An integrated framework of joint venture success

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Abstract: It has been widely accepted that majority of joint ventures (JVs) fail to perform as per expectations. While existing research has looked at factors that influence the success and failure of alliances, such research has been largely scattered, focussing either on a particular set of factors or on a particular stage of alliance life cycle. This paper develops a comprehensive framework of firm-level and alliance-level factors across the formation, initialisation and management stages of a JV that influence its success. The findings are based on primary interviews conducted with the top management executives including CEOs of three JVs of a leading player in the Indian retail sector.

Keywords: alliances; case study methodology; India; joint venture; qualitative; retail; success.


Biographical note: Ms. Rita Dubey is a Research Scholar pursuing Fellow Programme in Management from International Management Institute, Delhi. She is doing her research in the area of strategic alliances. As a part of her research, she has published two case studies with Emerald Emerging Market Case Studies. Prior to her research, she was working as a Financial Research Analyst.

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1 Introduction

There has been extensive research on the factors influencing alliance outcomes. This research is fuelled by the alarming rate of failure of strategic alliances, which according to some researchers is as high as 50% (Duysters, Gerard and Vaandrager, 1999; Dyer, Kale and Harbir, 2001). However, most of the existing research is scattered and looks at specific variables impacting alliance outcomes, creating the need for an integrated framework. There have been few attempts in aggregating the research in this area. Most of them are conceptual papers based on the analysis of existing literature (Nippa, Beechler and Klossek, 2007). Thus, there is a lack of a comprehensive framework, which is developed based on the actual experiences of firms dealing with JVs.

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1.1 Theoretical background

Studies that examine factors influencing alliance outcomes focus either on the firm-level, alliance-level or external environment-level factors. Table 1 summarises the existing literature on factors influencing alliance outcomes. Some of the studies have a clear focus on a particular alliance life cycle stage. Studies, which do not focus explicitly on a particular alliance life cycle stage, were classified after carefully examining their focus. Some of the studies could not be included in the table as it was difficult to classify them into a particular life cycle stage. For instance, Doz (1988) studies the influence of factors such as cultural differences between partners, value to be contributed by each partner, fear of opportunism and internal organisation politics on alliance performance. Hoang and Rothaermel (2011) study the influence of general and partner-specific alliance experience and conclude that partner-specific alliance experience is more relevant in influencing future alliance outcomes than general alliance experience. Heimeriks and Duysters (2007) study the impact of alliance experience and alliance capability on alliance success.

Table 1 Existing literature examining factors influencing alliance outcomes

<table>
<thead>
<tr>
<th>Variable category</th>
<th>Nature of variables studied</th>
<th>Alliance formation stage</th>
<th>Alliance initialisation stage</th>
<th>Alliance management stage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Alliance level</td>
<td>Relationship related</td>
<td>Trust (George and Farris, 1999; Ring and Van de Van, 1994)</td>
<td>Consensus (George and Farris, 1999)</td>
<td>Trust (George and Farris, 1999; Ring and Van de Van, 1994; Sambasivan et al., 2013)</td>
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<td></td>
<td></td>
<td>Consensus (George and Farris, 1999)</td>
<td>Consensus (George and Farris, 1999)</td>
<td>Feeling of equity (Ring and Van de Van, 1994; Sambasivan et al., 2013)</td>
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<tr>
<td></td>
<td></td>
<td>Partner reputation (Nielsen, 2007)</td>
<td>Feeling of equity (Ring and Van de Van, 1994; Sambasivan et al., 2013)</td>
<td>Communication (Kelly, Schaan and Joncas, 2002; Sambasivan et al., 2013)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Prior work relationship between partners (Saxton, 1997)</td>
<td></td>
<td>Governance Structure (Dussauge and Garrette, 1995)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Feeling of equity (Ring and Van de Van, 1994)</td>
<td></td>
<td>Scope of alliance (Borys and Jemison, 1989)</td>
</tr>
<tr>
<td>Alliance structure-related</td>
<td>Distribution of ownership and control (Nippa, Beechler and Klossek, 2007)</td>
<td>Ambiguity in role definition (Kelly, Schaan and Joncas, 2002)</td>
<td></td>
<td>Shared-decision making (Saxton, 1997)</td>
</tr>
</tbody>
</table>
Table 1  Existing literature examining factors influencing alliance outcomes (continued)

<table>
<thead>
<tr>
<th>Variable category</th>
<th>Nature of variables studied</th>
<th>Alliance formation stage</th>
<th>Alliance initialisation stage</th>
<th>Alliance management stage</th>
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</table>
Table 1 Existing literature examining factors influencing alliance outcomes (continued)

<table>
<thead>
<tr>
<th>Variable category</th>
<th>Nature of variables studied</th>
<th>Alliance formation stage</th>
<th>Alliance initialisation stage</th>
<th>Alliance management stage</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Relationship between host countries</td>
<td>Host country risk</td>
<td></td>
<td></td>
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<tr>
<td></td>
<td>Regulations</td>
<td>Nippa, Beechler and Klossek (2007)</td>
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</table>

1.1.1 Life cycle approach to study JV performance

As can be seen from the table, most of the existing research focusses on studying either a specific kind of variable or studying multiple variables only for a particular stage of an alliance. However, researchers have advocated the adoption of a life cycle approach for studying alliances (Dyer, Kale and Singh, 2001). According to George and Farris (1999), each stage of an alliance has a feedback effect on the subsequent stages. Therefore, the focus of this study is to adopt a life cycle approach, studying JVs across formation, initialisation and management stages. Formation stage includes need assessment, partner selection, negotiation and signing of the alliance agreement. Initialisation stage begins right after the signing of the JV contract and continues till the first 100 days of operation (Bamford, Ernst and Fubini, 2004). It involves processes, which are generally required to establish a new business such as team selection, setting up of a supply chain, establishing HR practices and performance review process. The complexity in the case of JVs is that two or more independent entities have to cooperate and jointly take the relevant decisions. The alliance management stage begins once the alliance is established and has to be managed on a day-to-day basis.

1.1.2 Focus on alliance-level and firm-level factors

Studies examining alliance-level factors have looked at factors related to the relationship between partners, alliance structure, alliance processes and partnership asymmetries. Studies focussing on firm-level factors have looked at factors such as alliance capability, previous alliance experience and the presence of a dedicated alliance function. For the purpose of this study, I will examine firm-level and alliance-level factors, which influence the JV outcomes. The reason for focussing on these kinds of factors is that external environment-related factors are largely beyond the control of the firm. It would be more useful to develop a comprehensive framework of factors that practitioners and managers can use to improve their chances of alliance success.
1.2 Conceptual framework

The framework suggested by Kelly, Schaan and Joncas (2002) was used as the base for the conceptual framework. The authors studied challenges faced by alliances during the initialisation stage, which could significantly impact the performance. According to the authors, those challenges may be related to relationship, operations, strategic agenda and performance issues. This framework was extended to formation and management stages. It was proposed that the occurrence of these issues at any stage of a JV was likely to negatively impact its chances of success. Further, in line with the existing research, it was proposed that each stage had a feedback effect on subsequent stages (Figure 1). Existing factors from the literature, which fell under each of these categories were identified and developed into codes. Additional codes were developed while analysing the interview transcripts.

![Figure 1](image-url)  
*Figure 1*  Factors influencing JV success - conceptual framework (see online version for colours)

- Relationship-related
- Operations-related
- Strategic agenda-related
- Performance-related

**Note:** Form: stands for formation stage; Ini: stands for initialisation stage; Mgt: stands for management stage.

1.3 Alliance performance measurement

Measurement of alliance performance is a complex issue because of the involvement of multiple entities who may have different and often conflicting performance expectations from the same JV (Anderson, 1990). The complexity is increased further when a JV is established in an uncertain environment that lends conventional measures such as profitability inappropriate (Anderson, 1990). Existing research has employed different
methods for measuring alliance performance such as financial measures (Renforth, 1974; cited by Geringer and Hebert, 1991; Tomlinson, 1970), alliance stability or duration of alliance (Kogut, 1989; Park and Russo, 1996), event studies (Koh and Venkatraman, 1991) and management’s subjective assessment (Beamish, 1984; Saxton, 1997). Each method of performance measurement has been criticised for its limitations.

For the purpose of this research, I have used both subjective assessment and unplanned termination of an alliance as measures of alliance performance. The use of subjective assessment, in this case, is also supported by existing research. Management’s subjective assessment of alliance performance is considered appropriate if the respondents represent top-level management (Olk, 2002; cited by Schilke and Goerzen, 2010). Further, researchers have found a positive correlation between subjective measures of performance and objective measures of performance such as profitability (Geringer and Hebert, 1991). For the subjective assessment, a five-item scale developed by Dyer, Kale and Harbir (2001) is used. The items are measured on a seven-point Likert scale. JVs with an above average score of ‘four’ are rated as a success, while those that received scores below average are rated as a failure according to this method. Unplanned termination of an alliance is used as an additional indicator to overcome the limitation of using a single method. Researchers have argued that discontinuation of an alliance cannot always be equated with failure if the discontinued alliance achieves its stipulated objective. Lunnan and Haugland (2008) argue that premature termination of an alliance indicates actual failure, while pre-planned termination of an alliance is an indicator of success. Thus, JVs that end prematurely are considered as a failure according to this method.

2 Methodology

For the purpose of this research, case study methodology is used as the nature of research is exploratory. According to Yin (2009), within exploratory research, case-study methodology may be used if we are trying to understand ‘how’ and ‘why’ of a certain phenomenon. The objective of this paper was to understand how alliance-level and firm-level factors influence alliance outcomes, at each stage of an alliance life cycle. Thus, the use of case study method appeared appropriate.

The organisation under study is a leading player in the Indian retail sector. Three of its JVs were selected for the study. Two of the JVs were relatively successful, while one was a failure. All the three JVs were formed during the period of 2007–2009. Studying a mix of successful and failed JVs of a single firm enabled the study of alliance-related and firm-level factors that could lead to alliance success or failure.

The findings are based on primary interviews conducted with the top management team of the organisation under study and secondary information available in the public domain. Interviews were also conducted with the CEO of each of the JVs to get an independent perspective of the JVs’ management team. Figure 2 shows the organogram highlighting the executives interviewed for the study. The interview process was stopped once the author attained data saturation. Multiple rounds of interviews were conducted
with eight top management executives involved with the selected JVs. Each of the interviews lasted for 60–90 minutes. The interviews were transcribed and the data were analysed using content analysis through Atlas.ti software.

Figure 2  Organogram of interviewed executives (see online version for colours)

Codes were developed for various factors identified by the existing literature. A total of 54 apriori codes were developed based on the literature. Additional 93 inductive codes were identified based on the interview transcripts. A total of 147 codes were developed, which were then regrouped to form subcategories. These codes and subcategories were analysed using the code frequency and cooccurrence tools. The code cooccurrence analysis highlights the interrelationships and overlap between various codes that are attached to a common set of quotations. Though code cooccurrence analysis is more relevant for a larger data set, it helped in understanding the interrelationship between different codes.

To ensure that the findings were trustworthy, they were tested for dependability, conformability and credibility [Zhang and Wildemuth (2005), p.6]. The findings were compared with existing research to evaluate their conformability. They were also shared with the executives interviewed to get their evaluation of the conclusions. The information from the interview transcripts was supplemented with additional information from secondary sources such as news articles to ensure data triangulation. Discussion with research participants and triangulation of data is encouraged to ensure credibility, which is one of the most important parameters for judging qualitative studies (Gibbert, Ruigrok and Wicki, 2008).
3 About the organisation

ABC group is a pioneer in the Indian retail sector. It has a presence in multiple retail formats including hypermarket, supermarkets, large format retail stores for branded apparels, food and home products. The organisation has formed several JVs in the branded apparel, footwear, handbags, and other categories of lifestyle retail.

3.1 JV #1

ABC group formed a 50–50 JV with a French lingerie brand in 2007. Both the partners saw potential in the Indian lingerie market, which was expected to grow by 20% over 2008–2011. The partners decided that the JV products would be fully imported from France. The JV, however, could not perform as per the partners’ expectation. According to one of the executives of ABC group, the JV’s product did not suit the sensibilities of the Indian consumer and thus, the products failed to gain acceptance in the Indian market. Further, the partners could not come to a consensus on the future course of action for the JV. While the Indian partner wanted the products to be customised to the Indian requirement and sold at lower price points, the French partner was not agreeable to it. The JV ended within 18 months of its formation.

3.2 JV #2

ABC group formed a 50–50 JV with another French brand in the branded apparel category in 2008. The group wanted to partner with a brand that was well known in its category. It wanted a partner who was willing to customise its products to suit the Indian requirement and source a significant component of the product locally to bring down the cost. Consequently, the JV had local sourcing and design teams that worked in collaboration with the respective teams of the French partner. In January 2012, the Indian government introduced regulatory reforms allowing 100% FDI in single-brand retail. Due to the regulatory change, the French partner expressed its intention of going solo in the Indian market. It sought regulatory permission and started buying out the stake of the Indian partner at mutually agreed valuation. ABC group continues to hold 3% stake in the JV on the French partner’s insistence.

3.3 JV #3

In 2009, ABC group formed a 50–50 JV with a UK-based brand in the formal footwear category. The partners saw potential in the formal footwear category in India. They realised that there was no formal footwear brand in India, which was catering to the price segment that they were targeting. The JV faced some initial challenges because of adverse currency fluctuations and ambiguity on the new tax regime to be adopted by the Indian government. It managed to fare well amidst the challenges posed by the external environment. Though the partners had incorporated an exit option into the JV agreement, both of them expressed their intention of continuing with the JV. This was despite the regulatory reforms that later allowed 100% FDI in single-brand retail in India.
4 JV activity in the Indian retail sector

Regulations are a critical driver for the formation of JVs in the Indian market. Earlier, the regulations imposed a ceiling of 51% on foreign ownership in single-brand retail in India. In 2012, the government allowed 100% foreign direct investment in single-brand retail. Thus, it was no longer mandatory for a foreign player to partner with an Indian player to meet the regulatory requirement. However, the retail industry is highly localised in terms of consumer tastes and preferences. Therefore, international brands may still have an incentive to partner with a local player to overcome the challenges of operating in a foreign territory and gain a better understanding of the Indian consumers. This is what one of the executives interviewed had to say about the driver of JV activity in the Indian retail sector:

“It would be a different ball-game for a British group to come to India and understand the Indian consumer in the same manner as we do. That is why most of the international retailers are leaders in the home market while they face a tough time in the foreign market. Retail is not about just selling products and services. It is also about understanding the consumer, understanding their needs and requirements and respond to that. There would always be a challenge for a retailer in a new territory”.

The critical assets in the retail business are intangibles such as brand, which cannot be copied by the JV partner. Therefore, the JVs are likely to survive longer as partners can learn from each other, without worrying much about losing their advantage.

5 Discussion and findings

5.1 Revised conceptual framework

Data analysis revealed that some of the identified codes could not be summarised under the initial conceptual framework. Further, some of the codes traversed multiple categories. Thus, instead of categorising the codes using the initial conceptual framework, the codes were organised into seven subcategories. The final framework based on the analysis is outlined in Figure 3. The final subcategories are factors that influence JV outcomes at each stage. These factors have been arranged in a pyramid in descending order of importance based on the total code-count frequency across all stages. Thus, the factor that has the highest code-count across all stages is mentioned at the top of the pyramid. The relative importance and the exact connotation of each factor vary across stages. For instance, while a total of 10 factors have been identified, performance and effective management are not relevant at the alliance formation stage. Further, while clarity is one of the factors, the context in which clarity is used varies across stages. At the formation stage, clarity is required in terms of goals to be achieved from a JV and definition of roles, responsibilities, and terms and conditions. At the alliance initialisation stage, clarity means not only clarity of roles, responsibilities and terms and conditions but also the clarity of mandate given to the JV management and clarity of control exercised by each partner.
Figure 3  Factors influencing JV success - revised conceptual framework (see online version for colours)

5.2 JV performance

Subjective assessments of managers and unplanned termination of JVs were used as indicators of performance. The use of two indicators for measuring alliance performance pointed to the fact that it may not be feasible to categorise JVs into tight compartments of success or failure. For instance, while the managers rated JV#2 a success, with an average rating of five, the JV ended within 3 years of operation. The partners had provided for exit clause at the time of formation of JV, however, there was no express intention of ending the JV so early. The JV ended consequent to the change in the regulatory environment allowing 100% FDI in retail. The foreign partner expressed its intent of buying out the local partner’s stake in the JV. In comparison, the JV#1 ended within 2 years of operation with the product failing to succeed in the Indian market. It was also rated lower in terms of management’s assessment with an average rating of three. Though both the JVs ended prematurely, they cannot be clubbed in the same category, as JV#2 was relatively more successful than the first one based on the subjective assessment. JV#3 received an average rating of six and is still in operation. Figure 4 depicts the performance of the three JVs with management’s subjective assessment plotted on the horizontal axis and their duration plotted on the vertical axis. JVs located towards the bottom end of the central axis are a failure, while those towards the top end of the central axis are successful. Citing the CEO, JV #2:

“JV #1 is a good example of how the intention might have been very good, both the partners and the brand were fairly strong but finally, things did not happen as per expectations. I would say in that sense, JV #2 is a much better example of a JV than JV #1”.
5.3 Factors impacting JV performance

Table 3 lists down factors that are important in different stages of a JV and their code-count frequency. The code-count frequency here represents a stagewise distribution of frequency for every code. For instance, at the formation stage, ‘clarity’ as a factor has been attached to 29% of all quotations identified for that stage.

5.3.1 Relationship related

In line with the existing research, relationship-related variables are found to be the most important factor influencing JV success (Kelly, Schaan and Joncas, 2002). A good relationship between partners is characterised by good chemistry, compatibility, ability to reach a consensus and transparency. Each of these factors is discussed in further detail in this section.

5.3.1.1 Chemistry

In this context, chemistry means the quality of relationship between the JV partners. It includes parameters such as level of trust, mutual respect, and mutual understanding between the partners. Chemistry is characterised by an equitable relationship between the partners and strength of the relationship between the JV management and the partner firms. Chemistry figures in the top three factors across all stages, highlighting its importance in influencing JV success (see Table 2). Citing the President, Business Development and Investments, ABC Group:

“It is the chemistry between two or three key decision-makers and the key operating people at both the ends that matter... In the case of one of our JVs in the handbags category, the JV partner effectively treats me like an advisor. He speaks to me less about the JV matters and more about his organization’s issues and challenges and picks my brains on them all the time. So, there is an element of trust. I think credibility and trust are what matter in any relationship.”
Table 2  Factors influencing JV success/failure across JV life cycle (code-count frequency percentage)

<table>
<thead>
<tr>
<th></th>
<th>Formation stage</th>
<th>Initialisation stage</th>
<th>Management stage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Clarity (29%)</td>
<td></td>
<td>Chemistry (17%)</td>
<td>Commitment (23%)</td>
</tr>
<tr>
<td>Compatibility (24%)</td>
<td></td>
<td>Flexibility (16%)</td>
<td>Chemistry (21%)</td>
</tr>
<tr>
<td>Chemistry (21%)</td>
<td></td>
<td>Effective management (16%)</td>
<td>Effective management (14%)</td>
</tr>
<tr>
<td>Capability (8%)</td>
<td></td>
<td>Commitment (16%)</td>
<td>Compatibility (12%)</td>
</tr>
<tr>
<td>Consensus (6%)</td>
<td></td>
<td>Consensus (15%)</td>
<td>Consensus (10%)</td>
</tr>
<tr>
<td>Commitment (4%)</td>
<td></td>
<td>Clarity (9%)</td>
<td>Flexibility (10%)</td>
</tr>
<tr>
<td>Strategic Planning (4%)</td>
<td></td>
<td>Capability (6%)</td>
<td>Clarity (5%)</td>
</tr>
<tr>
<td>Flexibility (3%)</td>
<td></td>
<td>Transparency (4%)</td>
<td>Transparency (4%)</td>
</tr>
<tr>
<td>Transparency (1%)</td>
<td></td>
<td>Capability (1%)</td>
<td>Capability (1%)</td>
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<tr>
<td>Total: 100%</td>
<td></td>
<td>Total: 100%</td>
<td>Total: 100%</td>
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</tbody>
</table>

One of the important facilitators of chemistry that came to light was the stability of the top management team of the partner firms. Continuity of executives who are involved in the formation and initialisation stage of a JV helps in the stability of the JV. This is particularly important in resolving various issues that may come up during the course of the JV. Citing the ex-CEO, ABC Group:

“Ultimately it all boils down to human relationships because chemistry gets developed between people, who are involved in the formation of an alliance. It can happen that the person, who spearheaded the formation of an alliance, leaves the organisation. This is less likely to happen in the case of entrepreneur-driven companies, as entrepreneurs are there with the organisation for life. In our case also, we are an entrepreneur-driven company. While I might leave tomorrow, our founder would not leave. This provides the comfort that there would not be any drastic change in the relationship.”

“Taking over in a JV is not like a plant or machinery... It doesn’t work well for a JV, if the person who has completed a JV, moves out and somebody else takes over”.

5.3.1.2  Compatibility

Compatibility between the partners in terms of culture, organisational work processes, resources and capabilities and strategic outlook for the JV is crucial across all stages. While all other components of compatibility are mostly taken care of at the formation stage, strategic complementarity is a dynamic component of compatibility and needs to be addressed at each stage of a JV. Partners in a JV need to be on the same page in terms of future outlook of the JV, performance expectations and business strategy for the JV. The partners for all the three JVs belonged to different nationality and cultures. However, complementarity between partners, particularly in their strategic vision for the JV (the lack of it in the case of JV #1) was a common factor that influenced JV outcomes. This is what the CEO of JV#2 had to say about how difference in the strategic outlook for the brand was one of the reasons that led to the end of the JV:

“I think as long as both partners are willing to put the same level of funding in the JV, it is not likely to dissolve. In our case, the foreign partner was more optimistic about the JV’s prospects in the market and was more intent to put...”
money. So, at one point in time, ABC group wanted to put X amount of money and the foreign partner wanted to put X plus something. It was then decided that it would be better if the foreign partner invested a large part of the money while ABC group got an opportunity to exit the JV”.

The findings are in line with existing research that advocates a minimum amount of asymmetry between partners’ resources and capabilities so that each partner contributes unique resources, which can add value to the JV (Parkhe, 1991). At the same time, it helps to minimise asymmetries in terms of culture, organisation processes and strategic expectations from the JV.

5.3.1.3 Consensus

A peculiar difference between a JV and an independent organisation is the need for joint decision-making. It is natural for partners to have differences. In fact, differences at times add value. For alliance stability, it is crucial that partners are able to resolve differences amicably and come to a consensus on critical decisions. Partners need to have faith in each other’s capabilities and respect each other’s point of view. They should be willing to work together even if they do not agree on something. It is a process of constant persuasion, explanation of the point of views and endeavour to reach a consensus on different decisions.

Consensus over business plan and performance expectations over different time periods is crucial. While partners may have different point of views, those differences have to be debated and discussed so that they can arrive at a consensus. This is what the CEO of JV #3 had to say about how the JV management team managed to bring the partners to a consensus on crucial decisions:

“We ensure that everything is agreed before the board meeting takes place. In actual board meetings, not much is done. The weeks prior to the board meeting are very hectic because we have to get people to discuss, debate and agree so that they are in a position to take a decision in the board meeting. The point should not come as a surprise to board members during a board meeting”.

Partners should be able to resolve their differences over strategic decisions and reach a consensus. Consensus is reached when partners have faith in each other’s capabilities and share a good relationship. Even when they may have their own schools of thought and different opinions, they should be able to come to the same page and work in the same direction. This is what the CFO, ABC group had to say about the importance of consensus for a successful JV:

“People connect is extremely crucial for people to agree. Otherwise, any two strong corporates could have worked together and done great business. When people differ in their point of views, ways of doing business, and strategic perspectives, they cannot relate to each other. I think relationship plays a crucial role in creating and managing a JV”.

5.3.1.4 Transparency

The importance of transparency in a JV cannot be understated. Since a JV involves multiple entities, which may be competing in certain cases, transparency is important to build trust and sense of fair dealing between partners. Initiatives such as common reporting formats for all the JV partners help in assuring that the same information is being communicated to them. Citing the CEO, JV #3:
“As a person who is managing the relationship, I think the biggest responsibility is to ensure transparency by sharing the same set of data with both sides. One of the rules that we had set was that we would have one reporting format and reporting calendar. Everybody looks at the entire thing in the same format, so it does not seem like we are sending one set of data to one partner and another set of data to the other. When we look at store profitability, it is in one format, if there is a 30 percent growth margin, both parties understand it in the same format”.

5.3.2 Clarity

Clarity is crucial to the success of a JV. At the formation stage, clarity is required right from the point a firm conceives the idea to form a JV till the negotiation of the JV contract. A firm needs to be clear on what it seeks to achieve from a JV while assessing the need for an alliance. While negotiating the contract, it is essential to clearly define the roles and responsibilities of each partner to reduce the chances of a blame game in future. While it is difficult to anticipate and define each and every term and condition in a JV contract, effort must be made to define them as clearly as possible. In fact, this is a major area where firms can learn from their previous alliance experience and improvise. This is what one of the executives had to say about how clarity at the formation stage helped the group in its JVs:

“The way we were set up, we were very clear in terms of how the structure would operate and the roles and responsibilities that each partner would have. The foreign partner drove the product, marketing, branding and retail direction. The local partner drove various standards and policies in terms of HR and office-related matters. So, we had a very clear policy guideline of what to do... We made things very clear up front when we started-off and things went fairly good when we moved along”.

During the alliance initialisation stage, it is crucial that the JV team gets a clear mandate from the partners and there is clarity in terms of roles and responsibilities of partners and the JV team. Citing the CEO of JV#3, on how clarity on these parameters helped during the initialisation stage of the JV:

“There is a delegation of authority document that was drawn up by the JV partners. There is a certain mandate on matters such as ways of working, expected performance, approval process, recruitment, and signing of properties. So, things are reasonably clear. Besides that the yearly key performance targets and quarterly board reviews take care of all things”.

During the management stage, besides the clarity of roles and JV conditions already established at earlier stages, there needs to be clarity on the business plan on an ongoing basis. According to the CEO, ABC group, if partners clearly define the roles and responsibilities based on their capabilities and respect each other’s capabilities in their respective domains, there will be lesser chances of conflicts and it will be easier to build consensus. Citing him:

“Clarity ensures that we don’t face any issues when it comes to consensus building. I agree with my partner if it is related to brand-related matters and he agrees with me on market-related matters... This arrangement worked better in the case of JV# 3 than it did in the case of JV# 2”.

5.3.3 Effective management

Effective Management as a factor becomes relevant at the alliance initialisation and management stage when the alliance starts operating. While coordination between partners is important at initialisation and management stages, factors such as selection of an appropriate management team, granting adequate operating freedom to the JV management and establishing a strong review mechanism are initiatives that need to be taken during the initialisation stage for effective JV management.

The decision of whether to have an independent JV management team or not is an important aspect of effective management. This decision is a function of criticality of the JV to each partner in terms of revenue contribution and the nature of expected goals such as learning some critical skills from the JV partner. For all the three JVs, the partners decided to have an independent management team, which constituted individuals hired externally. Management executives from JV#1 were later absorbed for JV#2, after the former ended. The JV management, in each case, knew that they were accountable only for the JV performance and had a clear mandate from the partners. It had the freedom to execute the strategy devised by the partners for the JV. For both JV#2 and JV#3, the partners adopted a strong review mechanism involving weekly and monthly updates. Information in terms of cash flow, sales report and margins were shared on a weekly basis. More detailed review on the balance sheet, profit and loss statement, cash flow statement and activities during the month were shared on a monthly basis.

This is what the COO, ABC group had to say about factors influencing their choice for an independent JV management team:

“At the end of the day, the JVs don’t contribute significantly to our overall revenues. Neither we are dependent on the JVs’ performance for our overall business performance nor are our partners. So, we do not need to get involved in the day-to-day management of the JVs. We are fine as long a JV is meeting most of its target, the board meetings are on time and we can raise our concerns whenever required. We would rather let the JVs run as independent companies as we would not like to waste our bandwidth on an organization, which already has a very strong CEO or a very strong mentor in the form of our JV partner”.

Communication is another important aspect of effective management. Communication across different levels between the partners and the JV management is crucial for coordination, smooth information flow, mutual understanding and effective decision-making. Citing the CEO, JV#3 on how effective communication with the partners facilitated the JV’s management:

“One of the prerequisites of effective management is that you need to have multiple talking levels for both the entities. Our finance team interacts with the finance team of ABC Group as well as of the foreign partner. The operations team interacts with the property and operations team of the foreign partner in areas such as trending and bank support. The HR team interacts with the HR teams of both the partners. We do not direct every interaction. So, every department whose requirement is to interact with both the partners, interacts with them freely…fortunately, all the four board members have a very strong rapport with each other and they are able to communicate and discuss. So, communication is the key”.

This is what the Joint MD, ABC Group had to say about the importance of effective management for a successful JV:
“I think it is crucial to be able to put together a good professional management team for running the day-to-day business. Further, it is important that both the JV partners give clear guidance on a jointly agreed business, which the management team is then free to execute”.

5.3.4 Flexibility

Flexibility is important, particularly in responding to changed circumstances. Conditions prevailing during the time of formation of a JV may change subsequently, sometimes creating adverse situations and may even render the JV unviable in the current form. Flexibility to alter a JV’s design, structure and objectives in response to changed circumstances is also advocated by researchers (Douma et al., 2000; Doz, 1988). In the case of JV #3, the JV was executed only for the Indian market. However, when ABC group expressed its intent of expanding the JV operations in Sri Lanka, the foreign partner was flexible in its approach and agreed, realising the strength of the market potential. This is what the CEO, JV #3 had to say about how the partners’ flexible approach towards the JV helped in its survival during the initialisation stage, when external environment changed adversely:

“When the business plan was made in 2009–2010, our expectation was that goods and service tax (GST) would be rolled out soon. There was also a case in the Supreme Court regarding the law on service tax. So, we did not account for service tax and GST in the initial business plan. Later, we realized that both of these would have to be paid as nothing was happening on the GST and the service tax case was lost. These expenses had a pretty significant impact on the business plan. It was very important that both partners were very flexible and adaptable. So, we re-drew the business plan and readjusted the costs”.

A contract is silent on many accounts and is open to interpretation. If partners stick too strictly to the contract, a JV is more likely to fail. They need to show flexibility to respond to changed circumstances or to face unexpected situations. Citing the CEO, ABC Group:

“The JV contract is formulated based on the partners’ current understanding of the market, assessment of the potential of a product category and understanding of each other’s expertise in that category. The partners may realise later that they have either underestimated or overestimated the market potential. It may so happen that one of the partners wants to change the business plan in response to the changed circumstances. If the other partner is not willing, citing that he is not committed to do so as part of the contract, the JV is not likely to work”.

5.3.5 Commitment

Partners’ commitment is essential for a JV to succeed. Partners’ commitment is reflected in the form of resources contributed by them to the JV and the extent to which they deliver on their promises. This is what the ex-CEO of JV#1 had to say about how the foreign partner’s lack of commitment impacted the fate of JV#1:

“We worked on everything but when it finally came down to implementation, the partner decided to work very differently from what was originally agreed with us. In the agreement, they agreed in spirit to dedicate certain resources and to perform certain tasks. After the formation, we realised that they have either not dedicated resources for us or the dedicated resources were not qualified enough”.
Partners will stay committed to a JV if they see value from the JV. At the same time, it is important for partners to have realistic performance expectations to avoid the event of unwarranted frustration because of performance not meeting expectations. In the case of JV #2, the foreign partner saw more value in the JV and wanted to commit greater capital to the JV than the Indian partner. According to the ex-CEO, JV #2:

“I think it was more of a business decision to end the JV. The foreign partner felt that the business could grow significantly while ABC group felt that it was not ready to invest that kind of money. So, the foreign partner decided to buy ABC’s stake and put money in the JV”.

5.3.6 Strategic planning

Strategic planning has been identified as a separate factor at the formation stage. For the initialisation and management stages, it has been merged with effective management, as strategic planning is the first step for effective management. This factor includes parameters such as laying down sound business plans and setting right performance expectations while negotiating with partners. How well the partners negotiate on these two aspects has a strong implication for effective management and performance meeting expectations during subsequent stages. This is what the CEO, JV #3 had to say about how strategic planning facilitated JV management:

“I think one of the most important things that we focus on is doing the business plans correctly. We do not over promise but are ambitious. Both the JV partners agree upon the kind of numbers we target over the course of five, eight and ten years”.

5.3.7 Capability

ABC group managed to do progressively well with its JVs over time. It took lessons from its JV #1 in terms of appropriate partner selection and clarity of terms and conditions while negotiating. Some of the executives argued that every JV is unique, which limits the application of learning from previous JVs for future JVs. However, the manner in which the organisation gained from its previous alliance experience was vividly highlighted during various interviews. Citing the COO, ABC Group:

“A lot of the things that I am sharing with you right now, are based on the knowledge that we have gathered from our previous experience. We did not have such knowledge in the case of our JV #1, which did not succeed”.

According to the Joint MD, ABC Group, the organisation gained significantly in the areas of alliance management such as seeking dedicated foreign partners’ resources for the JV and clear definition of roles and responsibilities of JV and the partners. This positively influenced the performance of their subsequent JVs. Though the organisation managed to learn from its previous JVs, it did not have a dedicated alliance function or formal learning mechanisms. According to the COO, ABC group, the organisation intends to introduce more formal processes to share and internalise learning with regards to JV formation and management. According to the existing research, dedicated alliance function and deliberate learning mechanisms facilitate the building of alliance capability (Dyer, Kale and Harbir, 2001).
6 Implications for the corporates

6.1 Relationship is extremely important across all stages

Almost all the executives interviewed, pointed to the importance of a good relationship between the JV partners for achieving JV success. While selecting a partner, firms would do well to pay greater attention to softer aspects such as chemistry and strategic complementarity between the partners rather than focussing largely on the technical evaluation. After a JV is formed, an effort is required to maintain a harmonious relationship between the partners and the JV management. The JV management may look at formal and informal communication channels with the partner firms. Effective communication is required to smoothen out differences, facilitate coordination and efficient decision-making. At the same time, there needs to be a feeling of mutual respect and acknowledgement of the value that each partner is bringing to the JV. This will influence the level of commitment that each partner will eventually have for the JV. Even when a JV is unable to perform as per expectations, a strong relationship between the JV partners can help in mutually identifying reasons for bad performance and work towards addressing them rather than a fallout over the same.

6.2 Clarity is crucial

Clarity, particularly during the formation stage is more likely to lay the foundation for a successful JV. Management must endeavour to define various terms and conditions including terms of exit, roles and responsibilities of each partner, as clearly as possible. Clarity of roles and responsibilities is particularly helpful in preventing any blame game when things do not go as per expectations. During the initialisation and launch phase, clarity in areas such as availability of each partner’s resource for the JV and performance expectations over defined time periods is essential for effective management. Clarity is also required on various policies and procedures including the decision-making authority at the board and JV management level. While it is impossible to anticipate and define all terms and conditions, management must focus attention on learning from previous transactions and incorporate the learning for future. Initiatives such as cross-interactions and training sessions with executives involved in previous transactions and platform for sharing key learnings may be adopted to build JV formation related capability.

6.3 Partners need to be on the same page

A JV will succeed only when all the partners see value from the JV and stay committed to it. JV management can help in fostering commitment by creating an atmosphere of transparency and fairness of dealing. This may be done by adopting measures such as common reporting standards and information sharing through periodic performance reviews.
7 Limitations and directions for future research

The research findings are based on the JVs of a single firm. The conceptual framework may be further tested by collecting data from a larger sample. Further, none of the JVs selected for study were created for learning any critical skill or capability from the JV partner. This could be one of the reasons for a low-frequency count received by capability as a variable. Firms forming learning alliances in the automobile or technology-related sectors may have a greater incentive for a developing in-house capability for forming and managing alliances. This may be warranted by a greater level of alliance activity and the need for efficient transfer of learning from partners. Future research may test the conceptual framework on a sample of JVs from such sectors. Future research may also focus on operationalising the identified variables and subject them to testing and validation through quantitative measures.

References


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Note

1Cells highlighted in blue represent interviewed executives.