

Two's company in a cold climate

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It may be more difficult than ever for companies to grow, but investors still expect it. So, while credit is down and money's too tight to mention, joint ventures are on the rise.

Companies don't like standing still, even when there's no credit to be had and even less spare cash. For this reason, instead of plunging into new markets alone, some believe that joint ventures could be the way forward for businesses seeking to expand against economic odds.

Recent headlines support this, as we see Fiat's joint venture with Chrysler saved that American carmaker, and Gazprom's numerous foreign joint ventures have made it a formidable player worldwide. Noticing an upswing in such activities, KPMG commissioned [IESE's Center for Globalization and Strategy](#) to take a closer look at why companies team up and what makes a successful project.

The authors speculated that limited funds were a possible key driver behind why companies collaborate. Co-opting skills mastered by others is a lot easier and cheaper if you work with them, as opposed to acquiring the knowledge yourself. The same goes for entering new markets already occupied by possible collaborators. Now more than ever, two wallets are better than one, so having a partner can help out a lot with the financial side of things.

To put these ideas to the test, IESE professors [Africa Ariño](#) and Pinar Ozcan, together with KPMG's Doug McPhee and Carsten Heckemüller, asked more than 100 CEOs, CFOs and senior executives worldwide about their recent experiences of joint ventures.

The results suggested that the recent craze for joint ventures shows no sign of abating.

Companies were very satisfied with the majority of their past joint ventures, and even those that weren't were keen to continue doing them.

However, partnering is not all roses. The study uncovered some valuable lessons learned the hard way, and the authors make some practical recommendations based on them. For example, firms must be transparent with one another from the outset, and good organization is essential.

Why two's company

Firms cited several reasons for partnering, all of which seem more relevant in tougher economic times. The three main motivators were:

- *Gaining greater market share.* Working with the competition can help a company become more established and gain access to more resources.
- *Reducing costs* was cited by nearly half of respondents, as companies share expenses and pool resources.
- *Getting a foot in the door of foreign markets* was the third most cited reason. High-growth countries provide great money-making prospects, but joint ventures with homegrown companies are the best way to gain access to them - particularly as economic protectionism sets in.

A problem shared?

There were plenty of good reasons for undertaking a joint venture, but sometimes two companies can mean double the trouble. The researchers investigated key difficulties during both the negotiation and operational stages of a partnership, and found:

- *The partner's contribution* was particularly contentious during negotiations. When parties are seen to be holding back on information such as financials, co-venturers can't be sure of what they will actually give to the project.
- *Agreement on objectives* was the least of CEOs worries during negotiations but became the greatest challenge later.
- *Management control* was a prominent problem throughout the joint venture.

The researchers found that with some challenges, such as commercial aspects of the contract, renegotiation was the only answer and usually produced a satisfactory response. Among other things, this suggested that companies should take more care during initial

negotiations to save backtracking.

Secrets of success

So, what makes a partnership work? Well, the same ingredients as in any healthy relationship:

- *Trust*. Companies all too easily forget that joint ventures are win-win deals, not mergers or acquisitions, so there's little point in being cagey.
- *Partners' strategic compatibility* is essential. The management team needs to have the same goals.
- *Communication* between partners. Co-venturers must be clear about their intentions before and after the project is up and running.

Company seeks partner for joint venture

The authors investigated how a company goes about finding its perfect match and how the different methods of doing this affect a joint venture's success.

By far the biggest percentage of firms actively went out and sought a partner. However, those who built on an existing relationship turned out to be more satisfied with the resulting JV, since there weren't so many issues involving trust.

Once you have a company to work with, the next stage in a joint venture is negotiations. The researchers found that most companies assembled their negotiations teams from mainly high-ranking management and finance. This proved to be a wise step, since a wide majority of companies that included the top brass at this sensitive stage were happy with the outcome of the venture.

Final words of advice

In the past, joint ventures have been regarded as a tricky way to expand operations, the perception being that they are difficult to control. However, this study shows that many CEOs are now keen to continue building partnerships, particularly abroad.

Therefore, the research team drew up a list of things to consider before going ahead with a project of this nature, including:

- *Look at the relationships you have* before looking elsewhere for a partner. The

adage, "a bird in hand is worth two in the bush," is very true here.

- *Trust between parties* is the most important factor for a successful joint venture. If you don't want to give up company secrets at the beginning, there are specific ways of handling commercially sensitive information.
- *Manage the relationship* with your partner carefully throughout the venture. Ensure you have shared objectives through continuous communication.

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