"Strategic Partnering: Managing Joint Ventures and Alliances"

Thought Leadership Roundtable on Digital Strategies
February 28, 2006 – Raleigh-Durham, NC

Discussion Guide

Strategic alliances have long been recognized as a potentially rewarding way to do business. What could be better than a strategic partner that brings capabilities that your company is missing? On paper, partners often have very complementary market knowledge or access, product or technology competencies, management skills or other resources to bring to the table, but fully leveraging them is not easy. Few forms of alliance are as demanding as a joint venture (JV). For reasons that are sometimes elusive, only about 50% of joint ventures have historically succeeded. Yet companies keep seeking strategic partners and forming joint ventures to extend their competitive footprint and fuel growth. What are the driving factors for this, and, more to the point, what are the critical success factors? What should the information technology approach from the partners be—hands-off or hands-on—in response to different structures and setups? Can/should CIOs more proactively contribute in alliance/JV forming?

Defining an **Alliance**: "An alliance [is] an agreement between two or more separate companies in which there is shared risk, returns, and control, as well as some operational integration and mutual dependence" (Ernst & Bamford) – essentially, anything between an arms-length deal and a full merger. Defining a **Joint Venture:** A **JV** is defined as an alliance in which both firms have an equity stake in an entity – operational integration and mutual dependence is often higher than in other forms of alliance.

Session 1: Forming and Negotiating Strategic Alliances *(please come prepared to outline the top three reasons why your company forms strategic alliances/JVs and give a typical example).*
Why do companies form strategic alliances? What are the driving factors? What determines the form of an alliance? What are the most important considerations in negotiating a JV?

- Are alliance opportunities systematically identified and considered as part of strategy? If so, how? What has driven the alliances in your company?
- Is there a systematic process to screen opportunities that come over the transom? What is it?
- What are the right reasons for launching a strategic alliance? When should a partnership take the form of a joint venture (JV) versus another perhaps looser form of alliance?
- How do you define success in different forms of strategic alliances? What have the chief obstacles been?
- How does one define a successful JV? Is it achieving a return that is greater than the cost of capital invested? If so, how do you ensure the real investment gets counted?
- How do you build-in strategic alignment between partners?
- What does the team look like that is charged with negotiation and where does it sit? Is IT on it?
- Some people feel a JV can only succeed if it is a 50/50 joint venture. Anything else is inherently imbalanced, they believe, and unlikely to lead to a satisfactory result for both partners. Others believe that if you don't have control, you have nothing. Where does the truth lie, and more importantly, what are the determining factors?
- Do you need a prenuptial agreement before signing the JV that recognizes that this venture might have a limited lifespan and even addresses ultimate disposition?

Session 2: Launch and Ongoing Operations *(please come prepared to share a specific best practice related to operations of a strategic alliance, preferably from a JV)*
What are the most important considerations in the launch? How do you lay the groundwork for long-term success in the launch and early execution? What are the key success factors for ongoing operation of a JV? How involved should a CIO be in the JV's IT?

- What are the chief do's and don'ts in that critical period between the MOU and the initial months of operations when you're actually creating and establishing the JV/partnership?
- How is the launch of a complex JV different than an acquisition? Are companies as disciplined about this launch phase as they are about integrating acquisitions? Should they be?
- What are the chief challenges / best practices in operating a JV? How do you address ongoing governance issues? Do you want to, and if so can you, build a "JV culture?"
- How do you ensure that the value generated and distributed by the JV stays commensurate with the ownership structure and inputs from different partners? What can interfere with this?
- What is the role of information technology in ensuring the success of joint ventures and other partnerships? Is it imperative that the two parent CIOs "partner" around the information technology needs, better that one runs it, or is this entirely situation dependent?
- How much systems integration is needed for joint ventures? What are the issues to be considered?
- How does a "prenup" impact the CIO's approach in supporting the venture?
- How would you respond to the comment that "JVs are increasingly viewed as strategic options to be exercised in due course"? If this is true, what is the impact on how JVs are launched and supported? Is this how your firm views them?

Breakout: JV Café
JVs in China: Special Considerations
The Role of IT: Planning, Driving, Supporting
The Crucial Role of Launch Teams

Session 3: Re-Evaluation, Restructuring and Dissolution: Why, When and How *(please come prepared to share the primary reasons (w/examples) you've had to restructure/dissolve an alliance/JV and what you learned from it)*
When and how do you re-evaluate the appropriateness of the JV? How do you adjust to keep investment (of all types) and rewards in balance or restructure/dissolve the entity as appropriate?

- Should the JV's appropriateness be reviewed constantly, periodically or on an event-driven basis? Should each partner regularly conduct an audit of major JVs?
- Is it important to create expertise in the JV that all parties value? Or should one avoid creating expertise that is held within the JV as that is more likely to lead to partnership problems? How do you protect internal interests and IP?
- Given that there are at least 500 existing alliances and JVs with more than a billion dollars in revenue, companies increasingly need to adjust existing relationships. How should companies set up their alliances to successfully evolve over time?
- The market conditions under which a JV or other partnership is formed naturally change over time. How does one deal with a JV that is no longer "necessary", no longer yielding value to

both partners, or which one or both partners want to take over? What are the keys to successfully renegotiating an existing relationship?
- What are some best practices around being set to deal with the "inevitable crisis"?
- If you believe JVs are viewed as "strategic options" going in, what impact does that have on:
  - The ability to attract good people from all partners;
  - The culture of the JV;
  - How ongoing resources are committed, especially IT.

  Is there an aspect of self-fulfilling prophecy (i.e. will the "strategic option" view inherently shorten the life of the JV?
- When a JV needs restructuring, what are the best approaches?
- What are some of the best practices around establishing exit mechanisms? When it's determined that a JV should be terminated, what are the best tactics and approaches?

Summary & Opportunities for Further Discussions

- What are your key take-aways? What are the 2-3 things that you are going to think the most about when you leave here?
- What did you hear today that you resonated with as most true or likely wrong?
- What areas do you feel need some more research?