Joined-up Thinking

A joint venture can be a fantastic way to make a significant impact on a new market. **Criticaleye** *explores how to ensure the politics of partnerships work so that the right results get delivered*

Optimism is the lifeblood of driving a business into a new territory. But when forming a partnership through a joint venture, a healthy dose of cynicism is required as no one wants to be locked into an agreement where targets are missed and a supposed partner is manoeuvring to your disadvantage behind the scenes.

"Joint ventures have given me the most frustration and the most fun," says **Bryan Marcus**, Regional Director, South America Region, Volkswagen Financial Services AG. This reflects a wider view that a smartly-judged partnership can be a formidable way to establish a presence and accelerate growth, but there is also plenty of scope for tears and disappointment.

Robert Bailey, President and CEO of travel specialist Abacus International, says: "You don't want to get into an arrangement where the expectations or interests of both parties start to diverge. You need to have a forum and regular meetings to review the business and partnership objectives to make sure they are on course and alive. You must have the sufficient authority to take steps if something needs to be adjusted."

The basic principles – all too often ignored in the excitement of a deal – for keeping a JV on track are:

- Have an escape plan
- Work hard at the relationship
- Get the governance right
- Take nothing for granted
- Set performance targets

Geraint Anderson, CEO of TT electronics, comments that "the first thing in any JV is to establish an exit plan as, if anything goes wrong with the relationship, you clearly need to understand how you will cope with it".

Bryan agrees, noting that there's no room "to be full of English embarrassment about having a pre-nuptial agreement – not only at the starting point but if it isn't working you will want to have a graceful and painless exit".

POWER OF TWO

If the terms and conditions are right and both parties believe they are on the same path, the potential for expansion can be rapid. **Mark Hunter**, CEO of Airclaims Holdings, says: "We're not big enough to have our own legal entity in every geographical region that we're required to be working in so, for us, using representatives or agents and essentially entering into a joint venture with them, is an absolute must as it's our first route into a region."

Graeme Butterworth, General Manager of Global Process Services at IBM, says: "Trust, integrity and a two-way partnership are essential factors. In general, partnerships are dictated by the nature of the market but, whether you are going into China or elsewhere, you always need to pick a partner that will create agility on entry and be with you for the long run. Having partnered with many smaller growth firms in the last 15 years, we know that speed and access to markets, scalable services, business continuity and management are all absolutely vital."

THE NETWORK OF LEADERS
CRITICALEYE

Don't mistake compromise for a lack of long-term thought

The goal, according to Geraint, is to be looking for a "win-win". He says: "Both sides have to be looking to gain something and you must make sure that is very transparent early on. If one partner tries to get one over the other, it never works."

MARRIAGE OF INCONVENIENCE

Inevitably, there are varying degrees of "win-win" as compromises have to be made. Robert says: "Sometimes the strength of the partner outweighs the cultural fit so you have to adapt – it depends on how influential and strong that partner is. In terms of making the business successful at an operating level, it's very important that the key executives and staff are going to be interacting with one another and can communicate from the point of view of language and commercial focus; often, they can have diverging agendas."

Mark comments: "When you go into a new territory for the first time, it's not always easy to give the partner sufficient reward and remuneration and to get them to sign up to terms like an exclusivity agreement; there is no guarantee that the same partner is not also going to service the needs of one of your direct competitors.

"It doesn't happen often because, if you strike up the relationship strongly and early enough, they know they can trust you to give them sufficient work to make it attractive to them and you know you can trust them to serve the needs of your company. It's all about trust and building the business together."

Jo Sellwood, Founder of executive service firm Mullwood Partnership, says: "The people involved with building global partnerships must make sure the cultural fit is considered from the outset, as the cultures may often be widely different... You must be clear in what you are trying to achieve, with a tangible output and milestones, and you must communicate it elegantly, providing plenty of opportunities for people to ask questions."

There are no shortcuts. "Forging a relationship can be very difficult," says Mark. "Over the years, we've done it successfully by building up a relationship with a local firm and normally it works. You test them out and get some honest feedback from clients that have used them; if they're not happy, they will normally tell you."

CHANCE YOUR ARM

Every JV contains a large element of risk and this won't be eliminated entirely by a robustly negotiated set of terms and conditions. **Chris Merry**, the former CEO of Matrix Group and Whitehead Mann, has his reservations: "Don't mistake compromise for a lack of long-term thought. In terms of the business structures that are successful for the long term, very few would reference a joint venture. They are useful for putting a toe in the water, experimenting and trying a market for the first time, but for a business with no defined time limit or purpose for a JV, you may as well operate through an agent, distributor or another type of third party."

Laura Haynes, Chairman of brand and communications company Appetite, says: "You have to make sure that you are not simply being driven by a commercial opportunity which could be sustained by exports. Ask yourself: is the destination market part of your overall strategy? Will it add value to the rest of your organisation and be sustainable?"

In essence, assume nothing and accept that cracks can appear if results are either going badly or surpassing expectations. The fact is that the CEO needs to be engaged and have people on the ground involved who he/she can trust to provide an accurate picture of how the arrangement is faring.

Bryan says: "My personal approach is to be hands-on with the stakeholders in the JV all the time. The initial set up can go well, normally because everyone is enthusiastic and sees the opportunity. But there can be a slow erosion of that enthusiasm over a set period and that is why I, whether it's at a board or operational level, like to be in contact so I know how the partners are feeling about the relationship rather than just hearing it second-hand."

Given that commercial gain is the objective, you have to be alert to anything that may alter the dynamic between both parties. Bryan continues: "People can rely on the terms and conditions too much. You have to understand where the cultural and strategic differences and overlaps might be and also be realistic and accept that there is a bit of mutual benefit here – it's not done for altruistic reasons."

If this is kept in mind, there is no reason why a JV can't give you an enormous boost and speedy point of entry into a new market.

Featuring commentary from:

Geraint Anderson
CEO
TT electronics

Robert Bailey
President and CEO
Abacus International

Graeme Butterworth
General Manager
Global Process Services, IBM

Mark Hunter
CEO
Airclaims Holdings

Laura Haynes
Chairman
Appetite

Bryan Marcus
Regional Director
Volkswagen Financial Services AG

Chris Merry
Ex-CEO
Matrix Group

Jo Sellwood
Founder
Mullwood Partnership

Contact the contributors through www.criticaleye.net