Come together

A study by *Sharif As-Saber* focuses on the role of six management control variables that contributed to the success of nine Indo-Australian joint ventures.

There are few better foreign investment vehicles for western firms operating in developing regions than the tried and tested international joint venture (IJV). After all, joint ventures need a lot less parental management control than say a wholly owned subsidiary, but probably more control than a licensing deal.

A study into the success of nine Indo-Australian IJVs was recently conducted with the aim of getting better understanding of the impact of various management control variables on their success.

SHARING OF DECISION-MAKING

Management control through a balanced sharing of decision-making is important to the success of any IJV and the IJV's objectives should override individual objectives of the parent firms. In six of the nine IJVs in this study, major decisions are made/guided by both parents, whereas in the remaining three, decisions are made by IJVs with some policy guidelines from the parents. Decisions, therefore, are significantly shared between the parties. All interviewees acknowledged the importance of sharing decisions to the success of an IJV.

LEVEL OF FLEXIBILITY

This deals with the extent of freedom given to the joint venture management by its parents and the management roles of each partner. Flexibility allows joint ventures to overcome problems and to adapt to necessary changes over time. Overall, the response-set agreed that giving management the flexibility it needs was very important to success. The success of flexible German firms in India suggests flexibility of foreign companies is a key success factor. A sample of 71 IJVs in India and Pakistan in 1970 found that a more relaxed attitude toward control delivered higher levels of profitability but that the parents must retain a clear recognition of the venture's ongoing performance.

LEVEL OF EQUITY

The level of equity participation can influence the level of management control. There are, however, contrasting views on the relationship between the probability of success and the level of equity participation. Consider the impact of ownership split on the IJV control: is a 50/50 split a better option than an asymmetric ownership structure such as 51/49 or 65/35? A multinational company will obviously maintain an effective control over an IJV if it owns a majority of the venture's equity.

Overall, the importance for management control of the level of equity participation got a mixed response, with most of the IJVs and their Australian partners not considering it that important while most of the Indian hosts saying it was. When asked about such an outcome, one of the Australian parents said: "We believe in consensus and team spirit rather than competing for control over the equity issue. We know our strengths and those of our partners. We consider mutual understanding and trust more important than taking advantage of owning majority share."

This remark is consistent with the observation that any attempt made by a partner to manipulate the decision-making process based on relative ownership of the joint venture can adversely affect the relationship with the venture and ultimately its success. Minority ownership does not mean sacrificing control and one can have control without ownership. Equity ownership may provide only an illusion of control, whereas actual control can come through other avenues such as the composition of the joint venture board, contrac-

Table 2: How the control variables affected IJV success

Control variables affecting IJV success	Significance rating[1]: Australian parents				Significance rating[1]: Indian hosts[2]				Significance rating[1]: IJV management			
	S	M	Z	N	S	M	Z	N	S	M	Z	N
Sharing of decision-making	7	2	-	-	10	-	-	-	9	-	-	-
Level of flexibility	6	3	-	-	8	1	-	1	8	1	-	-
Level of equity	2	2	5	-	5	1	4	-	2	1	6	-
Level of technology contribution	5	3	1	-	7	3	-	-	8	1	-	-
IJV board structure	4	4	1	-	10	-	-	-	5	4	-	-
Sharing of IJV personnel	1	3	5	-	-	-	10	-	1	2	6	-

Key
S= Significant impact
M= Moderate impact
Z= Zero impact
N= Not Applicable

Notes
1 Level of importance shown is on the basis of respondents' views. Numerals used denote the numbers of firms falling within respective categories.

2 The number of host companies is 10 because of two host partners for Tel-Comm IJV.

Table 1:
Indo-Australian joint ventures studied

IJV	Location	Industry
M-Tel Co	Kolkata	Telecom
Tel-Comm	Delhi	Telecom
A-Con Lighting	Mumbai	Lighting
Tech-D Construct	Bangalore	Construction
Pi-Fri Brakes	Kolkata	Railway Brakes
Geo-Soft	Pune	Software
Goj-Pac IT	Mumbai	IT
Ind-Man	Delhi	Ash Handling
AC-CR Mining	Bangalore	Mining

Please note
Actual names not used to protect privacy

tual veto rights, possession of the core technology, and so on. Many firms seek majority ownership because they intend to achieve substantial management control. Majority ownership might allow decisions to be made rapidly in response to market or product developments and thus avoid costly compromises or decision-making deadlocks. Equity level is perceived to have an impact on IJV management control, which, in turn, is likely to affect its success.

LEVEL OF TECHNOLOGY CONTRIBUTION

The level of technology contribution can be critical. This is particularly so with licensing agreements where the joint venture cannot operate effectively without a license and where the license can be terminated by the international company.

This makes the significance of the license for control obvious. All our interviewees supported the proposition that the level of technology contribution influences IJV success and most of the respondents felt this was an issue with the IJVs slightly more positive than the Australian firms and their Indian counterparts. A possible explanation may be that the extent of control from the technology contribution is likely to affect the IJVs directly because they implement the licensing agreement and follow instructions from the contributors with respect to the possible implementation mechanisms.

IJV BOARD STRUCTURE

One of the mechanisms to obtain management control in an IJV is through a majority representation on the board of directors. However, because of the tendency for making major IJV decisions by consensus, majority representation in the IJV board may be relatively unimportant. Results from a study of nearly 20 joint ventures in 1976 showed that the majority equity shareholders are likely to have managerial control in a joint venture since they have the right to dominate the board of directors.

Most of the respondents indicated that the IJV board structure influences success with a little more support coming from Indian companies. The majority of the IJV boards surveyed were evenly split.

SHARING OF IJV PERSONNEL

Control through staffing and staff loyalty is another important issue with key positions such as General Manager playing an important role. A study in 1998 found many foreign companies exercise control over Indian IJVs through the selection and recruitment of personnel, thus making IJV decisions a critical control factor. Despite the perceived importance of control through staffing, most of the respondents in this latest survey considered control through sharing IJV personnel had no impact on success.

Dr Sharif As-Saber is Senior Lecturer in International Business at Monash University

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Competition through cooperation

Satyanarayan Mahapatra and *Alok Saklani* look at the rise of the strategic alliance.

The growing integration of the global market has changed the nature of business competition from 'me against you' to 'us against them.' After all, hunting in packs is always more effective. This new wave of cooperation was best summed up by the recent declaration by the firm Cable & Wireless that "the firm is dead – long live the federation!"

This is the age of the strategic alliance. A strategic alliance joins partners in the pursuit of common goals without losing strategic autonomy and without abandoning individual specific interests. This trade of technologies, skills or products is, if all goes as planned, a win/win situation.

In 2001, leading telecommunications system supplier Ericsson joined Sony to form Sony Ericsson Mobile Communications (SEMC). Ericsson brings the 3G technology know-how, research and development skills and an established global distribution network. Sony brings high production resources and processes as well as complementary knowledge in entertainment technology and design. In the Motorola-Toshiba joint venture, Motorola uses Toshiba's distribution capability to gain access to Japan's semiconductor market; in return Motorola is sharing its advanced microprocessor technology.

Pepsi's joint venture with Starbucks moved Starbucks into the bottled-beverage market while Pepsi Co gained a line of ready-to-drink coffee products. Similarly, in the Starbucks and Maxwell House alliance, Starbucks benefited from Maxwell House's extensive network of shelf space in major chains nationwide, while Maxwell House profited from customer desire for Starbucks-branded coffee.

Another great success story is the alliance between Hewlett Packard (HP) and The Walt Disney Co, with HP providing major IT solutions and innovations to Disney's varied divisions. This was a well-negotiated and structured alliance with a clear understanding of what each partner had to contribute, what they would derive from the relationship and how that would change over time. Both partners are complex organisations and the integration of their alliance goals only happened due to solid planning and manageable expectations regarding implementation.

Despite these successes, up to two thirds of alliances run into serious managerial or financial trouble within the first two years. The mistakes and basic causes in alliances include weak partner selection, lack of vision, unclear goals and objectives, mistrust, poor alliance management and poor balance of power.

Dr S.N.Mahapatra is Assistant Professor in the Faculty of Business Administration at the SGRR Institute of Technology & Science, Dehardun, Uttarakhand, India and specialises in international marketing, strategic management and international business in the MBA and Executive MBA program. **Dr Alok Saklani** is Professor in the Faculty of Commerce & Management Studies, HNB Garhwal University, Srinagar, Uttarakhand, India and Director in Apeejay School of Management, New-Delhi.

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