Strategic alliances

Aspects, chances, risks, reasons of failures

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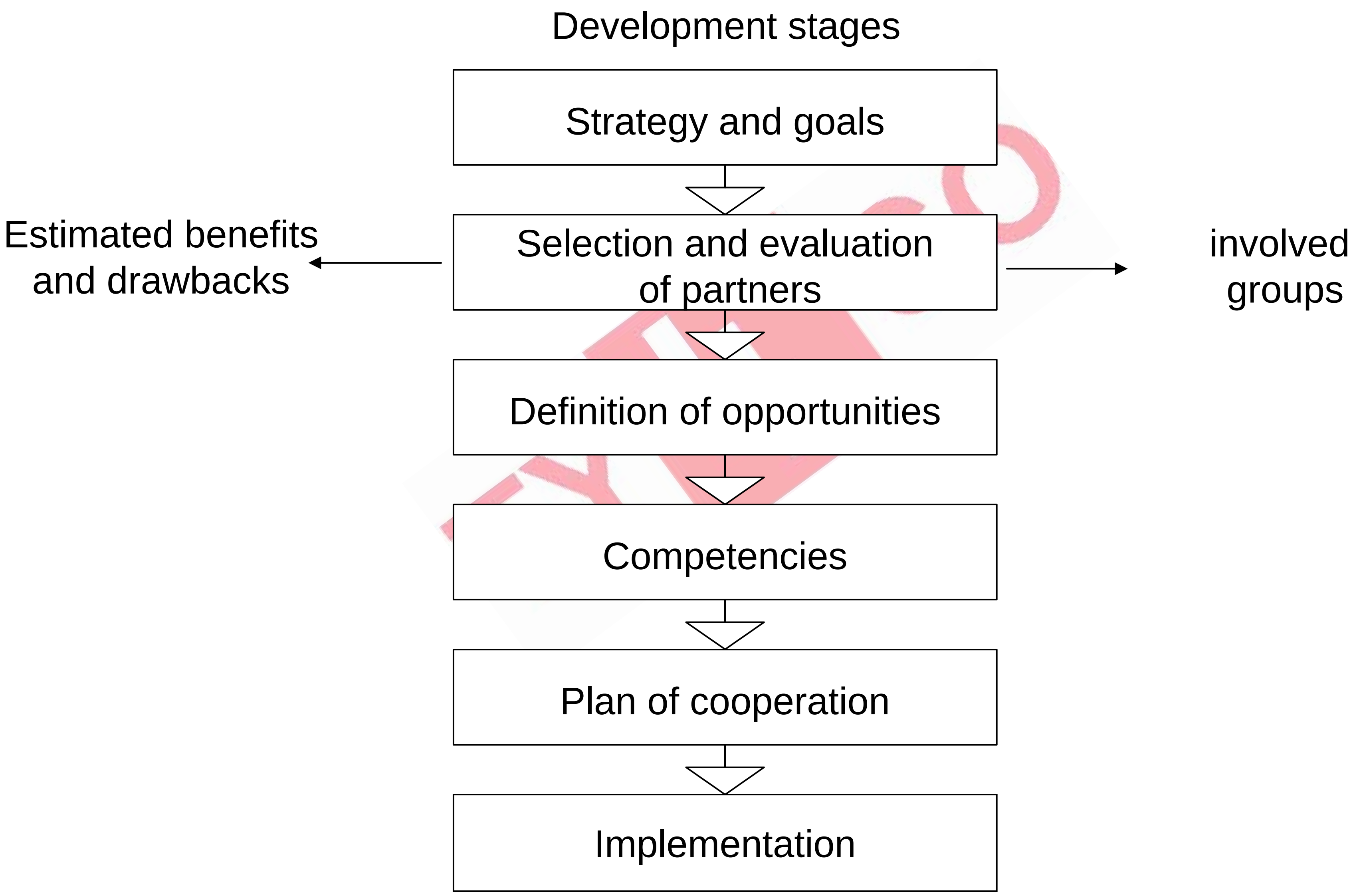
Joint venture success factors

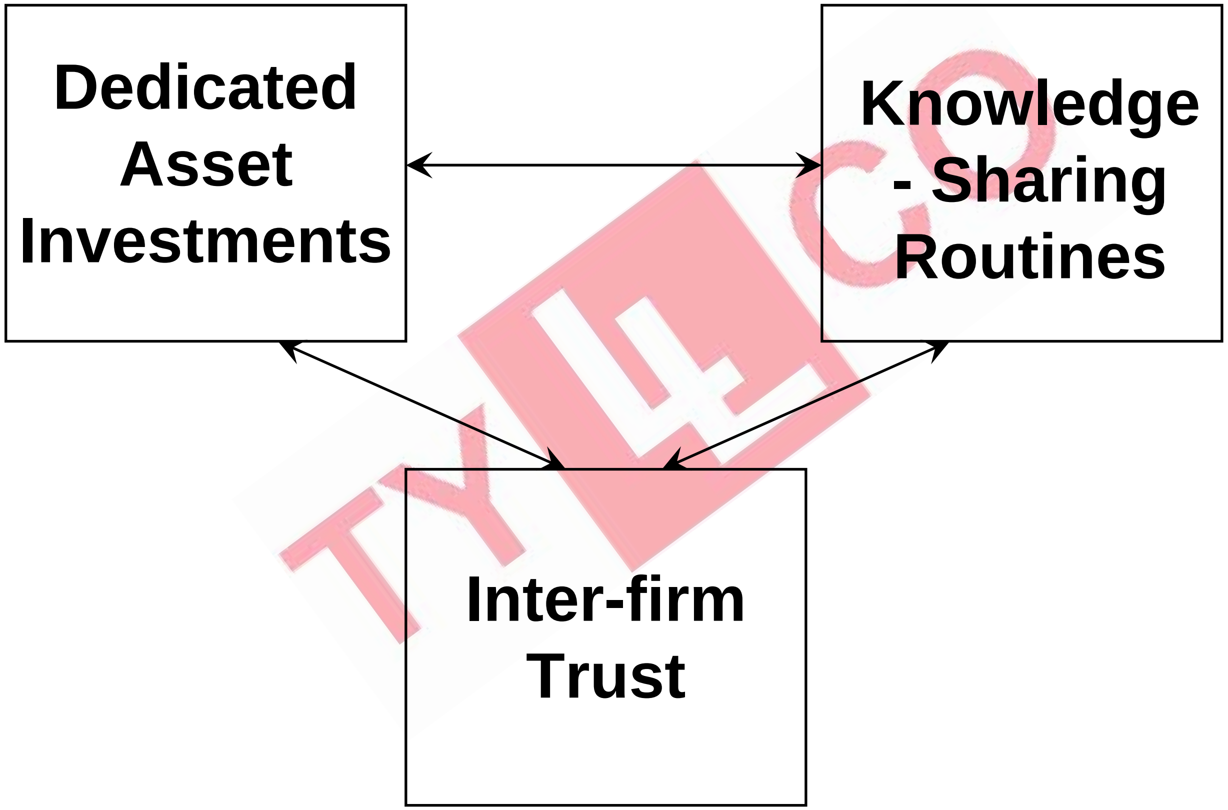


Joint venture success factors

Rules to achieve desirable success

1. Implement – not only integrate
2. Pay attention to any detail
3. Create highly effective teams
4. Act quickly

Joint venture success factors



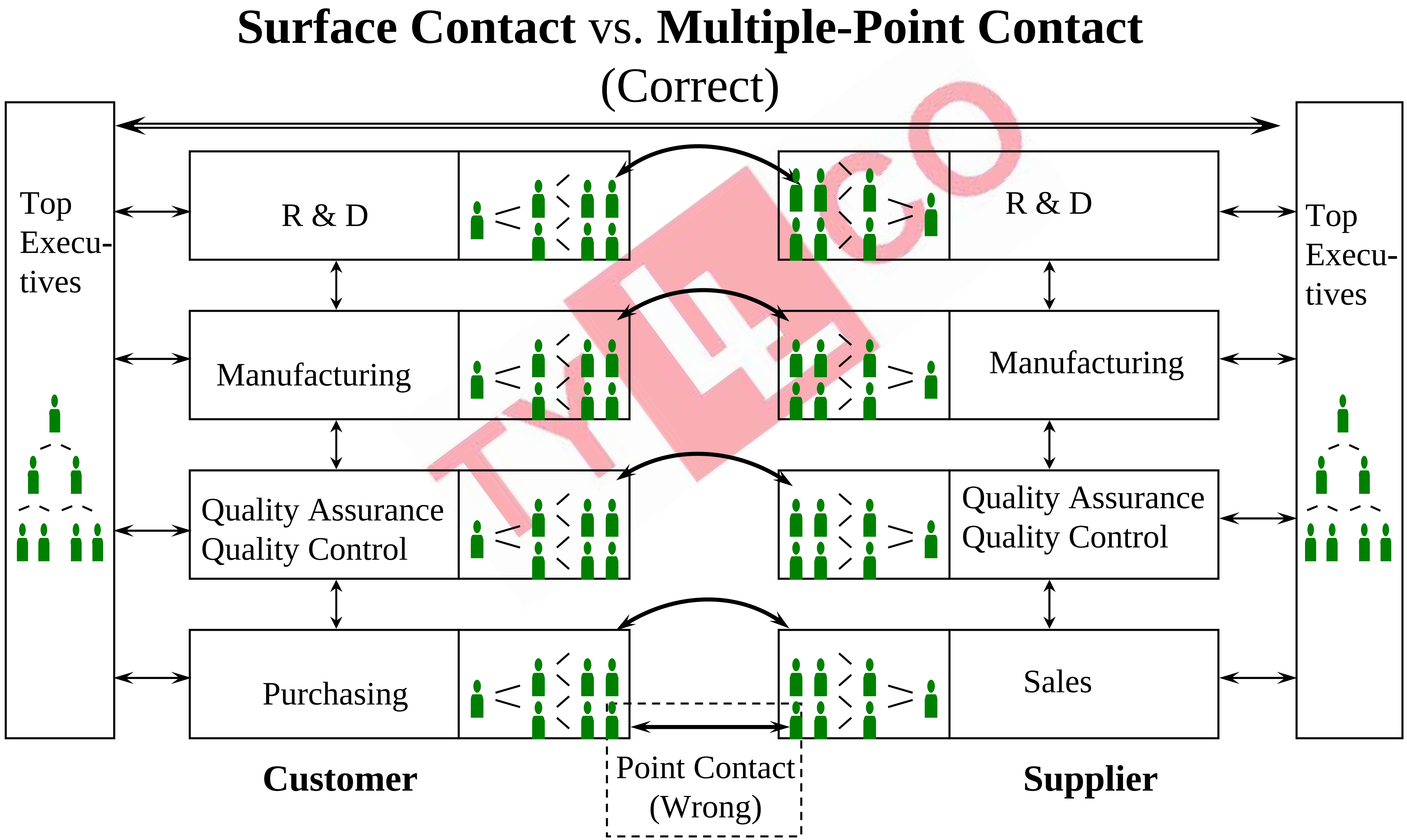
Joint venture success factors

The value of trust

- **Increases** learning **(greater information sharing)**
- **Increases** customized investments
  (willingness to risk tailored investments)
- **Increases** speed **to quickly respond to market changes**
- **Lowers** transaction costs

Joint venture success factors

Create multiple interfaces to facilitate learning throughout the network



Joint venture success factors

Dedicated/customized asset investments

- *Dedicated Site Investments*
  (locating plants in close proximity to economize on inventory, transportation, coordination costs)

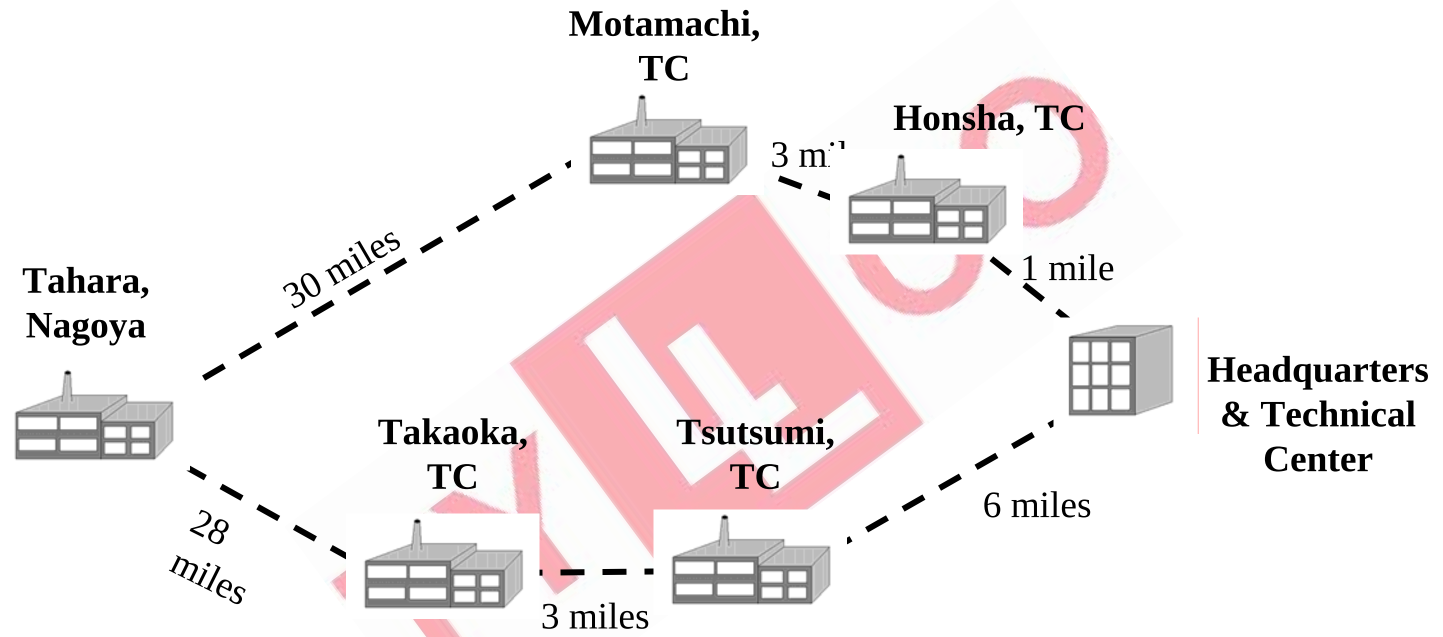
- *Dedicated Physical/Process Investments*
  (making relation-specific capital investments in machinery, tools, processes)

- *Dedicated Human Investments*
  (dedicating personnel to develop relation-specific know-how and improve communication/ coordination)

Joint venture success factors

Dedicated/customized asset investments

Toyota Plant Configuration in Japan*



Affiliated Supplier Plants

- Avg. distance of 30 miles
- 43.5 weekly deliveries
- 10,635 man days of face-to-face contact
- 12.5 guest engineers

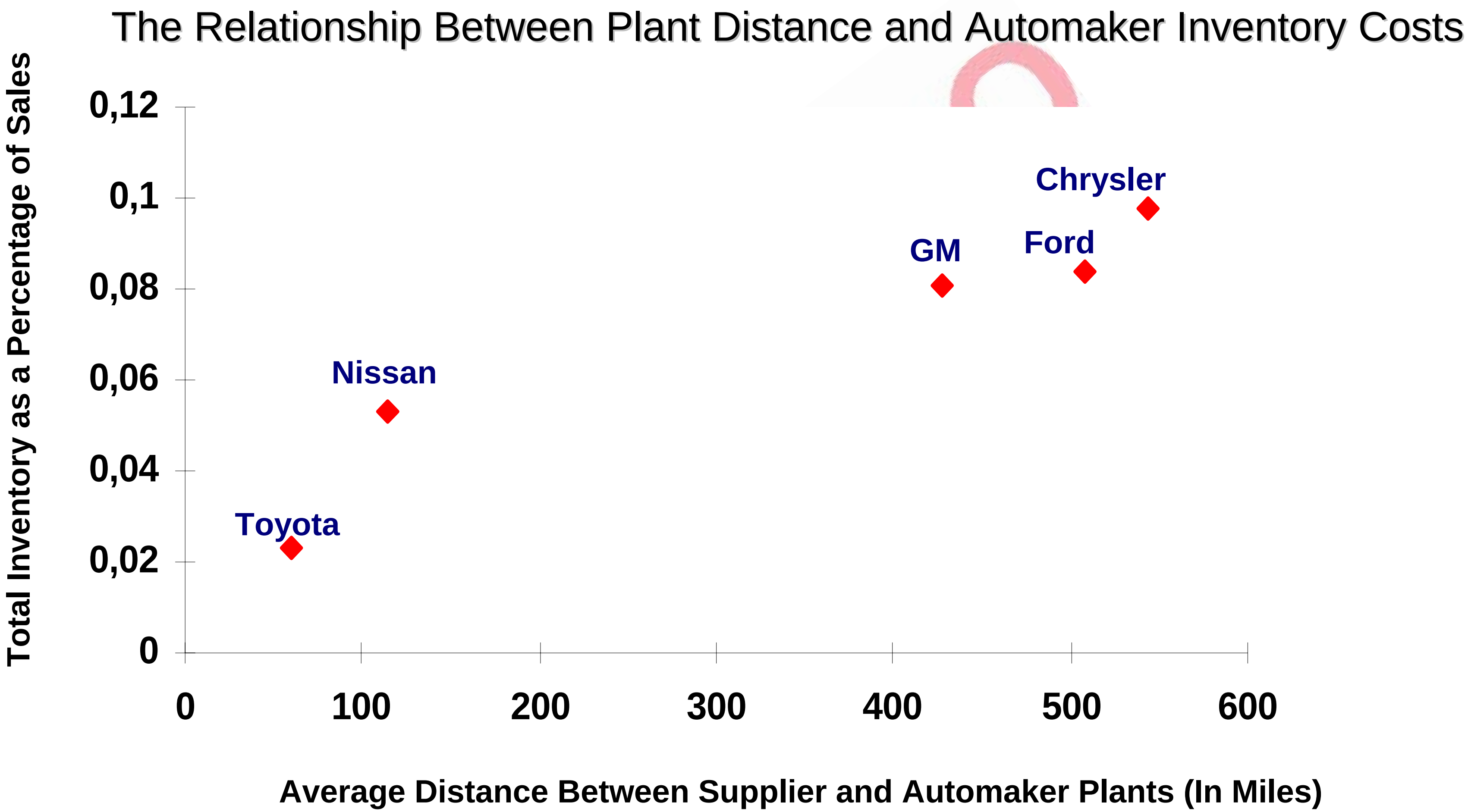
Independent Supplier Plants

- Avg. distance of 87 miles
- 40.5 weekly deliveries
- 3,764 mandays of face-to-face contact
- 2.6 guest engineers

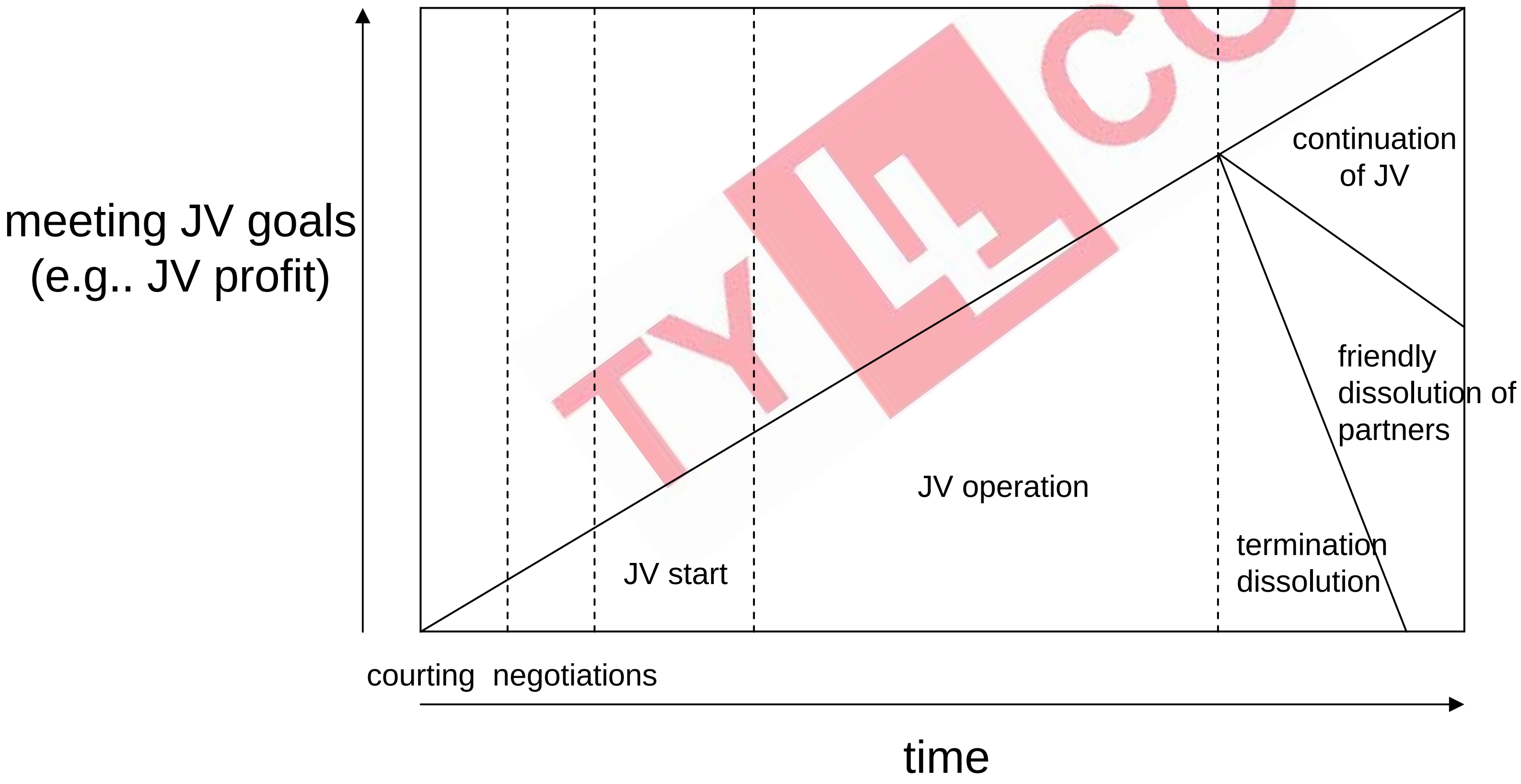
* 1992 All plants are in Toyota City (TC) or Nagoya

Joint venture success factors

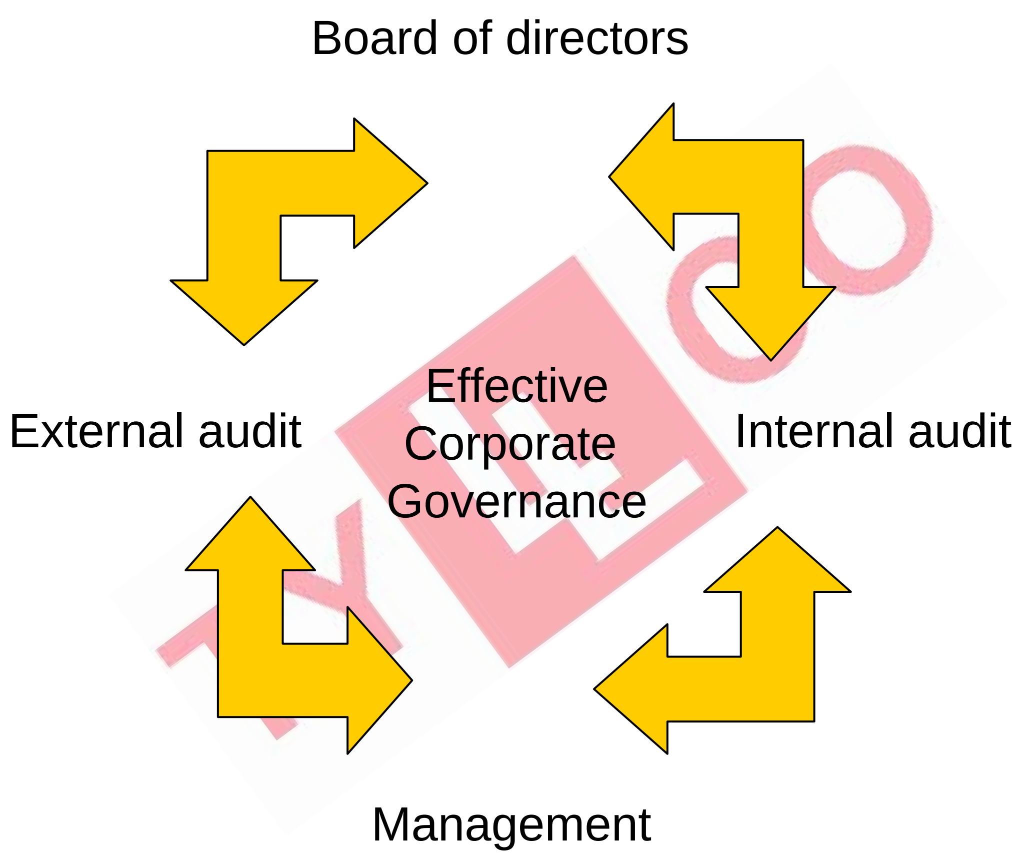
Dedicated/customized asset investments



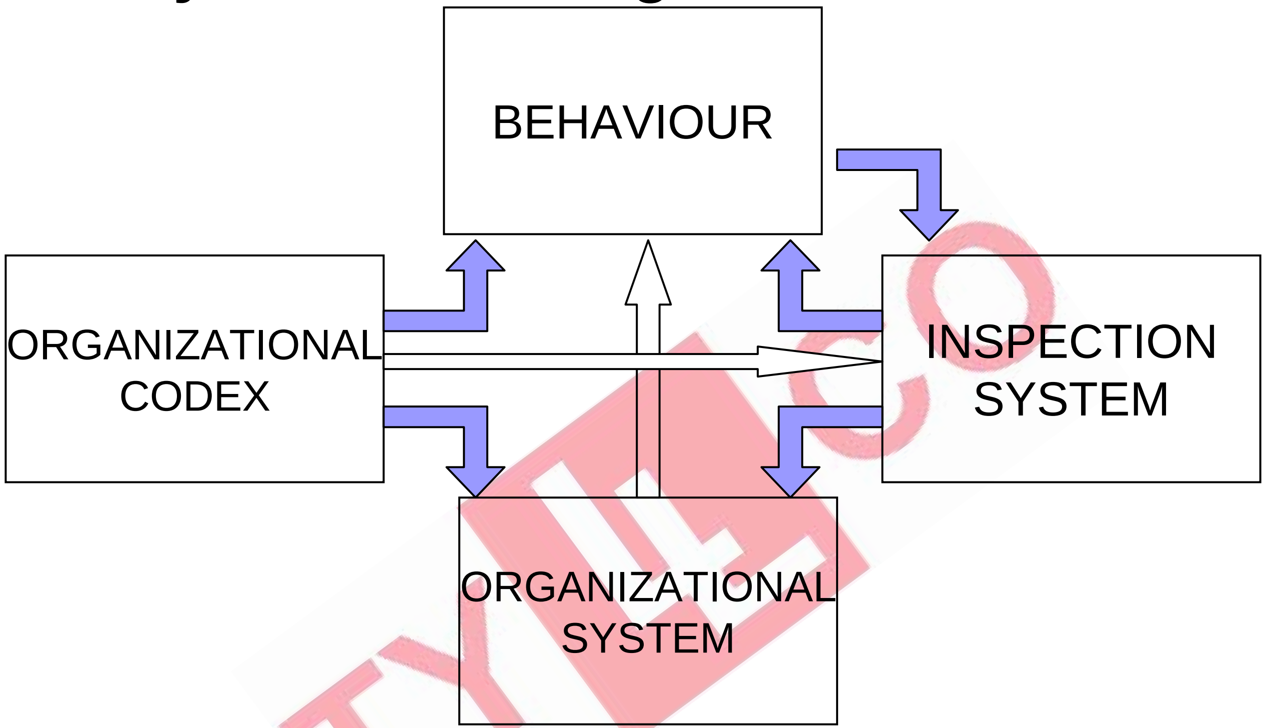
Joint Venture Life Cycle



Corporate Governance in Joint Venture



Preventive system of the organization



Preventive system of organization consists of:

- ethical codex of the organization
- employee training
- information (communication) channels
- responsibilities
- investigation and sanctions
- feed back

Potential conflicts in Joint Venture

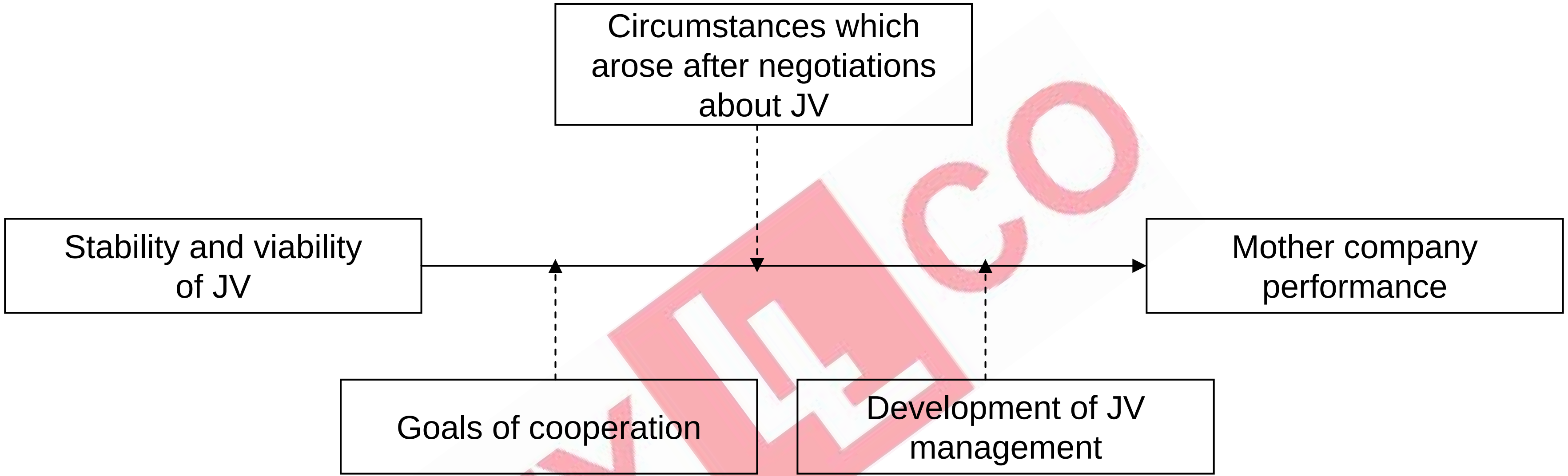
Internal

- setting transfer prices
- quality of joint venture agreements
- language (misunderstandings)
- unequal business opportunities in different countries
- management qualification
- profit split problems

External

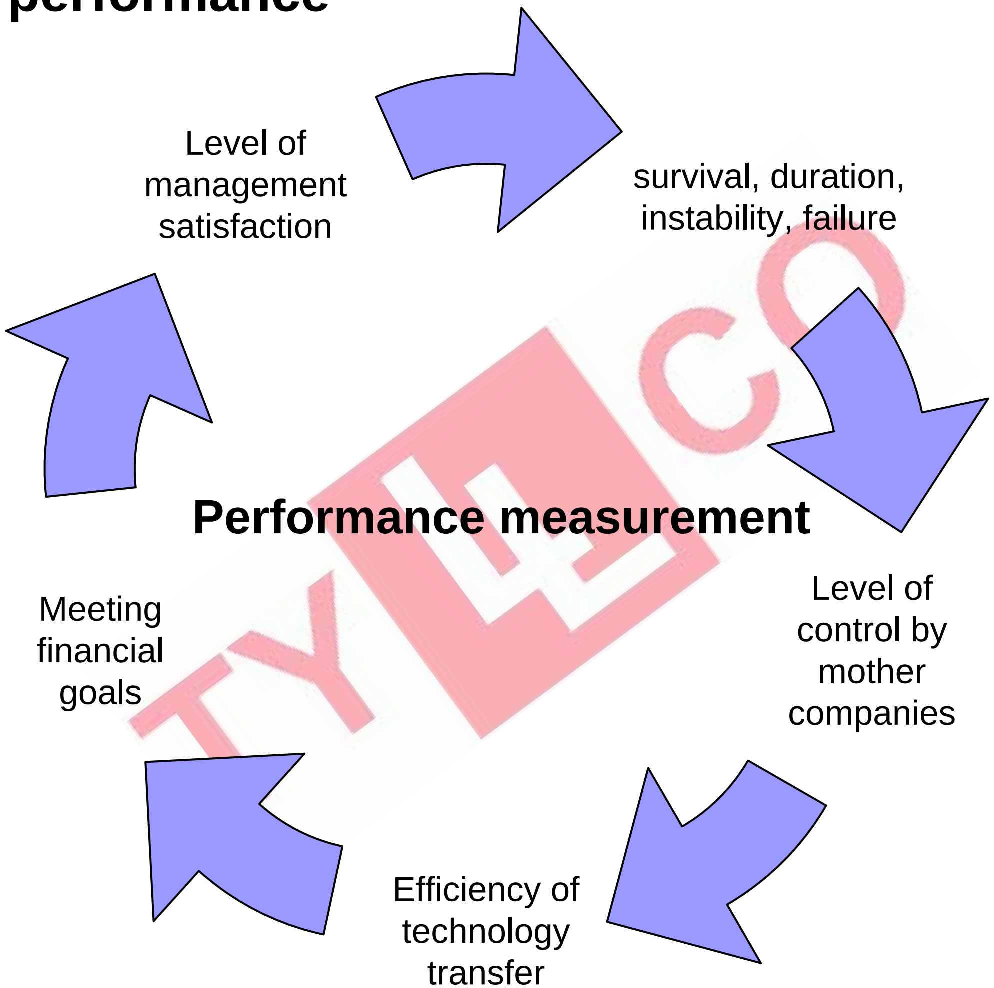
- infrastructure in the host country
- taxation
- continuity of raw material supplies
- social and wage policy
- macro-economic changes
- corruption and bureaucracy
- inflation growth
- economy growth

Measuring JV and mother company performance



Measuring JV performance

Whose point of view



Measuring criteria

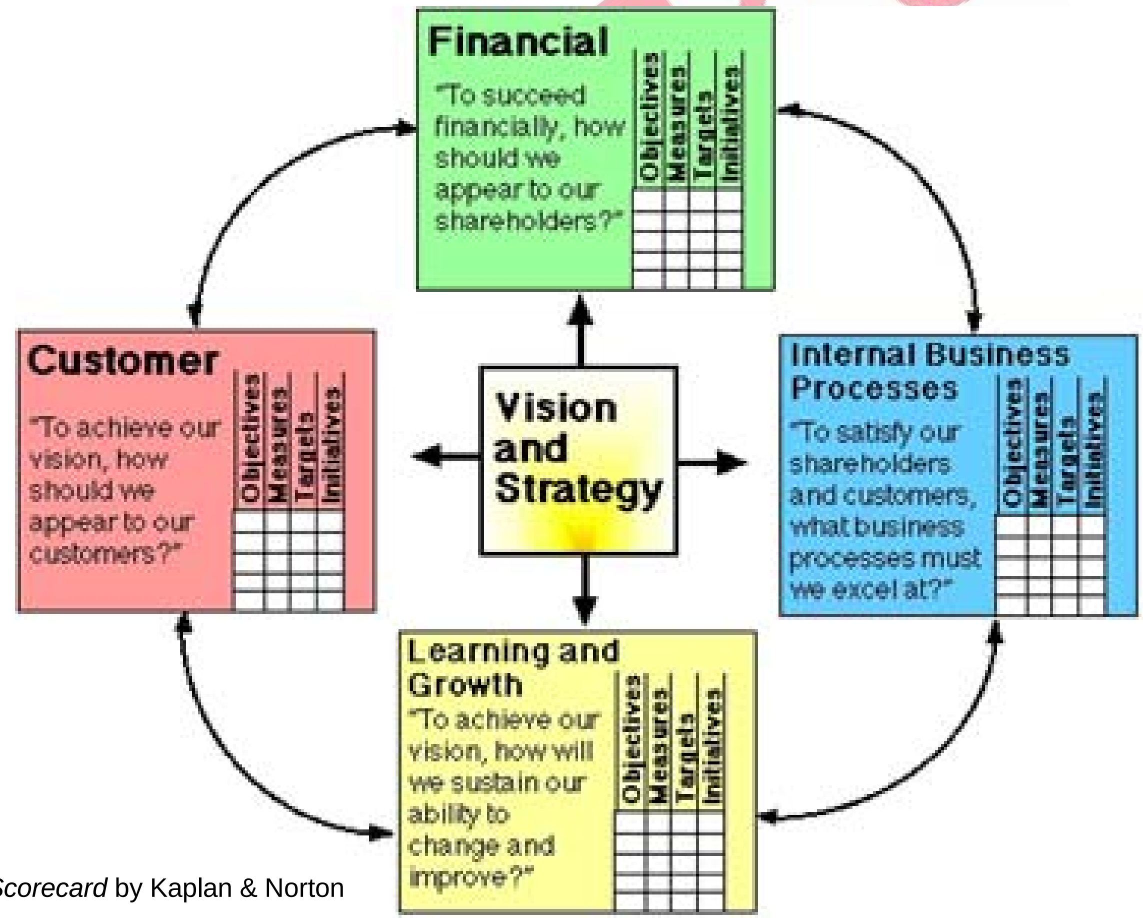
different measuring criteria in different development stages of JV

Measuring JV performance

ROI

and/or

Balance Scorecard



Adapted from *The Balanced Scorecard* by Kaplan & Norton

Example of multi-dimensional measurement of JV performance

	Goals	Parameters of goal performance
Partner A	Technology transfer	No. of transferred patented technologies Quantity of installed innovative equipment No. of newly technically educated workers
Partner B	Market penetration	No. of contracts with local customers Access to a local distribution network Brand knowledge (recall) Market share, market share growth Sales growth
Partner A and B	Enterprise growth	Sales, assets, employees growth, Growth of enterprise regarding to sector growth Profit repatriation
Joint Venture	Operation efficiency	Quantity and quality of manufactured products Labour productivity ROE, ROA, ROI Employee satisfaction

Measuring JV performance

Partners satisfaction with JV operation

JV Performance		High satisfaction of both partners	High satisfaction of only one partner, second dissatisfied	Dissatisfaction of both partners
	High	No need to change	Modification of structure, aims, business plan	Adjustment of structure, aims, business plan
	Low	Adjustment of structure, aims, business plan	Modification of structure, aims, business plan	Total modification of structure, aims, business plan Project termination

Joint Venture instability factors

- Conflicts between partners when managing JV
- Cultural differences
- Ownership share and share of JV control (management)
- Changes in partners goals, ownership, financial problems etc.
- External factors

View on division of JV partners benefits

4R Principles

- Responsibilities (responsibility for creation and operation of JV)
- Resources (invested and used own resources)
- Risks (size of negative risks faced by JV partners)
- Rewards (achieved benefits)

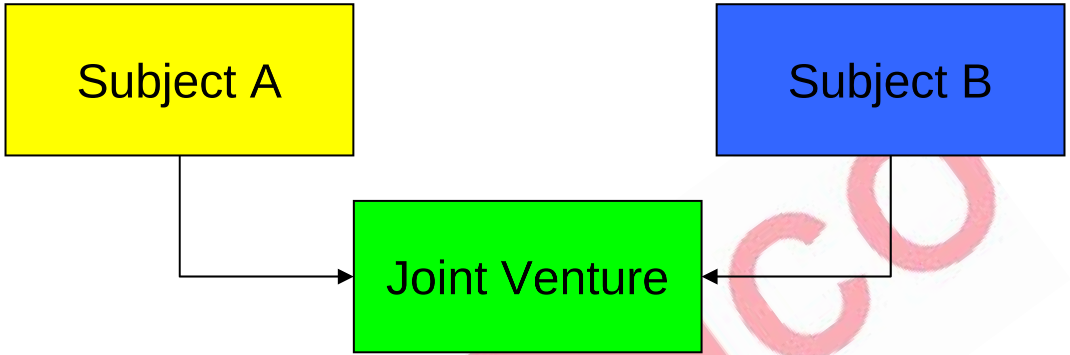
Joint Venture Termination

Reasons:

- „Morning soberness“ (Martini merger and the morning after)
- Changes of one partner's strategy
- Inability to meet second partners expectations
- Failure of one of the partners to meet its financial or other liabilities to JV
- Breach of a JV contract by one of the partners
- Meeting all strategic goals of JV

Ways of termination →
- acquisition of one partner's share
- company liquidation
- change of company structure

Termination of JV by acquisition



1. A tents to sell its share in the JV
2. A presents its intention to B
3. A has to set a reasonable price for JV shares

A and B do not close a deal

4. Share price would be set by independent experts and B has the possibility to buy shares at this price
5. If B decides no to buy shares, A has a 6 month time when it can sell these shares to third persons at minimal level of their nominal value
6. If A would have to sell its shares at lower price than previously offered to B, B would have the right of primary rejection of buying these shares.

Other possible ways to terminate JV - acquisition

Measure „Russian roulette“

a) A wants to sell shares to B
   1) A offers its shares to B at price set by A
   2) if B refuses to pay this price, A has an obligation to buy shares from B at the same price

b) A wants to by shares from B
   1) A offers certain price to B for its shares
   2) B is not willing to sell and thus it has the obligation to buy A´s shares for the same price

Measure „shoot out“

- every party sends its bid to potential share holder

Use of „put option“ or „call option“