

# Managing a Joint Venture: A Case Study of Participants' Roles and Conflicts

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**ABSTRACT** This article explores the relationship between partners in joint ventures by studying MGM Network's entry into the Korean market. MGM has focused on the distribution of films through licensing. Since 2000, however, it has rapidly extended its business areas by launching library channels in foreign countries. As a part of this expansion strategy, a joint venture company MGM Channel Korea was created in early 2002. This study analyzes the management accomplishments and failures of the MGM Channel in Korea to gain understanding of the challenges of managing an international joint venture.

**KEY WORDS:** organizational structure, joint ventures, governance, managerial conflict, transnational operations

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After 1995 when cable broadcasting service began in Korea, foreign media companies have rushed into the Korean market. Most of the broadcasting companies are from Hollywood and most prefer the joint venture entry mode due to cultural, economic and financial reasons, in addition to domestic restriction of foreign investment. Full ownership and direct investment for foreign companies investing in Korea is not permitted; thus a joint venture channel launch is the only legal option. Moreover, due to commercial differences, negotiations between foreign partners and Korean partners sometimes takes more than a year with little chance of success.

In the past three years, two of four joint ventures have failed due to managerial conflicts. These include the joint ventures between CJ (one of the 2 big entertainment groups in Korea) and MTV, CJ and Showtime, and On Media (the other large Korean entertainment group)

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and Time Warner for HBO. These developments raise the question what are the main reasons for these failures? To examine this situation, this study analyzes the case of the MGM Channel Korea, which is both exceptional and representative due to the short creation period and managerial conflict.

MGM Channel Korea is an advertiser-supported movie channel carried exclusively by Skylife, a newly launched satellite platform company. For promotion and compensation, Skylife guaranteed 3 years of subscription revenue to MGM Channel Korea. This financial security helped the rapid launch of the channel and provided a stable business basis for the company. As shown below, MGM Channel Korea was launched within just 3 months whereas other channel launches typically take 6 months to a year (see Table 1).

Table 1: MGM Channel Korea Timeline

Date	Development
December 20, 2001	MOU (memorandum of understanding) signed between MGM Networks and Spectrum DVD
January 29, 2002	Agreement of channel supply between Spectrum DVD and Skylife (satellite platform company)
February 28, 2002	Joint venture agreement signed between Spectrum DVD and MGM Networks
February 28, 2002	First round of investment from Spectrum DVD and MGM Networks
March 1, 2002.	MGM Channel Korea is launched
November 30, 2002	Second round of investment from Spectrum DVD, MGM Networks, Skylife(new partner)

These financial advantages aside, the company has suffered continued managerial conflict between the joint venture partners. This article focuses on the performance of the joint venture and the issues involved in the managerial conflict.

## LITERATURE REVIEW AND RESEARCH QUESTIONS

Film is an instrument used to successfully penetrate the international market. Major Hollywood distributors made great profits from overseas markets through licensing, a typical practice in the film business. Moreover, deregulation and development of technology have led to the development of the channel business in overseas markets. The branded channel business, or so-called “channel franchising business,” provides a revenue source from program licensing but also seeks to create profit from channel brand loyalty. In fact, global media firms seek to expand internationally to achieve economies of scale without additional investment in their products (Shrikhande, 2001, p.148). In other words, “the global corporation operates with resolute constancy—at relatively

low cost—as if the entire world (or major regions of it) were a single entity; it sells the same thing in the same way everywhere” (Levitt, 1983, p.92). Among channel businesses, the library channel business is the least intensive. The library channel, which is considered as “rerun channel,” reuses existing film library contents in the global market to achieve economies of scale.

Numerous scholars classify the market entry approach or mode based on the degree of control and investment risk (Erramilli & Rao, 1990; Hill, Hwang, & Kim, 1990; Hitt, Ireland, & Hoskisson, 2001; Root, 1994). The four entry modes are exporting, licensing, joint venture and wholly owned operations through a build-or-buy option (Jung, 2004). Global media firms launch their branded channel by funding directly through joint ventures or mergers. A joint venture is the likely option when extensive cultural differences exist between the two countries. In such cases, joint ventures may be seen as a mechanism to bridge cultural gaps. In entering Asia, one of the major overseas broadcast markets emerging in the 1990s, US media companies preferred establishing joint ventures due to cultural distance, as well as to the political, financial and economic situation (Jung, 2004, p.35).

In fact, joint ventures offer opportunities to obtain local knowledge and culture and to reduce investment risk caused from uncertainty. Therefore, most joint ventures involve a host country firm that knows and understands the competitive landscape, legal and social norms, and possible cultural idiosyncrasies of that country. The local partner helps the global firm manufacture and market a competitive product (Hitt, et al., 2001, Jung, 2004).

A joint venture frequently serves the purpose of assigning management tasks to local partners, who are better able to manage the local labor force and relationships with suppliers, buyers, and government (Franko, 1971; Stopford & Wells, 1972). Pathania-Jain (2001) demonstrated the positive result of corporate alliances, particularly joint ventures by analyzing the adaptive strategies of global media companies in India. According to the research, global partners offer technology and financing, as well as industrial structures such as marketing and distribution (Pathania-Jain, 2001, p.172). The global firms offered superior practices, including managerial, production, and marketing-related skills that represented soft expertise on how to produce and market high-quality, well-packaged programming. In addition they offered actual assets, such as library software, distribution outlets, finance, and reputation (Pathania-Jain, 2001, p.175).

Although there are benefits, such as the share of financial risks, guarantees of contents among many others, such corporate alliance, “contract marriages,” increase risks because they may cause various managerial problems. Disadvantages include the sharing of rewards, possible control and coordination problems associated with working with a local partner, and potential conflict of interest because both partners may look out for their firms’ interests, rather than the joint venture’s

best interests (Beamish, 1985; Jung, 2004). Thus, regardless of the motivation, to achieve a great deal, a joint venture needs to be carefully managed. Landler notes that “with the development of strong local economies and media industry, U.S. entertainment exporters can no longer expect an unqualified welcome” (Landler, 1994, p. 186). This underscores the necessity to more actively collaborate with local partners in overseas media business.

Based on the discussion above, the following are some research questions addressed in this study:

- RQ1:* What is the advantage of the joint venture of the MGM Channel in Korea?
- RQ2:* What is the degree and type of control exercised by its partners?
- RQ3:* What are the disadvantages of the joint management of the MGM Channel in Korea?

For this study, I analyzed the internal documents of the company from the foundation of the company to the end of 2004, including the independent auditor’s reports from 2002 to 2004, the business plan of the joint venture, balance sheets and profit and loss statements from 2002 to 2004, the joint venture agreement, the stock purchase agreement, the trademark license agreement, records of regular board meeting, the investor relations brochure, press articles, monthly reports from March 2002 to February 2003, memorandum of weekly conference calls, and other materials.

## **STATUS OF FOREIGN CHANNELS IN KOREA**

Market entry of foreign broadcasters, which first began in 1995 with the adoption of cable broadcasting, was further accelerated with the introduction of satellite broadcasting. In 2004, there were about 130 channels in Korea carried by cable or satellite. Among these channels, 14 channels, about 10% of total channels, were foreign branded channels. They entered the Korean media market through joint ventures, content licensing, or direct transmission (see Table 2). As mentioned earlier, due to the regulation of foreign equity ownership, mergers are not permitted under the current legal framework. The general advantages of joint ventures may seem obvious. Joint ventures do not force companies into a permanent merge nor incur structural and/or cultural difficulties and/or high costs.

According to Table 3, foreign channels that seek to invest directly under the form of joint ventures, have invested the maximum quota allocated to foreign players under the current law, with the exception of

Table 2: Channel Partnerships in Korea

Type	Channel
Contents licensing	History, The Golf Channel & SBS Golf
Joint Venture	Tooniverse, HBO, MTV, MBC-ESPN, MGM Spectrum
Direct transmission	Star Sports, NHK World, CNN, Discovery, Animal Planet, The Disney Channel, Nickelodeon, CCTV

Table 3: Shareholders and Ownership Shares in Joint Venture Channels in Korea

Channel	Share ownership
MGM (movie)	Spectrum DVD (57%), MGM Networks (33.0%), Skylife (10%)
Converse (animation)*	On media (51.7%)*, TBS (17.4%), others (30.9%)
OCN (basic movie)**, HBO	On media(50.5%)**, HBO(33%), Joongang daily(16.5%)
MBC-ESPN (sports)	MBC (9.4%), MBC Plus (47.1%) ESPN STAR SPORTS (33.0%), KT (10.5%)

\*after rupture with TBS in 2002, Tooniverse share ownership is On Media (72%), KC (3%), others (25%) in 2004

\*\*after rupture with HBO in 2002, OCN share ownership is On Media (83.5%), Joongang Daily (16.5%) in 2004.

TBS (Turner Broadcasting System), which invested in the existing channel Tooniverse.

## MGM'S WORLDWIDE CHANNEL VENTURES

Unlike large diversified companies such as Viacom and Time Warner that seek to spread the risk of the new ventures across a wider media business field, MGM seems to mesh well with licensing. The diversification strategy of MGM is limited to the library channel, a less capital intensive business that ensures an outlet for film contents (see Figure 1).

Nevertheless, the expansion strategy of MGM is significant. In 2002, MGM had ownership interests in both branded and other channels in over 90 countries around world:

- MGM branded channel: 100% owned by MGM (Europe, Africa, Middle East, North Africa),
- 50% owned by MGM: Latin America
- 35 % owned by MGM: Israel, Turkey
- 33% owned by MGM: South Korea
- 30% owned by MGM: South Asia
- 10%~20% ownership interest: USA AMC, WE, IFC, JAPAN, etc.

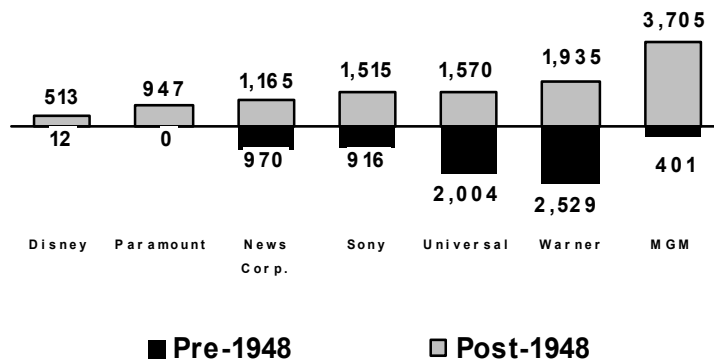
For the type of channel, MGM generally chose the “library channel” to profit from its enormous library of contents (see Figure 2).

Figure 1: Diversification of Revenue Streams of MGM



Source: Annual report of MGM 2002

Figure 2: Modern Film Libraries



Source: Paul Kagan 1999, Company Estimates

Note: The 1948 Consent Decree required studios to divest theatre holdings

**Advantages of the Basic Library Channel in Korea**

According to Porter (1980, p.341), decisions to enter a market are usually based on a balanced consideration of cost and benefits in four areas investment required, additional investments to overcome structural entry barriers, potential cost of incumbent firm competition, and expected cash flows from being in the industry. Joint venture was chosen as the entry mode in the case of the MGM Channel Korea.

The cost and benefit for MGM Channel joint venture was the following:

- low investment for the programming due to supply from MGM's library
- no entry barrier because a satellite broadcaster would simply carry the channel, unlike a cable operator that would request high entry payments to cover expenses such as marketing
- guarantee of revenue from Skylife, a satellite platform company

In fact, MGM Channel Korea, a distribution outlet of MGM's library and basic channel, didn't seem to take a financial risk. It didn't need significant start-up costs because its programming cost was extremely low compared with programming for pay channels such as HBO Korea. Also, MGM Channel Korea has a revenue guarantee from the newly launched satellite platform company. The shareholders of MGM Channel Korea wanted to secure the profit pool from the relatively new satellite market rather than from the cable market, which was extremely competitive at the time.

The joint venture of MGM Channel Korea seems to have had no large financial risks and offered assured returns. These were the most attractive factors that led the partners to sign the joint venture agreement promptly. Moreover, the company expected financial performance reported in the business plan shown in Table 4.

#### **Financial Performance of MGM Channel Korea**

According to Table 4, MGM Channel Korea performed better than expected financially during initial two years. The company produced a beneficial difference from budgeted EBIT of US\$ 571,300 in the first year and US\$ 770,460 in the second year. The difference was particularly affected by spending less on the expenses side, thus reducing its startup costs. It saved US\$ 1,167,429 in the first year and US\$ 1,065,571 in the second year. This achievement was enabled by the company strategy that focused on operating a slim company, saving overhead cost by outsourcing and cutting cost for programming rights.

Table 4 Financial Summary of MGM Channel Korea, Thousand US\$

	2002			2003			2004		
	Budget	Actual	Dif.	Budget	Actual	Dif.	Budget	Actual	Dif.
<b>TOTAL REVENUE</b>	1,737	1,141	-596	2,903	2,608	-295	3,827	3,040	-787
<b>TOTAL EXPENSES</b>	2,993	1,825	+1,167	3,298	2,233	+1,066	3,792	3,086	+706
<b>EBIT</b>	(1,256)	(684)	+571	(395)	375	+771	34	(46)	-81

\* Dif. = Differences

Source: Independent auditor's report 2002-2003

### **High ROI (Return of Investment) of MGM Networks**

The joint venture of MGM Channel in Korea particularly demonstrates its benefits to MGM Networks. MGM Networks recouped its investment in the first year (see Table 5).<sup>1</sup> According to the business plan, MGM Networks would recover its total investment in the first year and it received a guarantee of programming revenue for more than 4 years.<sup>2</sup> Within 3 years, the joint venture company was expected to achieve a break even point and return in the fifth year was expected to be US\$ 4.3 million, three times larger than MGM Network's initial investment of US\$ 1.6 million.

Table 5: Business Plan of MGM Channel Korea

FINANCIAL SUMMARY					
(US \$ unless otherwise noted)	Year 1	Year 2	Year 3	Year 4	Year 5
Subscription Revenues	0	0	0	2,959,613	5,165,543
Advertising Revenues	320,944	936,087	1,860,374	3,068,633	4,008,653
Supplemental Fee from Skylife*	1,415,929	1,966,568	1,966,568	0	0
<b>TOTAL REVENUE</b>	<b>\$1,736,873</b>	<b>\$2,902,655</b>	<b>\$3,826,942</b>	<b>\$6,028,246</b>	<b>\$9,174,196</b>
<b>TOTAL PROGRAMMING</b>	<b>1,839,600</b>	<b>2,023,560</b>	<b>2,214,828</b>	<b>2,424,668</b>	<b>2,654,911</b>
<b>MGM RIGHTS COST</b>	<b>1,260,000</b>	<b>1,386,000</b>	<b>1,524,600</b>	<b>1,677,060</b>	<b>1,844,766</b>
PROMO & INTERSTITIALS	40,000	42,000	44,100	46,305	48,620
SALES & MARKETING	220,236	307,522	542,268	848,192	1,087,249
MGM Brand Trademark Fee	75,000	100,000	125,000	150,000	200,000
Web site Expenses	60,300	29,715	31,200	32,760	34,398
Technical Operations	280,000	294,000	308,700	324,135	340,342
Personnel & Office	477,554	501,432	526,503	552,828	580,470
<b>TOTAL EXPENSES</b>	<b>\$2,992,690</b>	<b>\$3,298,228</b>	<b>\$3,792,600</b>	<b>\$4,378,889</b>	<b>\$4,945,989</b>
EBIT	(\$1,255,817)	(\$395,573)	\$34,342	\$1,649,357	\$4,228,206
EBITDA	(\$1,255,817)	(\$395,573)	\$34,342	\$1,649,357	\$4,228,206

Source: Business plan inserted on joint venture agreement

<sup>1</sup> According to Business Plan, total capital of MGM Channel Korea is 3.9 million dollars (change rate is 1USD=1,150 Won), MGM Networks funding 1.2 million dollars (33%).

<sup>2</sup> MGM Networks gains revenue over 5 years 8.3 million US\$ (Trademark fee (650,000US\$) + Programming fee (7.7 million US\$)).

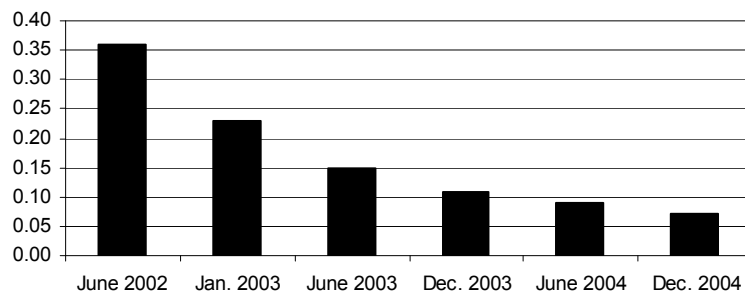
## PROGRAMMING AND PROMOTION

Programming is the primary means for a network to differentiate itself (Collette & Litman, 1997). In the case of branded channels, well-known contents can be a strong factor in the value of the channel. MGM Channel Korea is a good example in this case. MGM's brand power made it easier to negotiate with a local partner. Moreover, during the first six months, MGM Channel Korea used three-quarters of the film titles offered annually by MGM Networks and the strong programming composed of the well-known titles was used to promote the channel. On one hand, this powerful programming strategy enhanced the value of the channel in the short term. However, over time, the channel exhausted the limited library offered, which produced a negative impact on further programming. Repeated and old fashioned titles, which are a problem of library channels generally, seriously disappointed Korean viewers.

The genre most preferred by Korean viewers is drama. Thus, a library channel of Korean dramas has been well accepted by Korean viewers. However, the same response was not experienced for films in Korea. In fact, few titles offered by MGM are well-known to viewers and it provided mixed levels of content. MGM library began to be considered as a "rerun channel" or "recycling channel." Consequently, the library channel became unpopular, just like a classic music channel that attracts a handful of classical music fans.

Furthermore, the channel programming is not viewer-focused but provider-focused because programmers choose programs from a list provided by MGM Networks. Because of a fixed price determined in the contract, the film list offered by MGM Networks is very limited. Additionally, preferences of Korean viewers for local movies released within 5 years have also weakened the library channel's value because it is dominated by Hollywood content. Consequently, Korea's MGM Channel's viewership began to fall drastically and it has failed to recover its initial rating (see Figure 3).

Figure 3: Evolution of the Rating of MGM Channel Korea



Source: TNS Service Korea

Promotion of the channel and titles was guided by strict restrictions on use of photographs. MGM brand has always been known for its classic hit films, "Ben Hur" and the "007 series." Korean viewers could recognize such hit titles although they didn't know the brand name of the distributor. The company thus had to promote the Korean MGM channel without "007," which was available to other distributors. MGM itself did not have celebrity status in Korea. Thus, the Korean MGM Channel could not use these photos to promo the MGM branded channel, which seriously restricted the activities of the channel. The Korean company neither received advice about programming or first refusal rights regarding MGM titles and MGM Networks controlled the number and frequency of MGM titles and local titles through the programming grid. This became the crucial factor for disagreement among the partners.

## DEGREES OF CONTROL

Government policy or regulation generally has a fundamental impact on the entry mode option selected by foreign companies. Accordingly, the selected entry mode affects the control mode. In the Korean market, however, the situation is different. With only 33% of equity ownership, due to the restriction on foreign investment,<sup>3</sup> foreign investors control the joint venture company as if they are the largest shareholders. Foreign shareholders, for instance, appoint the chief executive officer or chief operating officer, mandate board of directors' approval for expenses over certain amounts and take disputes to the US courts.

It is almost the same for the MGM Channel in Korea. MGM Networks doesn't send the expatriates on the ground to the joint venture company in Korea. However, it is deeply involved in joint venture operation via weekly conferences, monthly reports and quarterly board meetings.

### ***Control of Regular Activities***

***Board Meetings*** A company is required to hold board meeting every quarter. The board members discuss all issues about the company, ranging from finance to operation. As any typical board meeting, board agendas for MGM Channel Korea focus on pushing financial targets and monitoring the performance of the company rather than contributing to better marketing, financial practice and operation. In summary, joint venture partners of MGM Channel Korea tend to focus on short-term profits rather than the long-term visions.

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<sup>3</sup> The quota of foreign equity permitted is up to 49 % under the broadcasting law amended on March 22, 2004.

**Monthly Reports** The main objective of monthly reports is to track and monitor financial statistics such as monthly financial statistics and new forecasts. Furthermore, the board requests information such as progress of advertising sales, new contracts signed, contracts in negotiation, new leads, as well as performance of the channel seen in ratings reports for MGM Channel and its competitors. Ranking reports include the MGM Channel and other channels, new and relevant information on competitors, and the programming schedule for the upcoming month. Furthermore, MGM Networks controls payment schedules from Skylife for the fiscal year. They also receive notification of payments received and monitor Skylife subscriber statistics. MGM Channel also has to report summarized translations of articles about MGM Channel and relevant market to the shareholders.

**Control of Channel Brand** The joint venture company pays a trademark fee to MGM Networks, which offers the brand promotion package. To control use of the brand, MGM Networks regularly sends cue sheets and on air promotion. They examine the Korean version and frequency on the TV screen but do not control its quality.

#### **Control of Expenses**

**Limited Authority of the CEO** Under the shareholder's agreement, "expenses over US\$ 25,000 must be approved by the board before execution." This clause limits the authority of the CEO of company. In fact, expenses over US\$ 25,000 are often rejected due to the joint venture's financial strategy of no-risk/minimum funding with reliable return.

**Financial Reporting** All expenses are examined through the financial reports. Month-end income statement (compared to the business plan), year-to-date income statement, year-to-date income statement variance analysis compared to the business plan budget, balance sheet, statement of cash flows, and funding schedule for the year are reported regularly. For convenient financial control, MGM Networks requested a local financial director who can speak fluent English.

**Credible Auditor** Under Korean commercial law, all newly launched small companies are not subject to external audit. Nevertheless, MGM Networks strongly requested that the company hire the auditing firm Ernst & Young, a firm that was too large of an auditor for a small company such as MGM Korea. In addition, Ernst & Young's audit fees were too high compared to the revenue size of MGM Korea, which led to further disputes between the two parties in the joint venture.

As mentioned above, partners of the joint venture of MGM Channel Korea closely control the company business. It seems that MGM Networks is involved more deeply than a local partner who is in the same

geographic region. Such close control of shareholders over company operations, an absence of “deep pockets” of the partners, and lack of operational support, e.g., marketing, undermined the competitiveness of the company. .

### **Safety Devices**

The management structure of the joint venture of MGM Channel Korea contains several safety devices for MGM Networks:

- Equal number of board members even though there is an imbalanced portion of shares
- Deposit of one quarter of the capital as a payment guarantee for MGM programming rights
- Deposit from Spectrum DVD to guarantee future funding
- Agreement that all disputes should be resolved in a U.S. court of justice

The structure and conditions of management by MGM Networks created conditions in which frequent disagreements between local partners and MGM cooled their relationship.

## **MANAGEMENT FAILURE IN THE JOINT VENTURE**

Joint ventures are combinations of two or more companies created to produce a new product or service, or to gain entrance into a new market. Thus, regardless of the motivation, it needs careful management. Each partner hopes to gain access to some resource possessed by the other(s) such as marketing, technology, raw materials or financial, managerial, and political resources (Katsioloudes, 2002, p.156). The joint venture of MGM Channel Korea was created for the purpose of transferring each others' strength. However, some misunderstanding about the business objectives of the joint company and a mismatch of expectation has often led to conflicts. Table 6 shows the business objective of MGM channel Korea for each partner.

Skylife, the satellite platform company promptly provided a channel line up that included MGM Channel Korea. The brand value of Spectrum DVD, which was about to be listed on the Kosdaq stock exchange, undoubtedly increased by cooperating with MGM Networks. The completion of the agreement between MGM, a major Hollywood distributor, and Spectrum DVD, a small- to medium-sized Korean company, was been covered by several newspapers, and the MGM brand would thus be recognized by the viewers easier than any newly launched channel without a recognizable brand. However, unlike the initial expectations and motivations, each partner focused on their own interests in the new company instead of promoting their common

interests. Thus, their relationships soon began to deteriorate because of disagreements between the parties.

**Misunderstandings about the Counterparts**

The Korean partner has considered MGM Networks almost as an MGM group. Thus, they expected that the MGM Networks would assist them in building a favorable relationship with other MGM subsidiaries because they were not aware that the MGM businesses are clearly separated in the windows from theatrical distribution to video on demand distribution. This misunderstanding was largely due to the different commercial atmospheres in the two countries. It is customary for Korean companies to give privileges to obtain benefits from other products in their sister company.

Table 6: Business Objectives of Each Partner in MGM Channel Korea

<b>Skylife</b> (the satellite company)	<b>Spectrum DVD</b> (the largest shareholder)	<b>MGM Networks</b> (the second largest shareholder)
<ul style="list-style-type: none"> <li>• Skylife needed the renown branded MGM Channel for its channel package in its newly launched satellite platform</li> <li>• To keep exclusively in the satellite channel package, Skylife guaranteed subscription revenue for three years</li> <li>• Skylife needed partnerships with major Hollywood distributors, included MGM distribution, to offer pay-per-view service</li> </ul>	<ul style="list-style-type: none"> <li>• Spectrum DVD, the largest shareholder, needed to cooperate with a high brand value company to raise its company value</li> <li>• Through this relationship, Spectrum DVD wanted to make and keep a connection with MGM Home Entertainment for its core DVD distribution business</li> </ul>	<ul style="list-style-type: none"> <li>• MGM Networks wanted to have the simple subsidiary outlet for distributing their library (250 titles per year)</li> <li>• It would not accept diversification of channel activity that would require possible further investment</li> <li>• It wanted to avoid a long-term contract, so set termination of agreement after 5 years</li> </ul>

Unlike the local partners, Spectrum DVD and Skylife, who were not able to capture benefits from the joint venture, MGM Networks accumulated revenue by receiving the programming rights and trademark fees. As a result, MGM Networks recovered its initial investment within a year by simply licensing its content and name. Due to unbalanced advantages shared by the partners, the conflict between the partners grew over time. Finally, Spectrum DVD, tried to sell its shares and avoid further funding, leading the other partners to take extreme measures. When Spectrum DVD decided to stop all investment and sell its shares, MGM Network nullified the attempt by citing the shareholder agreement on sales of shares.

Joint ventures represent a more vulnerable form of consolidation compared to merger or acquisition. In fact, the initial shareholder's

agreement written by MGM Networks specifies that the MGM Networks is to sell off the company after 5 years. Although, this clause has been deleted at the request from the local partners and replaced with a clause that says a sell-off is to be determined only after negotiation after 5 years between the parties.

### ***Lack of Support from Each Party***

The joint venture benefits neither merit the license fee nor guarantees the provision of competitive contents. MGM Networks offered its films to MGM Channel Korea at a fixed price due to the output deal. Thus, they never suggested exclusivity of titles at the fixed price and MGM also sold them to the competitor of the MGM Channel that pays more than the MGM Channel. No marketing support is offered by MGM Networks for promoting the MGM titles, such as preview tickets for newly released MGM films because 20th Century Fox Korea provides distribution for MGM theatrical films. This creates no synergy in the company. On the other hand, expected support from local partners for the production of subtitling has not materialized because of disagreement between partners. As a result, the joint venture between MGM Networks and Spectrum DVD has not transferred support from the partners in the form of marketing, technology, ad sales, etc.

## **DISCUSSION AND CONCLUSIONS**

As mentioned earlier, joint ventures are combinations of companies that enter a new market. To achieve great performance of these “contract marriages” between the multi-cultural companies, they need well-thought partnerships and managements. At the same time, each partner has to transfer to the joint venture company their resources such as marketing, technology, raw materials, financial, managerial, and political resources. However, even though there were desirable initial motivations for a joint venture and lots of advantages for a library channel, MGM Channel Korea suffered conflict between its partners. This study showed the main reason for the difficulties of managing joint ventures in the Korean market through the case of the MGM Channel in Korea.

The Korean media environment has a broadcasting law that restricts foreign equity, sets a programming quota, and controls the number of foreign channels that are directly transmitted. It seems that the Korean media environment remains highly protective. Some major Hollywood channels that seek to circumvent these regulation, which often kick-starts conflict. They try to control the joint venture company closely while making a minimum investment. Even though MGM Networks has only one third of the shares in their joint venture, they want to manage the joint venture as if they were the largest shareholder and this uses their market dominance. Additionally, unequal clauses in the

shareholders' agreements are often written by a foreign partner. In such an environment, desirable co-management between the partners became nothing more than an ideal. Such factors create situations in which negotiations between prospective Korean and foreign partners rarely reach an agreement. Even if there is a successful launch of a joint venture, only half are able to sustain their operations in Korea.

It seems that the partners of MGM Channel Korea think only of their own interests rather than the joint venture company's interests. The company doesn't receive any kind of support from the partners in terms of programming management and marketing. Also, to avoid further investment, the partners refuse to diversify the strategy of the company. MGM Networks strictly focuses on the payments it receives for MGM programming, a practice that may undermine the long-term vision for a joint venture. Furthermore, the conflict between the partners can have a negative impact on the MGM Channel in Korea and the MGM brand there.

The domestic film market in Korea is rising rapidly and major Hollywood distributors time theatrical release of their hit movies to avoid competing with Korean blockbusters. Korean viewers want more domestic programming and tend to like to see current movies so Hollywood branded channels—especially library channels—do not guarantee success despite their many financial benefits from economies of scale as rerun channels. This challenge exists in other markets as well. In Germany, for example, the MGM channel does not operate as a library channel but as a premium channel called the “current movie channel.” Korean viewers are enthusiastic about dramas, therefore drama channels are among the top ranked even though they are all rerun channels. It appears that mixed programming of films and drama series could be a good solution rather than the all movie programming offered by the MGM channel Korea and other countries.

There are evaluation criteria in manufacturing industries for assessing benefits of partnerships with a foreign company and transferring technology can make a positive contribution to such industries. In the media industry, however, technology is rarely transferred and unequal contracts, unbalanced management by a dominating partner, and primarily serving the interests of foreign partners can create trouble for the future of such partnerships in Korea. In joint ventures risks have to be shared and resources transferred between the partners. Thus, the pursuit of a win-win strategy would be the ultimate resolution for successful partnerships in Korea.

Lastly, the concept of a branded channel is effective because of the economies for the scale mentioned earlier. Thus, it could be expected to be more successful in countries in which the domestic movie industry is not largely developed or in which a different entry mode such as merger or acquisition is employed. The performance of the same branded channel in different countries, however, has not been compared in this study. We expect that the economics of branded channels under different

market entry modes or in different countries will be analyzed in future studies.

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