Building Joint Ventures in 6 Steps: A South American Case

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Abstract

Joint venture is an alternative for companies in the dynamic business environment. Companies in a joint venture can focus on their core competencies and at the same time join efforts to e.g. explore new markets. It is well reported in literature that implementing a joint venture is a key issue among companies. We develop a 6-step framework to build up joint ventures and discuss essential outcomes along the steps to achieve success. The steps of the framework include the historical analysis of the relationship, definition of market opportunities, analysis of the core competence, definition of the objective of each participant, analysis of the alternatives of coordination forms, evaluation of the critical success factors and finally the design of the relationship management. The framework is applied in the process of joint venture formation between two companies in South America. This study offers insights of the process and how the framework was implemented.

Key words: Joint venture, Strategic Alliances, Transaction Costs, Competences.
JEL classification: D20, D74.

1. Introduction

Strategic alliance is a flexible way to access complementary resources and skills that reside in other companies (Dyer, Kale, and Singh, 2001). Gulati (1998) defines strategic alliances as "*voluntary arrangements between firms involving exchange, sharing, or co-development of products, technologies, or services. They can occur as a result of a wide range of motives and goals, take a variety of forms, and occur across vertical and horizontal boundaries*". Joint ventures are a special type of alliance in which a new firm is created and owned by the alliance partners (Kemp, 1999). Bamford, Ernst and Fubini (2004) state that joint ventures can help managers in managing risk in uncertain markets, sharing the cost of large scale capital investments, and injecting newfound entrepreneurial spirit into maturing business.

The proliferation of joint ventures has let to a growing steam of research by strategy and organizational scholars who have examined some of the causes and consequences of such partnerships (e.g. Gulati, 1998). Over the last six years, more than 5.000 joint ventures, and many more alliances, have been launched worldwide; and the largest world 100 joint ventures currently represent more than US$ 350 billion in combined annual revenues (Bamford, Ernst & Fubini, 2004). However, there are still lots of companies that fail in forming joint ventures. The question that often strikes managers is how to plan, implement and overcome the many challenges inherent to forming joint ventures.

Given the complexity of joint ventures, a framework to guide the implementation can be a helpful tool. From a strategic standpoint, the implementation of joint ventures can be set up by looking at the sequence of events in the course of the formation. This sequence may include the following six steps: the historical analysis of the relationship, definition of market opportunities, analysis of the core competence, definition of the objective of each participant, analysis of the alternatives of coordination forms, evaluation of the critical success factor and finally the design of the relationship

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management. The objective of this paper is to discuss these steps and propose a 6-step framework to build joint ventures. We also attempt to characterize the framework for academics and practitioners to evaluate the potential for joint ventures in the future, as well as evaluate past failures and successes of joint ventures initiatives.

To accomplish this objective, a review was conducted on the literature of strategic alliances and complemented with topics about marketing channels, transactions cost economics, marketing research and strategic management. To illustrate the proposed framework a case study was developed. Two companies were followed throughout the years 2004 and 2005 in the alliance formation. The case study was chosen because we intend to reflect an empirical investigation of a contemporary phenomenon, analyzing "how" and "why" these phenomena occur (Yin, 1994). The investigated companies aimed to set up a third company, benefiting the strategic objective to grow in a new market. These companies will be called A and B, to preserve their identity. It is shown in this paper a description of their data, motives, and challenges. The case is discussed along the development of the framework.

3. Literature Review

3.1. Supply Chain Management

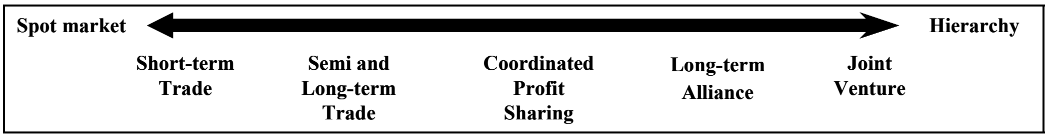
The study of joint ventures has much to gain from the existing literature on supply chain management (SCM). Scholars have already recognized the importance of alliances, chain and network science (Omta, Trienekens, Beers, 2001). Supply chain management asserts that one way for firms to pursue their objectives is by seeking cooperation in chains, since such chains can raise performance levels above those attainable in spot-market operations (Claro, 2004). By working together, firms organize and govern the consecutive steps from raw materials and intangible inputs to consumer products and services, in the end forming their network. Various definitions of the supply chain emphasize the flow of value between organizations and describe chain cooperation. Four definitions can help the understanding of SCM:

(1) By focusing on consumer needs a network will develop common activities and exchange of people, resources and information (Zuurbier, Trienekens and Ziggers, 1996).
(2) The integration of business processes from consumer to the original suppliers leads to product-service information that has added value to customers (Lambert and Cooper, 2000).
(3) A supply chain is a system whose constituent parts include material suppliers, production facilities, distribution services and customers, linked together via the feed-forward flow of materials and the feedback flow of information and financial capital (Stevens, 1989).
(4) A supply chain is a network of organizations involved through upstream and downstream linkages in different processes and activities that produce value in the form of products and services in the hands of the ultimate consumer (Christopher, 1998).

These definitions differ in many respects, since they are designed to limit a particular field of research or to fit a specific situation. However, each emphasizes that a product is transferred between firms before it reaches the consumer, and consequently a 'chain network' of firms transacting with each other is built (Omta, Trienekens and Beers, 2001).

There are four main characteristics of a supply chain (Lambert, Cooper, 2000). First, it evolves through several stages of increasing intra and inter-organizational, vertical coordination; and it spans from the initial source (the supplier's supplier) to the end consumer (the customer's customer). Second, it potentially involves many independent firms. Thus managing relationships is essential. Third, a supply chain includes a bi-directional flow of products (materials and services) and information and the associated managerial and operational activities. Finally, supply chain participants seek to fulfill the goals of providing high customer value with an appropriate use of resources and of building competitive chain advantages.

Within a supply chain, relationships may take various forms: vertical integration, long-term contracts or market transactions. Van der Vorst (2000) views supply chain management as lying between fully vertically integrated systems and those in which each member operates completely independently, in other words, spot-market governance. Slack, Chambers and Johnston (2001) distinguished five forms of organizing relationships in a supply chain: short-term trade, semi- and long-term trade, coordinated profit sharing, the long-term alliance and the joint venture (see Figure 1).



Source: Adapted from Slack, Chambers and Johnston (2001).

Fig. 1. Forms of organizing relationships in a chain

At one extreme of the continuum is the pure spot market. The spot market is described by Williamson (1985) as discrete exchanges wherein the identity of parties, the time dimension and the product characteristics do not matter. An illustration of this discrete exchange is the situation in which there is a "*one-time purchase of unbranded gasoline out-of-town at an independent station paid for with cash*" (Dwyer, Schurr and Oh, 1987). At the other extreme, is the pure hierarchical organization. The extreme pole of hierarchical forms is the completely vertically integrated firm. All activities, from sourcing raw materials up to the sale to end consumers, are coordinated by a single company. Although such extreme manifestations are seldom found in practice, the notion of pure forms provides a useful analytical baseline from which the intermediary forms can be derived.

Looking more closely at the five forms of organizing a relationship, *short-term trade agreements* are single transactions after which the relationship ends. This form of organization often comes about through price negotiations, and sometimes information flows and other factors play a role (e.g., a reputation of having been cheaper in past transactions). Goods bought through short-term agreements are mostly standardized products unrelated to core production processes. Eventually, such agreements may be used as a trial when a firm is looking for a new partner. Most decisions are based on cost reduction and price. Consequently the benefits of a longer-term agreement, such as collaboration and better coordination of activities and resources, are lacking.

In real life, many trade agreements are made without a formal contract that legally binds firms. Slack, Chambers and Johnston (2001) call these relationships *semi- and long-term trade agreements* when, for instance, a firm supplies a buyer a (fixed) quantity of a certain product during a certain time period. The price is often settled beforehand. The implications for vertical coordination are important for the firms' joint competitive advantages because such agreements can reduce risks of opportunism or shortages.

Coordinated profit sharing requires a certain degree of legal formalization. This form of organizing a relationship is often used for licensing and franchising. Proprietary goods, services or information are transmitted to mainly smaller organizations from which the owner receives a fixed guaranteed income. The service sector (e.g., fast food) uses this kind of agreement (Neves, Zuurbier and Campomar, 2001).

Alliances are forms of organization which entail the mutual exchange of property rights, technology, employees, information, goods and services, while the firms remain independent. They keep their own identity, culture and structure; however, freedom of either party may be limited. *Joint* *ventures* are a special type of alliance in which a new firm is created and owned by the alliance partners. Alliances and joint ventures generally aim to share risks, revenue, technology and innovations and they are characterized by high dependence (Kemp, 1999).

In our view, joint ventures are often long- and may be governed by a formal contract. The joint venture can therefore be understood as an exchange between two parties that involves not only an economic transaction but also social elements (Claro, Hagelaar and Omta, 2003).

Studies of joint venture have been primarily based on economic and organizational theories. The theories most frequently used are: strategic alliances (Kogut, 1988; Gulati, 1998) and collaborative relationships (Bresser, 1998; Barney, 2002; Doz and Hammel; 1998, Nielsen, 1998; Oliver, 1990), core competence (Prahalad and Hamel, 1990), transaction cost economics (Williamson, 1996). Each of these theories offers its own focus, assumptions and framework for studying the joint venture. Nevertheless, they do provide complementary explanations for the particulars of the joint venture formation. The starting point is the well-known and extremely influential article *The Nature of the Firm* with which economist Ronald Coase (1937) began a revolution in economic and organizational theory by asking an innocuous question: *Why do firms exist?* The whole discussion focused on the competitive market theory, which posits the price system as a perfectly coordinating mechanism for goods and services provision. Research in the fields of joint venture has shown that collaborative modes of governance successfully replace the price mechanism where there is, for instance, resource complementarities or transaction-specific investments (e.g., Anderson and Narus, 1990; Anderson; Hakansson and Johanson, 1994). Joint ventures can be examined through the lens of these three theories. The remainder of this theoretical part introduces these theories and briefly describes how they can help to explain the framework for implementing joint ventures.

3.2. Strategic Alliances and Collaborative Relationships

Strategic alliance involves organizational arrangements between firms. Gulati (1998) states that from a strategic standpoint, some of the key facets of the behavior of firms as it relates to alliances can be understood by looking at the sequence of events in alliances. This sequencing includes the decision to enter an alliance, the choice of an appropriate partner, the choice of structure for the alliance, and the dynamic evolution of the alliance as the relationship develops over time. Gulati (1998) argues that the issues, related to the start and alliance building, emerge relevant questions: Which firms enter alliances and whom they choose as partners? What types of contracts do firms use to set up appropriate safeguards in the alliance? How do the alliance and the partners evolve over time?

Firms influence the alliance formation as much as the alliance influences the firms that formed it. According to Lorange, Ross and Bronn (1992) the partners desires regarding input and output resources are basic determinants of the type of strategic alliance a firm enters into. When two firms may wish to put in a minimum set of complementary basis, and all of the output (learning, know-how, equipments, profit, etc.) is given to the parents, this is an *ad hoc* strategic alliance. In a consortium alliance, parents are willing to put in more resources than in the *ad hoc* case, but the outputs are still disbursed back to the parents.

This can be found in situations where two firms pursue joint research and development. Moving along the continuum, we have the joint operations strategic alliances where the parents are still only contributing a minimum set of input resources into a common organization, but the main output resources are now retained in the alliance. The only output resources that fed back to the parents are in form of financial results, such as dividends or royalties. The opposite end of the spectrum form de *ad hoc* pool is the full-blown joint venture. In this case, resources are supplied in abundance and most of the outputs are ploughed back to the alliance itself. An example of this is the long-term cooperation between partners to develop an entirely new business operation (Lorange, Ross and Bronn, 1992).

Another classification is presented by Bamford, Ernst and Fubini (2004). They classify four basic types of joint ventures. In the *consolidation* joint venture (JV), the value of the alliance comes from a deep combination of existing business. In the *skill-transfer* JV, the value comes from the transfer of some critical skills from one partner to the joint venture – and sometimes to the other partner. In the *coordination* JV, the value comes from leveraging the complementary capabilities of both partners. And in the *new-business* JV, the value comes from combining existing capabilities, not businesses, to create a new growth. The transition team should focus on maximizing operational synergies in the first two cases and understanding new or expanded market in the latter two.

Also important to study joint ventures are the collaborative relationship strategies. Bresser (1988) suggests cooperation as a important strategy for the firm to focus on its central competence and to reduce environmental turbulence. Based on evolutionary biology, game theory and ecosystems, Nielsen (1988) points the importance of collaborative relationships to improve the firms efficiency. Barkema et al. (1997) also bring the international approach for the learning process of relationships.

3.3. Core Competences

The core competence of a company is a function of the resources it has in a moment of time (Prahalad, Hamel, 1990). Through this view, a business can reach better results not only because it holds better resources, but because it has a core competence to use and apply these resources in a better way (Mahoney, Pandian, 1992). Wernerfelt (1984) states that resources and products can be considered the two sides of the same coin. Products need services and support of different resources and the majority of resources can be applied to many products.

The resource based view of the firm influenced the understanding about the strategic formulation, highlighting the uniqueness and some features of companies and suggests that the key for profitability is not make the same things that the others, but explore the differences (Wernerfelt, 1984; Mahoney and Pandian, 1992; Stalk, Evans and Shulman, 1992; Grant, 2002).

Grant (2002) distinguishes resources from competences and comments that resources alone cannot create value to the company. To establish a competitive advantage, the resources need to be organized and used to develop organizational competences. According to Collis and Montgomery (1995) the resource-based view of the firm improved the strategic development, viewing the company as a set of tangible and intangible resources and competences. Through this point of view, no company can be similar, once they have different experiences, assets, skills and organizational cultures.

3.4. Transaction Costs Economics and Contract Theory

By the time a good or service reaches the end consumer, many transactions have been conducted throughout a value chain. Transaction, according to Williamson (1985), is the transformation of a given product through technologically separable interfaces. The transaction costs are the costs of affecting an exchange, either through the exchange between two firms in the market or, also, the transaction of resource transfer between vertically integrated stages in a single firm, through the consideration that the information is not perfect and has costs.

According to Klein and Shelanski (1994), "TCE studies how partners in a transaction protect themselves from the risks associated with the exchange relations". The reduction of risks implies the reduction of transaction costs. Coase (1937) states that there are costs in using market mechanisms. These costs are those of discovering what are the prices, what are the costs of negotiating individual contracts for each exchange transaction and the costs to specify precisely the exchange conditions in a long-term contract. Ganesan (1994) defines them as the costs of reaching a satisfactory agreement for both parties, adapting the agreement to future contingencies, and guaranteeing the fulfillment of its terms.

Transaction costs are distinct from production costs: they are the costs to establish a transaction. They can be divided among the ex-ante costs, the costs of the transaction itself, and the ex-post costs (Williamson, 1985; Farina et al., 1997). Examples of ex-ante costs are information gathering, selection of agents, and preparation of the contract. In the transaction cost is the cost of negotiation, and as an ex-post transaction cost is the cost of breach of relationship, the cost of monitoring and control of agents and the cost of renegotiating alterations in the contract.

The exchanges can be analyzed from the viewpoint of contracts. Contract theory supplies important elements for understanding transactions in general. All the possible occurrences in a relationship are specified in them as much as possible. The parties include safeguards to minimize risks of opportunistic action from the other party.

These analyses could help in the process of preparing relationships between agents in this system, emphasizing points of interest for safeguards. Understanding the behavioral assumptions is important in order to comprehend the analysis of transaction costs. They are bounded rationality and opportunistic behavior. Bounded rationality is addressed in the TCE framework, mainly in relation to the limitation of the agent in predicting all future conditions by means of a contract. The main problem deriving from bounded rationality is the emergence of opportunistic behavior by some of the parties involved in the relationship (Zylbersztajn and Farina, 1999).

3.5. Transaction Dimensions

According to Williamson (1996), transactions differ from each other. This is the fundamental reason explaining the existence of different institutional arrangements to rule each transaction, such as spot market, contracts, joint ventures, or vertical integration. According to Williamson (1996) "TCE states that this diversity is explained, mainly, by the basic differences in the transaction attributes".

The first of the attributes of the relational contract theory is the transaction frequency, that is, the sequence and the regularity of a transaction. According to Zylbersztajn and Farina (1999), frequency has a dual role, because the greater it is, the smaller the average fixed costs associated to information gathering and to preparation of a complex contract that can impose restrictions on opportunistic behavior.

Secondly, the attribute uncertainty includes the variance or lack of knowledge of future elements related to the transaction. According to Neves, Zuurbier and Campomar (2001), the transactions with greater uncertainty should have more future adaptations in contracts, and demand more complex control structures, with higher cost, interfering in the manner in which the transactions occur.

The third attribute considered by contract theory receives a precise and measurable characterization in TCE: asset specificity, which refers to how specific the investment is for the activity and how costly its reallocation is for alternative use (Williamson, 1996). This attribute takes a main role in TCE. Because it is a perennial culture, an orchard with several productive cycles, citrus production is very specific, since its allocation to another activity is very costly.

Given the concepts of TCE, the behavioral assumptions and their dimensions, these can be useful for the analyses of the relationships between the agents and their functions, mainly for us to cross-reference some variables contrasting with the theory.

4. The Framework to Build Joint Ventures

The framework proposed in this paper is formed by 6 steps, as illustrated below (see Figure 2). The steps have theoretical and practical contributions, as indicated in the figure.

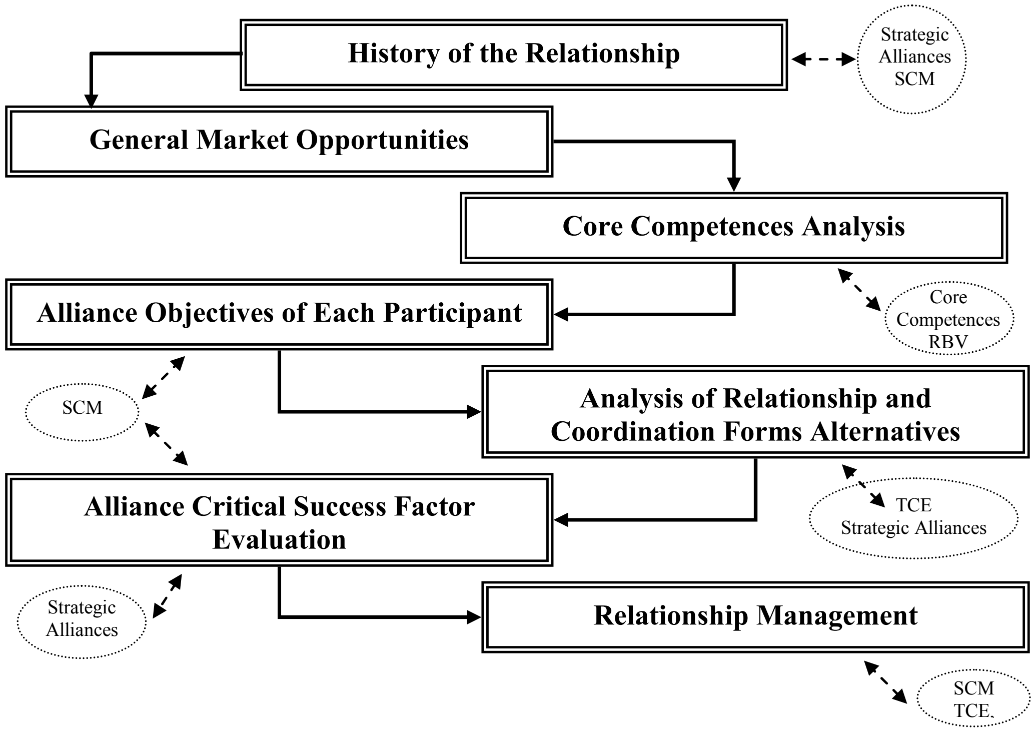


Fig. 2. A Framework to Built Joint Ventures

4.1. History of the Relationship

The first step refers to a detailed study about the history of the past relationships between the focal company and potential candidates. As joint ventures are strongly dependent on the commitment and goodwill of the companies to change some of their behavior at the cost of individual benefits (Coughlan et al., 2001). Ring and Van de Ven (1994) consider the analysis of past relationships an important step to avoid alliance failure.

The evaluation of the firms' relationship is related to Gulati (1998) point of view that a firm on its own initiative identifies the need for a alliance, identifies the best partner available, and chooses appropriate contract to formalize the alliance. Rather, the author observed that many new opportunities for alliance were presented to firms through their existing sets of alliance partners. In the instances in which firms independently initiated new alliances, they turned to their existing relationships first for potential partners or sought referrals from them on potential partners. Hence, the Table 1 tries to enumerate some points highlighting the A and B's history. It is a suggestion of table to be filled up.

Table 1

List of Points to discuss and Commit of the Previous Relationship

♦ They want to do business for a long time
♦ They are willing to grow the relationship with cooperative culture
♦ They will be patient with each other's mistakes
♦ They have a strong sense of loyalty
♦ They have similar goals, methods of operations, corporate cultures and decision-making processes
♦ The high management is committed
♦ There is not a threat of unfriendly takeover
♦ It is good to share financial risks of the initiative

Table 1 (continuous)

♦ They want to make long term investments
♦ They will dedicate people and efforts to the alliance
♦ Rapid changes happen in the market
♦ They will be not looking for other organization as business partner
♦ If other organization appears, they will try to use their offer as a benchmark and not substitute either A or B
♦ There is something very valuable to be transferred from one to another
♦ A has insufficient resources to grow by its own and to reach B channels
♦ Entering by its own in A market is not the best solution for B
♦ Both companies desire leadership in the market
♦ The relative urgency of this relationship is the same for A and B

The A and B companies have developed an excellent relationship in the last three years. They keep a good buyer-supplier relationship and a constant information sharing process. This is a result of more than 15 meetings, traveling and visits, involving several persons from different areas. These meetings are important due to the fact that several alliances fail because of lack of commitment.

Considering that there is already a high level of trust and commitment, next steps will be to see and analyze the opportunities, the companies and the governance structure.

4.2. General Market Opportunities

The second step is to draw on the opportunities the companies face in their business and how the alliance can enhance it. Corbett, Blackburn and Wassenhove (1999) comment that the market analysis should be conducted including structure maps, value added analysis, validation of opportunities for the target market. A and B companies are discussing on a strategic movement in a market.

The framework applied in the case was developed with the aim to analyze the market opportunities for the companies selected and after that common opportunities that could better be explored by the alliance were discussed. If there isn't a need on the market of such a company with a particular offer (product + services). Also the moment to enter could not be the best, or even where to enter (which market). Potential partners should do marketing research before advancing on the relationship. Table 2 is a suggestion of market opportunities rising for the potential joint-venture.

Table 2

Market Needs

The market wants (under the marketing concept, what are the needs that justify a new company or a new operation?)
♦ Clients need more assistance ♦ Final consumers and stores need a broader product line and services ♦ Home centers market need new products ♦ Urban infra-structure will grow ♦ The companies A and B market needs products + services offers together

4.3. Core Competences of each Company

The definition of core competence, by Prahalad and Hamel (1990), refers to the organization learning process, especially in coordinating the several production abilities and technology. It is the central activity of a company, what it makes best. The decision for diversification and entrance in a new market must be oriented by the core competence of the company. What is suggested in this step of the framework is to reflect on the core competences of each company and confront them in a table. The case of companies A and B shows some examples (Table 3).

Table 3

Consolidated Chart of Companies Core Competences

A	B
♦ Excellence in projects and innovations ♦ Intelligence in client solutions ♦ Relationship with clients ♦ Access to financing ♦ High production scale and relative low production costs	♦ Excellence in products ♦ Excellence in branding ♦ Excellence in distribution (multinational coverage) ♦ Responsible for an input of A ♦ High investments in P&D

The list of competences of each company was defined after three meetings mediated by the authors. In the first meeting with directors and managers of company B alone, the competences of company B and the opinions of the participants about the company A competences were discussed. In the second meeting, the opposite was done with company A. The last meeting was a shared one, where the competences of each company were listed and the participants of both companies were asked to score the competences of their own company and the other company. The scale used was zero to non-important competence (to the strategic alliance) to 10 for competence extremely important to the possible alliance.

After these opinions an open discussion happened in the major points where the evaluation of both future partners was very different. Why this difference happened? What kind of opinions was different and how were the competences evaluated? After this open debate, another round for point's attribution was done, and opinions tended to become more equal.

4.4. Objectives of Each Participant

In order for an alliance to have success three initial conditions are necessary. First of all, and most important, is that there must be a need in the market. Under the marketing concept, initiatives should be built if there is a need for them. The second and third conditions are related to particular wishes of the companies involved.

Corbett, Blackburn and Wassenhove (1999) state that to be successful, firms in an alliance must mutually agree on processes and objectives before starting an alliance project. Mowery et al. (1996) emphasize the normal interfirm knowledge transfer that happens. Table 4 resumes some needs of the case discussed in this paper, evaluating the objectives of companies A and B.

Table 4

Who Needs What from the Alliance?

A wants:	B wants:
♦ To grow faster in the Brazilian market ♦ To improve market coverage ♦ To operate in new business ♦ To be present in public projects ♦ More penetration in retail ♦ To launch new products	♦ To grow in the "company A" market using strategic alliance (complementarities with other company) ♦ To add value to its sales ♦ New products ♦ New business ♦ New technologies ♦ To offer complete solutions ♦ To attend different needs of different market segments ♦ More access to governmental financing projects

The definition of objectives followed a process similar to the competences definition. Each company sets its objectives separately. The difference here is that the companies stated their own objectives and also "speculated" the objectives of the other company for the alliance. After these definitions, an open debate was done again, so that objectives of each company could be openly discussed and comprehended. So the three conditions listed above – market needs, and companies' needs – seem to be filled up with this initiative. Next step attempts to study the possible arrangements, or coordination forms for the joint initiative between B and A.

4.5. Analysis of Relationship and Coordination Forms Alternatives

Powell (1990) states that while alliances may be considered a distinct form of governance that is different from markets or hierarchies, there is also considerable variation in the formal structure of alliances themselves. Ring and Van den Ven (1992) also exploit combinations of governance structures based on law, economics, sociology and management.

This step is to confront the joint venture option with other possible arrangements. In the case worked in this article, two alternatives will be raised. The first one is a joint venture. A joint venture is a kind of strategic alliance where two original companies (A and B) build a third one, C and the two original continue to exist (if they finish, it would be a merger). The second alternative is the investment of B in the A capital, in an amount up to than 49%.

Table 5 presents a synthesis of the possible advantages of the joint venture. The same analysis could be done for the merger option, and they would have to be confronted. As it is a summary, there will be showed just the reflections on the Joint Venture option to serve as an example. In general, this solution is quicker to form and develop, less risky, more flexible to operate and enable stretching financial, managerial and technical resources. It is a way to increase sales without too many investments and without a large increase in overhead costs.

Table 5

Joint Venture possible advantages to companies

B	A
♦ Would be able to grow in its market segment using the strategic alliance, adding value to its current product line ♦ Acquire technology from A ♦ Increase speed of operations ♦ Risk sharing ♦ Outsource marketing costs designated to the market segment to C ♦ Since it would be more linked to final clients, it will be able to launch new products and services with more efficiency ♦ Together with A, offer complete solutions, trying to produce other components that today are supplied by other companies ♦ To attend different needs of different market segments ♦ To attend complementarities with other company ♦ To be linked to a strong partner since there is high lead time to develop A products ♦ More access to governmental financing projects	♦ Would outsource marketing (communication, sales, distribution and staff) costs to C ♦ Grow faster in the Brazilian market ♦ Double resources and investments ♦ Double management capacity ♦ More penetration in retail using channels of B ♦ To launch new products to new market segments using B channels ♦ The focus on family and small farmers market with adapted products using B channels could be improved

4.6. Alliance Critical Success Factors Evaluation and Relationship Management

This step identifies factors within the firm's market environment that determine its ability to survive and prosper – its key success factors – and develop guidelines to the relationship management for the companies and the joint venture (Grant, 2002). Spekman et al. (1998) give important contribution of an adequate relationship configuration and implementation. Also the research done by Inkpen and Beamish developed an interesting framework to evaluate instability of international joint ventures, based on power and dependence. The authors conclude that instability increases with imbalance.

The works of Mitchell & Singh (1996), Mohr & Spekman (1994), Pearce (1997) and Park & Ungson (1997) also have important contributions for the characteristics of partnership success, conflict resolution techniques and how business can survive under a collaborative strategy.

These analysis and management decisions are very important, because such management decisions may influence the future and the performance of the alliance. Nevertheless, Gulati (1998) argues that the performance of alliances has received less attention than others areas. While issues concerning the management of individual alliances are still important and merit further consideration, new issues resulting from managing the portfolio of alliance have arisen. Table 6 shows the critical success factors for the joint venture. Both companies should very well discuss each of these.

Table 6

Critical Success Factors – Conditions to Succeed for Company C (getting over disadvantages)

♦ Architecture of the joint-venture must be very well done
♦ Critical driving forces (human resources, marketing, finance) should be addressed and agreed by A and B
♦ Strategic questions like mission, strengths and weaknesses, trends must be joint discussed and agreed
♦ Organizational culture should be addressed, in factors related to time orientation, technology, communications, information flow, organizational structure, labor and style of A and B
♦ Risks of problems in relationship between A x B should be considered
♦ Risks of acquisition should be considered
♦ Operational integration should be done
♦ Double taxing should be equalized (disadvantage)
♦ Discuss market risks, in case of lower expectations for B or A
♦ Discuss A and B risks of changing management and the new management not being interested in continuing the joint-venture
♦ Discuss competitive technology risks (in the company C segment), since this will be one of the businesses of B, and the only business of A
♦ Control methods should be very well discussed and agreed by A and B
♦ Management skills must be aggressive and marketing oriented to reach advantages listed
♦ Resources should be committed and capital risks should be addressed
♦ Risk of technology (production + projects) transfer from A to B should be considered
♦ Risk of marketing channels transfer from B to A should be considered
♦ B is involved in all other segments that compete with C. There is a risk in the future of more investments of B in other segments that would be prejudicial to C
♦ Build up a leadership strategy, being pioneers, making things happen, entailing spirit and enthusiasm, risk taking and others
♦ Both brands should be maintained in the joint-venture due to their power and awareness
♦ Consider if B products would be only available to C and not to competitors of C (or at least price policies for competitors)
♦ Risks of C competitors (clients of B today)
♦ Price of A and B products to C should have a policy and be very well discussed (transfer prices policies)
♦ Risks of channels conflicts, that will happen, must be considered. B and A may have different relationships with channels. How will it be with C?
♦ Who will develop new products demanded by C? B of A? This question should be discussed

This poses questions about what such capabilities are and what systematic tactics firms might use to internalize such capabilities. At least some of these capabilities include (as regarded in this framework): identifying valuable alliances opportunities and good partners, using appropriate governance mechanisms, developing inter-firm knowledge sharing routines, making requisite relationship specific asset investments, and initiating necessary changes to the partnership as it evolves while also managing partner expectations.

Bamford, Ernst and Fubini (2004) regard the process of building and managing the organization (a cohesive, high performing joint venture or alliance) a great challenge, when most managers come from, will want to return to, and may even hold simultaneous positions in the parent companies. Many venture CEOs lament that alliances are treated as dumping grounds for underperforming executives, rather than as magnets for high potential managers. Most companies that complete a merger dedicate a full time team of their best leaders to integrate the target company. By contrast, many joint ventures launch teams comprise a handful of part time managers who are learning as they go.

Some guidelines for launching planning and execution apply to all joint ventures and alliances. The parents should appoint a launch leader and identify deal champions. The latter are typically senior executives from each parent company who are known and respected across the organization and have a strong interest in the success of the joint venture. The parents should also assemble a dedicated and experienced transition team immediately upon signing the memorandum of understanding. This team is responsible for getting the business up and running. Its tasks include developing a detailed business plan, creating a road map that orchestrates the activities of all work groups, and intervening when the launch process veers off track.

5. Managerial Implications, Limitations and Future Research

There is an overall concern about how alliances are formed. In this paper, we discussed a framework to guide firms in their process of joint venture formation. In the search for competitive advantages, companies form joint ventures to better explore the competencies and to join efforts expanding their businesses and exploiting synergies. The framework presented in this article contains six steps and was completely applied in a formation of a joint venture between two companies, whose identification was preserved.

Managers may use this framework to guide their decision making process along the joint venture formation. There are high costs in the phase of elaboration a contract, defining objectives and setting the necessary safeguards. Once managers are able to systematically make their decisions, the chances of success are rather high.

It is important to notice that the framework was applied in only one case. Case study provides rich insights for the development of the framework to build joint venture, however one has to be cautious on the generalization of the results. Each market has its particularities and therefore using this framework in other industries may require some adaptations. It is a suggestion for future research.

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