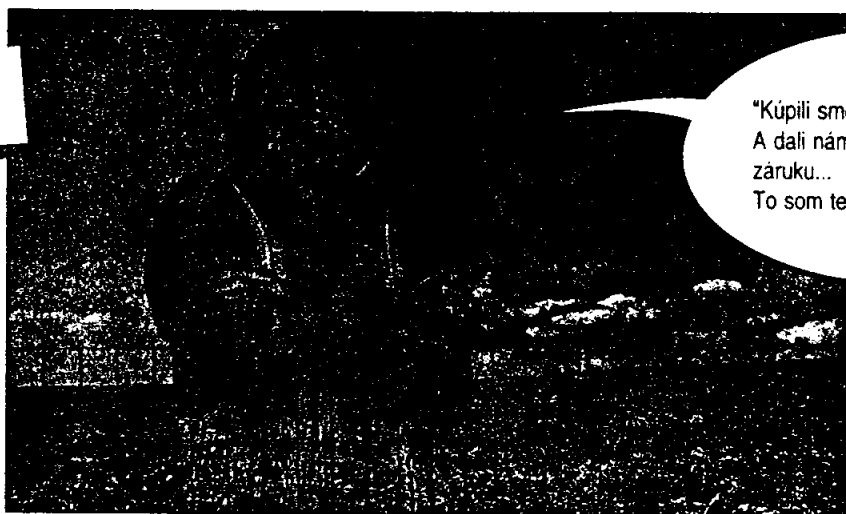


BC TORSION
GROUPE DIRICKX



BC TORSION
GROUPE DIRICKX

rok 0



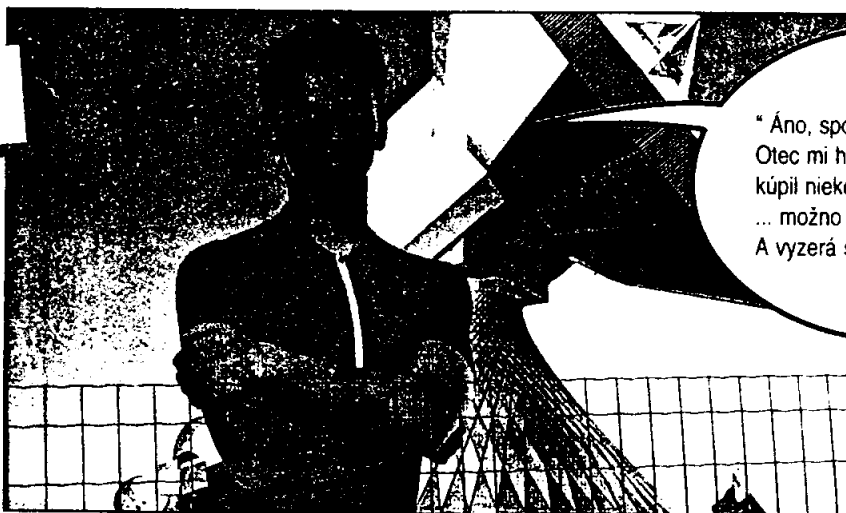
"Kúpili sme si nový plot UNITA.
A dali nám naňho desaťročnú
záruku...
To som teda zvedavý!"

rok 10



"Neuveriteľné!
Moja žena sa musí strašne dlho
maľovať, aby vyzerala tak ako
pred desiatimi rokmi...
Ale náš plot je stále rovnako
krásny, ... aj bez toho, aby som
ho natieral."

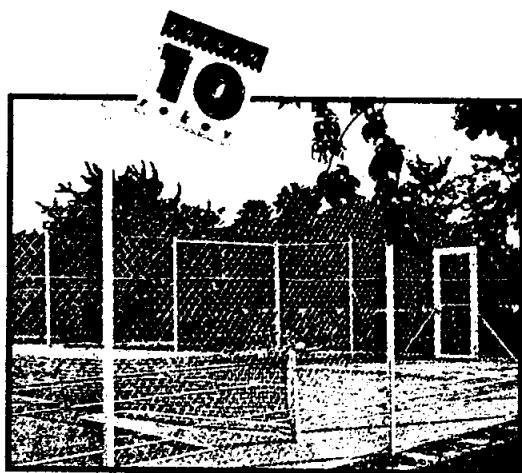
rok 100



"Áno, spomínam si.
Otec mi hovoril, že dedo tento plot
kúpil niekedy strašne dávno ...
... možno ešte pred sto rokmi.
A vyzerá stále ako nový..."

PLOTY NA CELÝ ŽIVOT

MODERNÁ TECHNOLOGIA



Typ FLUDEX

Štvorhranné pletivo z pozinkovaného drôtu chráneného vysokopriľnavou vrstvou plastu. Ponúka na rozdiel od tradične dodávaných typov okrem desaťročnej záruky i vhodne volenú veľkosť očka, ktorá zabráni uviaznutiu loptičky v pletive. Svojou prispôbenou výškou až do štyroch metrov odstraňuje doteraz veľmi prácne nadpájanie pletiva.



Čím sa líšia pletivá DIRICKX vyrábané v BC TORSION od obyčajných pobužirkovaných pletív?

DIRICKX BC TORSION je originálny antikoróznny systém tvorený ochrannou vrstvou zinku a dokonale priľnavou vrstvou plastu, ktorá pletivu poskytuje nielen účinnú ochranu pred chemickým a mechanickým poškodením, ale zvyšuje i jeho estetickú a praktickú hodnotu.



**BC TORSION
GROUPE DIRICKX**

- dvojitá ochrana proti korózii
- jednoduchá montáž
- dlhá životnosť
- v prípade záujmu kompletne oplotenie tenisových kurtov

STANDARDNÝ SORTIMENT NAKÚPITE V: Brezová pod Bradlom: BC TORSION, s.r.o., tel.: 0802/942 869, 942 975, 942 625, 947 150, Hámrovice nad Topľou: AGROPOTREBY, s.r.o., tel.: 0931/924 78, 924 79, Považská Bystrica-Považské Podhradie: RAVEN, a.s., tel.: 0822/326 656, 327 249, 326 711, Slupova: STAVIMIX PLUS, s.r.o., tel.: 07/593 59 48, 593 58 75, 593 58 76, Zvolen: TECHNIK, tel.: 0855/324 000, 324 001.

DÔVERUJTE ORIGINALU