Successful Alliances and Joint Ventures

Embrace the Differences to Succeed

Given the level of negative press about alliances and joint ventures – we're led to believe that they are virtually unmanageable due to lack of control, differences in culture and conflicting objectives. While it's true that many alliances have led to more frustration than profit, this is not preordained by the absence of hierarchy and formal authority. In fact, the requirements for success are rather straightforward:

- <u>Common Objectives</u> – that are shared within both organizations
- <u>Leadership</u> – where key operational executives work as partners
- <u>Leverage Differences</u> - in culture and skills to gain competitive advantage
- <u>Working Level Relationships</u> – that are based on mutual respect and direct communication

Organizations undertake alliances to gain mutual advantage in circumstances where an acquisition doesn't make sense. This is most often the case when (1) there is relatively high product and market risk, (2) resource pools can work together effectively without the need for consolidation and (3) it's unlikely that another firm will acquire one of the parties.[1] The resulting alliance may or may not include an equity stake by one firm in the other.

A joint venture (JV) is a form of equity alliance where two firms cooperate through a newly created entity with shared equity, revenue, expenses and control. JV's have often been used as a method to accelerate entry into more restrictive overseas markets.

Regardless of the alliance format, the single biggest obstacle tends to be the absence of command authority – you can't enforce your will based on organizational hierarchy. Instead, much like a good program manager, your success depends upon shared priorities and personal influence. The key question, then, is how do disparate organizations learn to work together effectively?

<u>Common Objectives</u>

The most basic requirement is that you agree on the logic and expected outcomes of the alliance. While this sounds easy, the original vision of the alliance architects becomes tempered by the complexities of actually working together – including unanticipated consequences of the new relationship, the relative enthusiasm of team members with additional workload and the inevitable changes in business priorities over time. As a result, it's critical to clearly communicate why each party entered into the alliance and to update that message as issues arise and conditions change.

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1 – Harvard Business Review article "When to Ally and When to Acquire" by Jeffrey H. Dyer, Prashant Kale and Harbir Singh, July-August 2004.

These principals were experienced first hand in a US-Japanese joint venture. The original intent of the JV was for a US based capital equipment manufacturer to go from a rep organization to a direct presence in Japan. The Japanese partner had relatively small investments in this market and was motivated both by expanding their share and in gaining the expected financial returns. They were effectively a passive participant with the actual business relationship occurring between the JV and a division of the US parent company.

Expectations for product design were that core technology would be transferred from the US with only minor engineering changes made in Japan. Over time, it became clear that JV customers had unique design and manufacturing requirements that were not being addressed by the US parent. As a result, the JV developed their own R&D capability to adapt the product to their market – including design of completely new system modules. Eventually, this technical strength rivaled that in the US. It was viewed with skepticism by some members of the US technical team but was seen as an opportunity by marketing and management. After much internal debate, the US parent recognized that the JV was much more than a Japanese distribution partner and revised their expectations to recognize and incorporate JV designs. The addition of these product features in the US product line led to significant share growth. The new level of partnership re-energized people in both organizations who saw the potential of the combined marketing and engineering expertise.[2]

Leadership

The most critical leadership issues are NOT at the CEO level. The real leverage in the relationship originates with the Vice Presidents, General Managers and Directors that have operational responsibility for the allied groups. These are the people who own the results and set the tone for their respective organizations. They are the ones who refine the CEO's objectives into operational plans and metrics. They must develop mutual trust and communicate unity with their alliance counterparts if there is any hope for the balance of the teams to work together effectively. To succeed, these two leaders need to spend some quality time developing a personal relationship – arms length formalities won't work.

In the case of the example JV, the early years were characterized by just such arms length management – quarterly board meetings and routine reports. The situation was further complicated by the cultural gap, traditional Japanese / US management styles and a growing mistrust between the management teams. The general manager of the JV, in particular, exerted a strong negative influence on the relationship. He had been burned by having to support poor product designs from the US and refused to share information or actively participate in joint meetings.

2- In later years, the JV again demonstrated the importance of maintaining of common objectives and key relationships. The original JV agreement had left Asian markets outside Japan as joint territories. Needless to say, this created the potential for competitive selling activities. While the strong partnership between JV and US managers was in place, these disputes were handled based on customer needs versus the products and service capabilities of JV or US sites. Unfortunately, with rising competitive pressure and without the previous relationships, the joint territory dispute later escalated to the point where the partners were unable to effectively communicate. As a result, they dropped all joint marketing and engineering activity. If common objectives and working relationships don't keep pace with changing business conditions and personnel, the partnership will not succeed.

The situation was dramatically changed when the Japanese and US parents agreed to insert a new JV President. The person selected was a proven leader with strong international experience from the Japanese parent organization. He replaced the disaffected general manager with a very open minded, US educated Japanese leader. Additional senior staff positions were filled by Japanese managers with US education or working experience and English language skills were required for all JV personnel who interfaced with the US.. The US parent hired a new Japanese speaking VP in Tokyo and added Japanese cultural training for everyone in contact with the JV. New general managers in both companies developed a strong relationship, recognized the leverage in sharing resources and took action to create joint marketing and engineering working groups. They began joint development and manufacture of new products – extending the use of Japanese designs to an additional product line and establishing dominant market position.

Leverage Differences

As the saying goes, "Viva la difference". Unfortunately, this is rarely the case in organizations. Quoting an excellent paper by Jonathan Hughes and Jeff Weiss, "Companies ally because they have key differences they want to leverage – different markets, customers, know-how, processes and cultures. It takes most managers in a new alliance about two months to forget this."[3] Their paper includes an example of how attitudes between alliance partners can change over time, "The company valued for being 'nimble' was now viewed as 'sloppy and reckless.' Its partner was no longer 'process driven and quality focused' but a 'bureaucratic dinosaur' unable to make a decision."

Returning to our JV example, the situation described above was clearly evident during the first several years. The US team viewed JV management as unresponsive to requests for information, far too independent and only interested in furthering the objectives of the Japanese. The JV team viewed US management as demanding too much information, attempting to run their business remotely and unwilling to invest in product features required to win in Japan. Only when the new JV President was assigned and changes made in both management teams did people start to see beyond the differences in culture and management styles.

What became evident was that the JV marketing team was very close to their customer's short term needs. As it turned out, these requirements were not unique to Japan and often represented trends that would appear in other regions. On the other hand, JV marketing was not particularly expert at understanding long term technology trends that were not being discussed by customers. From a technical perspective, the JV staff had unique talent for designing automated material handling that was faster, cheaper and more reliable than systems designed in the US. However, they were not as effective in designing the actual process hardware or control system. As you might have guessed, there were complementary strengths and weaknesses in the US.

3 – Harvard Business Review article "Simple Rules for Making Alliances Work", Jonathan Hughes and Jeff Weiss, November 2007.

It was apparent that significant improvement in the relationship and in product performance was possible if the organizations could develop mutual trust, better communication and learn to leverage these complementary strengths. Fortunately, the new operational leaders on both sides, having developed mutual respect and trust, recognized and promoted the value outlined above. They developed an “open kimono” policy of completely sharing marketing and engineering data / designs – coupled with joint, quarterly meetings to discuss recent findings and develop common roadmaps. The joint product development mentioned previously was expanded so that complete subsystems were being designed by one group or the other based on their unique competence. The level of trust had expanded such that these could be manufactured in the same location as designed and then integrated with modules from the other partner. This significantly reduced the development time and cost since each group could focus on a portion of the complete system.

Working Level Relationships

So far we’ve covered the initial requirements for success – common objectives, committed leadership and utilization of complementary strengths. The final element is alignment and commitment by the people actually doing the work. As was the case for the operational leaders, it’s all about relationships. And for the same reasons that video conferencing hasn’t replaced business travel, these require face-to-face discussion and social interaction outside the formal meetings to develop mutual understanding and rapport.

Although all team members should spend time together, the most critical relationships are between peers / counterparts in the alliance partners. These people will need to be in routine communication regarding customers, products and business processes. They will need to bridge the cultural and process barriers between companies. It is essential that their personal goals and objectives include successful partnership and that they spend enough time together to truly understand each other. This level of comfort promotes immediate correction of problems or misconceptions with a phone call. We all know from experience that email, particularly between people without a personal relationship, is prone to misinterpretation which can exacerbate rather than resolve differences.

These observations were very evident in the example joint venture. Early interactions were primarily in formal meetings and by email. Little attention had been paid to building relationships and both sides started to “read between the lines”. Incomplete information meant that they were hiding something. Delays in response meant that they didn’t know the answer or had to seek approval. Misinterpretation of the question meant that they were unwilling to be candid and were deflecting the inquiry. Emotions flared as people on both sides became frustrated and then angry with both the tone of communication and inability to get clear answers.

Once changes were made to clarify objectives and key leaders agreed on the need for closer cooperation, this new approach was cascaded down the chain of command within both organizations. Improved English language skills in the JV and Japanese cultural understanding in the US helped substantially. Visits between sites were increased in both scope and frequency. Peers were brought together at quarterly planning sessions that included ample social interaction. People were encouraged to communicate by phone when discussion and decision making was required and reserve email for routine and data intensive transactions. In the case of joint engineering projects, data and design documentation was transferred between groups on a daily basis so that engineers on both sides of the interface could critique and incorporate new information in real time.

The result was an almost immediate increase in esprit de corps within and between the groups. People highly valued the new relationships and found it very rewarding to get a new perspective on common business problems. This new level of cooperation was essential to the success of joint product development. These working relationships allowed both parties to leverage the underlying potential of this international alliance - resulting in rapid development of highly competitive products that could, as a next step, be manufactured and supported seamlessly anywhere in the world.

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Let's face it, alliances and joint ventures have a well deserved bad rap. They're not easy and don't fit within our normal management approach. When they can add significant competitive advantage to the partners, however, it's worth investing some energy to make them work. They can be very effective if business leaders drop the expectations of direct control and instead focus on mutual respect and using their unique competencies to realize competitive advantage.

Robert Klimm is President of Strategic Edge, LLC, a management consulting firm working with technology based companies on strategy, acquisitions and product differentiation. Bob is a former VP/GM for MKS Instruments and graduate of the Sloan School at MIT.