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Managing Joint Ventures:

Balancing Parental and Joint Venture Demands

Executives come to the negotiating table and are generally satisfied when they reach an agreement. Yet, even the best planning in the design phase of a joint venture is no guarantee of success. Once an international joint venture agreement is signed, the focus shifts from making the deal to implementing it. And rightly so. For at this stage starts the challenge to joint venture managers and the ultimate determinant of success.

In an earlier issue of *Perspectives for Managers* (Creating Joint Value: Key to successful joint ventures, No. 79, February 2001), the focus was on creating joint value when negotiating a joint venture agreement. Orchestrating a deal is important. Yet the sooner the shift from negotiation to implementation occurs and the more efforts are invested into the management of the relations between the parents and the joint venture, the better. As a former CEO of a joint venture during five years commented:

"Our corporate planners left the negotiating table and I had to make it work. If I had known the full extent of this job, I would probably have opted out. My abilities at networking and advocating were truly tested and if I had not had a high level of ambiguity tolerance, I would have given up long ago."

Making an international joint venture successful encompasses managing a multiplicity of relationships – between the parents, the parents and the joint venture, as well as between different groups within the joint venture.

Managing these relationships consists of balancing the demands on the joint venture of parents from different national contexts, as well as the internal demands on joint ventures such as opposing cultures or exposure to new market forces. The following analysis suggests the six most important factors in managing these relationships. The primary focus of the analysis is on ensuring that the communication linkages and interconnections between the various parties are constantly maintained. Essentially all of the following should be taken into consideration for laying the foundations for success:

- Establishing interfaces
- Creating space for employee exchange
- Synchronizing systems and procedures
- Managing human resources
- Periodic evaluation
- Developing redesign options

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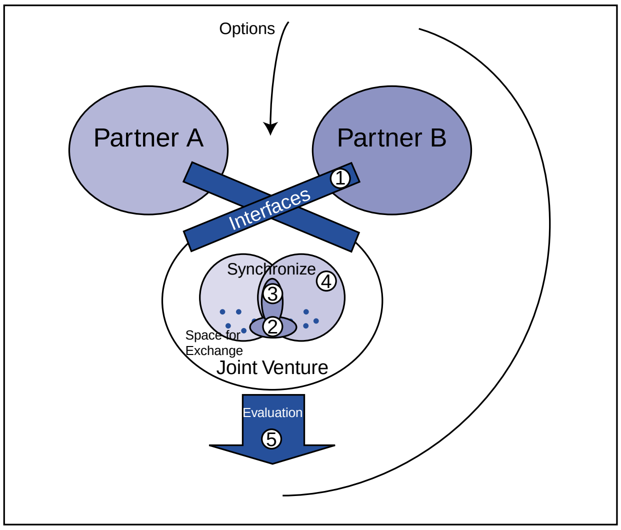

Figure one

Establishing interfaces

Interfaces are multiple contacts at various levels between the partners as well as the partners and the joint venture. They facilitate cross-company relations and provide the foundations for a successful working relationship.[1] In order to build bridges between cooperating organizations, people in direct contact are essential since they encourage unbiased communication.

At the strategic level, interfaces between the parent organizations are usually created at board level. Especially in 50-50 joint ventures, the board plays an important role for strategic support. If it is staffed with active members, this interface may be sufficient to facilitate decision-making. In addition, however, a cooperation council can be useful. This is composed of top management representatives from the parent companies and the joint venture and deals with conflicts between the cooperating organizations. In a joint venture between Ericsson and Hewlett-Packard, this council helped when strategic impasses occurred. As one member said: “We are here to bring the joint venture back on track.” In order for the cooperation council to be effective, however, it must be staffed with sufficiently powerful individuals in order for its decisions to be accepted within the parents and the joint venture.

In addition to the strategic level, the joint venture should establish management linkages with the parents at the operational level to build awareness of the joint venture and increase the likelihood that resource commitments, which the parents made at the time of formation, are being delivered. Since inequitable resource contributions can lead to the early termination of a joint venture, guaranteeing resource commitments from both parents is an important factor for its stability. In addition to ensuring resource commitment, management linkages can also help the joint venture to remain informed about strategic changes within a parent company and thereby help anticipate changing parental demands on the joint venture itself.

Building inter-firm teams for special projects outside of the core of the joint venture enhances the working relationship between companies and allows organization members to get a better understanding of the partner. At the same time, teams facilitate conflict resolution since they develop a common understanding. Creating teams solely for the purpose of getting to know the partner is, however, not recommended, since the people involved often show little commitment to working together.

The transfer of parent company personnel to the joint venture seems to be especially crucial in cases of joint ventures involving technology transfer. When technology is transferred between organizations, employees are frequently personally committed to explaining the complexity and usefulness of the technology to their colleagues.

Synchronize systems and procedures

Once the joint venture starts its operational activities, its managers have to decide on the systems and procedures to manage the company. In most cases the partners have different systems and each partner wants their system to be employed. Therefore, it is necessary to synchronize systems and procedures.

A comparison should be made between the two systems before employing one specific system or procedure.[2] Based on this assessment, the management of the joint venture should decide on two aspects: (1) the usefulness of each system within the context of the joint venture, and (2) the adaptations that will be necessary. The areas of synchronization can be categorized into: (1) operational functions (marketing, finance, R & D, etc.), (2) management systems (budgeting, control, information systems, accounting) and (3) company policies (human resource policies, communication tools, etc.). The degree of synchronization needed in these areas depends of course on the type of joint venture. One such classification is the degree of relatedness of the partners’ business activities, e.g. horizontally or vertically linked in products, markets, technologies or competitive activities. In an R&D joint venture, the technologies of the partners are potentially closely related. The higher the dependence between the partners of the joint venture, the greater is the importance of synchronization in order to create value.[3] Highly dependent joint ventures like product development need more integration between the parents than more basic research joint ventures.

1 Lewis, J. 1990. Partnerships for Profit: Structuring and Managing Strategic Alliances. New York: Free Press.

2 Haspeslagh, P. and Jemison, D. 1991. Managing Acquisitions - Creating Value through Corporate Renewal. New York: Free Press; Bragado, J. 1992. Setting the Correct Speed for Postmerger Integration. Mergers & Acquisitions Europe, March/April: 24-31; Lorange and Roos, op. cit.

3 Bragado, op. cit.

Managing human resources

Since international joint ventures are complex organizational set-ups involving employee groups, considering the human resources is crucial to the long-term viability of the joint venture.[4] A lack of focus on questions regarding human resources can affect the long-term cooperative effort just as much as insufficient financial resources. The way in which people are selected and managed largely depends on the type of interaction the parents have with the joint venture. If a high degree of integration between employees is necessary to create the value anticipated, the greater the importance of transferring people with cross-cultural skills from the parents to the joint venture.

One of the unique aspects of human resources management in joint ventures is, in fact, the cross-cultural nature of the workforce. In these situations, human resources management must go beyond the traditional role and serve as a cross-cultural facilitator, which means developing a higher degree of sensitivity to communication between the various management groups. A recent study has shown that a well functioning team has a tremendous impact on joint venture performance. Reducing conflicts between managers by facilitating communication is the key.

Create space for employee exchange

In order to encourage these interfaces, managers should create “space” for employee exchange, which implies time for informal and formal exchange, e.g. cross-company projects, transferal of employee groups, coffee breaks, socializing activities, sports events, etc. These set-ups create the forums for exchange, which are an absolute necessity for solving conflicts and establishing trust and commitment.[5] As one joint venture engineer mentioned: “When I got to know my counterpart [from the other partner company in the joint venture] personally, we were able to overcome most problems.”

Periodic evaluation

If the joint venture is to survive and provide long-term benefits for the parents, it must be able to accept and manage change. Regular periodic evaluation of the financial and market performance of the joint venture can strengthen the underlying business as well as the relationship between the partners.[6] Evaluation of the joint venture helps to avoid the stagnation and decline from which many joint ventures suffer.

Although joint ventures are sometimes viewed as transitory organizational arrangements, the problem of stability and performance is an issue that must be addressed. While stakeholders generally demand the evaluation of joint ventures using performance criteria similar to traditional organizations, few companies have any specific methods at all for evaluating them. One way of evaluating the joint venture is to measure the performance with respect to the original assumptions in the business plan. This measurement does not, however, consider changes in the plan due to environmental or internal circumstances. Changes may arise from: (1) a change in the competitive environment such as the emergence of unforeseen customer needs, competitors launching new products, establishing new distribution channels or introducing new technologies, (2) changes in the strategic intent of either partner in the joint venture to the extent that the relationship no longer plays a central role for that partner (loss of support by senior management) or (3) changes in the ability of the relationship to function effectively (differences in management style, operational conflicts, etc.) in its designated role.

In order to be able to evaluate the joint venture on a regular basis, a feedback system testing the original assumptions of the business needs to be installed. The timing, method and results of the feedback system[7] should be fixed so the parties can assess the changes. The most commonly used feedback system is the evaluation of the original objectives documented in the business plan. Due to the frequent changes in the context of the joint venture, however, yearly negotiations of a revised business plan should be conducted. This is particularly relevant for 50-50 joint ventures or in contexts where all partners want to actively participate in the formulation and evaluation of its strategic direction. Agreement regarding the criteria for evaluation on a regular basis decreases the potential for dissatisfaction. It also permits a more formal review[8] of the joint venture and allows both partners to be aware of the expected outcome by explicitly testing underlying assumptions. This way the potential deviations from the original projections are recognized each year.

From a joint venture manager’s perspective, a resource contribution assessment is also useful. It entails monitoring the resource contributions by the respective parents. Resource contributions provide an assessment of mutual inputs and allow the joint venture to assess its relative portance to the partners. A relative decrease of resources from one partner in comparison to the other partner is frequently associated with diminishing importance.

[4] Ibid.

[5] Inkpen, A. and Birkenshaw, J. 1994. International Joint Ventures and Performance: An Interorganizational Perspective. International Business Review, 3:201-217; Mohr, J. and Spekman, R. 1994. Characteristics of Partnership Success: Partnership Attributes, Communication Behavior, and Conflict-resolution Techniques. Strategic Management Journal, 15:135-152

[6] Bery, V. and Bowers, T. 1993. Rebuilding an Alliance, In Bleeke, J. and Ernst, D. (Eds.) Collaborate to Compete: Using Strategic Alliances in the Global Marketplace: 67-78. New York: John Wiley & Sons.

[7] The feedback system has to address the following questions: At what time will assumptions be tested? How will they be tested? What are the test results? How are those results going to affect the original assumptions? and What are the implications? Block and MacMillan, op. cit.

[8] The use of a business plan leads to a more extensive review of the underlying assumptions than the planning process within a traditional business unit and thereby increases the likelihood that the partners and the joint venture top management are clear about the expected outcome.

From a parent's perspective, damage assessments provide a review the repercussions of joint venturing in other business units. Essentially, this evaluation consists of highlighting the negative consequences of the joint venture, e.g. damage to the brand or perceptions of decrease in quality. This has to be compared to the expected outcome (positive assessment) in order to be able to weigh the two perspectives and arrive at a decision about the value of the joint venture to the parents.

Develop redesign options

Depending on the outcome of the evaluation, the joint venture may need to be changed, possibly leading to the termination of the relationship or the development of an alternative future project. If the partners have agreed on the need to reconfigure the relationship, they should jointly develop redesign options regarding the nature and scope of the future arrangements.[9] Whereas minor changes are considered to be changes within the set-up (adaptations of the present goals, e.g. redistribution of resources) of the joint venture, major changes are changes of the set-up (change of goals, e.g. acquisition) of the joint venture. In a product development joint venture in the telecommunication industry, shifting from one development platform to another can be seen as a change within the existing set-up. But abandoning one business activity, network development, in order to place the primary focus on software development instead, which led to a change in the ownership structure of the joint venture was considered a change of the set-up of the joint venture.

The spectrum of possible redesign options has to be negotiated between the partners with the objective of finding a new business proposition that combines the strengths and objectives of both partners and makes the joint venture a viable "stand-alone" entity in the future. Since the necessity of reconfiguration frequently causes loss of trust, negotiations are crucial for rebuilding the foundations for continued cooperation. Renegotiation without a cooperation plan that embodies the new opportunities can be harmful, since the frustrations of the past are still present in the partners' minds. Thus, working out a cooperation plan similar to the establishment of the joint intent in the formation stage is a first and recommended step setting the ground for renewed cooperation.

Conclusion

Creating successful joint ventures entails the development of a network of relationships - between the parents, between the joint venture and the parent organizations as well as within the joint venture itself. At the partner level, it is essential for the success of joint ventures to ensure that each have a common understanding of the expected outcome of the joint venture. Evaluating the joint venture periodically serves this purpose and sets the stage for redesigning when needed. At the parent – joint venture relations level, actively influencing the creation of this interfaces is key success factors. At the joint venture level, creating space for employee exchange, actively managing the cross-cultural interactions and synchronizing systems and procedures are important for reducing conflict. By actively managing the linkages at each of these levels, managers can ensure the success of a joint venture and avoid its dissolution. The joint venture will, in essence, be as strong as its weakest link. As a successful manager said, who recently left the CEO position of a joint venture for a more stable, less demanding corporate position within one of the parent companies: "Networking across both parent organizations and continuously selling the value added of the joint venture [seen through the eyes of the partners] were my chief roles. But I always had to remain open to changes in the strategic direction of either parent. Eventually the joint venture changed from a 60-40 to a 81-19 ownership structure. Given the continuous change in strategic direction of the parents, we had to adapt our plans accordingly. That is the inherent nature of the beast."

9 Bery and Bowers, op. cit.

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