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The Value of Business Relationships:
Joint Ventures and Alliances
and the HR Manager

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'Every kind of peaceful cooperation among men is primarily based on trust...' Albert Einstein

JOINT VENTURES – A RAPIDLY GROWING CONTEXT FOR BUSINESS

Alliances and joint ventures are a well-established part of the corporate strategy toolkit. US companies alone created 57,000 alliances and JVs between 1996 and 2001 (Dyer et al 2004). In our increasingly interconnected world, the ability to work effectively with others is at a premium. For the purposes of this discussion we will group alliances and JVs together under the generic term JV.

The voluminous JV literature focuses on the strategic and commercial aspects of partnering. Our focus here is on the relational aspects of JVs. The traditional role of the HR Manager in a JV focuses on recruitment, retention, staffing and individual performance management. We believe there is an additional essential role – that of JV relationship advisor.

The HR Manager plays a critical role by asking the right strategic relationship questions and ensuring they are addressed -

- How do we ensure that relationship issues are included in the risking of a joint venture opportunity?
- How do we monitor what is really happening in the relationships between all the stakeholders?
- How do we take sensible steps to increase the chances of a successful relationship and reduce the possibilities of failure?
- How can we raise the capability of our leaders to deliver truly outstanding relationships and JV performance?

Let us first look more at the joint venture context for the HR Manager.

WHY JOINT VENTURES ARE CHALLENGING FOR THE HR MANAGER?

Joint Ventures are created to get access to resources and opportunities not available to the partners on their own. The aim is to provide the potential or capability to achieve an outcome that neither could expect to gain without the other. Do the results justify the added risk and complexity of entering into a partnership? Dyer et al (op. cit.) found that 48% of alliances failed within 24 months.

Why was this? In our experience the root cause of failure is one, or a combination, of three things:

- The reward from working together turns out to be lower than expected for one or both partners.
- An unacceptable loss is predicted from the relationship.
- One or more partners perceive the other to be untrustworthy.

Turning this around, a successful joint venture has a material reward for both sides, with an acceptable level of risk and sufficient level of trust to make it happen.

Trust is central to managing risk and creating value from relationships. Mistrust adds directly to the costs of a venture. It requires investment in time and resources to ensure that partners perform to expectations. High levels of trust lead to both lower costs and potentially higher rewards through greater creativity and innovation.

"Real trust is the expectation that things or people will not fail us, even if there are perceived opportunities and incentives for such failure." Nooteboom 2002

The mention of the word trust regularly evokes emotion. Being trustworthy has great importance for many of us and, as professionals, trustworthiness shows up in most of our codes of ethics. It often comes up as central to personal as well as business relationships.

Take the following example from the Mondavi Vinyards and their successful joint venture with the Rothschilds (Fisher 1999):

Mr. Mondavi said it was the strength of his rapport with the baron that drove the venture. "When we first met, and I looked at him and he at me, I knew he was telling the truth, and we had complete faith in each other," he said. "In 11 years never did he violate the understanding we had in that room."

We believe that facilitating trust-building is a key role of the HR manager. While Modavi and Rothchild had an instant trust, we know that trust often takes work and a specific focus. Later in this article we present a framework to encourage trustworthy behaviour useful for those working in JV environments.

BALANCING RELATIONAL AND RATIONAL MANAGEMENT IN THE JV BUSINESS CYCLE

The HR Manager well placed to champion the relational aspects of the JV. It is essential that sufficient management attention is given to the relational, relative to the rational aspects of the JV business (Table 1). The rational elements, usually receiving the most attention, tend to reflect power and control issues. The relational elements tend to reflect issues of trust, collaboration and alignment. An over-emphasis on power and control issues actually tends to inhibit trust-building.

Figure 1 Business Cycle

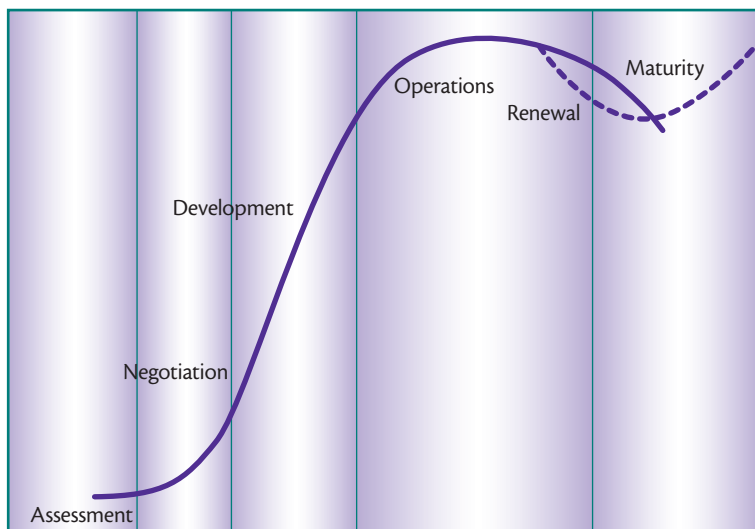


Table 1 Rational and Relational Focus

Rational - Focus on Power and Control	Relational - Focus on Relationships
<ul style="list-style-type: none"> • Governance • Contractual Agreements • Commercial Terms • Strategic Control • Tangible Assets • Operational Control • Demands and Requirements • Corporate Commitment 	<ul style="list-style-type: none"> • Alignment of Interests • Mutual Trust • Understanding • Leveraged Capability • Personal Commitment • Mutual Outcomes • Feelings and Emotions • Loyalty

Why is there a tendency for line managers to focus on power and control issues? One answer is that they are tangible, can be structured and are generally compatible with conventional risk management processes and techniques.

Relationships on the other hand, are associated with issues seen as hard to define and difficult to place a value upon. Yet the most effective managers know instinctively the importance of spending time on developing relationships and trust.

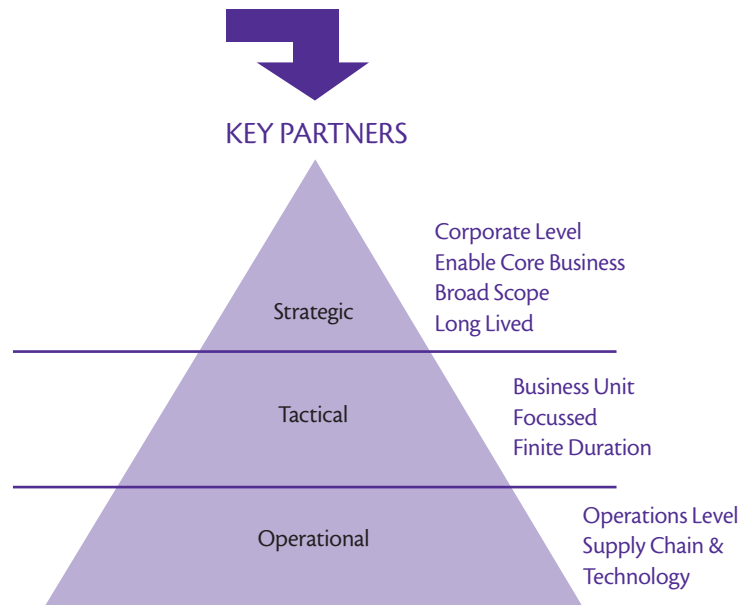
So how can you make it happen? Which relationships really count in a Joint Venture? This three step process may help.

STEP 1 IDENTIFY THE KEY RELATIONSHIPS

Use a framework to distinguish and think about the different levels of relationship – whether strategic, tactical or operational (Figure 2). This helps establish priorities and context for action. As Marks and Mervis say in “Joining Forces”:

“...leadership has to fully and successfully integrate partners all through the ranks and to manage the often conflicting political and commercial forces surrounding an alliance or joint venture.”

Figure 2 – A Relationship Pyramid



Consider the level of influence and impact upon potential reward and potential losses for each individual relationship. Here are some examples: -

Shareholder to Shareholder (partner to partner): The relationship between senior corporate players, each representing the strategic interests of their respective companies in the joint venture. They will likely be representatives on the shareholder board or committee.

Shareholders to JV Manager: This is the relationship between the shareholders and the General Manager of the JV responsible for day-to-day joint operations.

JV Manager to JV Staff: This is a particularly critical relationship if the JV manager is from one of the partners and the staff are a mixed team from the various partners. How the manager deals with diversity of thought and culture is of high importance.

JV staff to Shareholders: If the shareholder or partner managers see the primary loyalty and commitment of staff to their parent company as opposed to the JV, this can have a profound impact on day-to-day working relationships for staff seconded to a JV and inhibit the development of a distinct identity for the joint business.

Head Office to Shareholder Representative: This can be a particularly challenging relationship. The shareholder representative on the management board will be driven to support decisions that will lead to the best performance of the Joint Venture. Head Office, working from the strategic level, may have initiatives or make decisions that might not be seen to be in the best interest of the JV operation itself.

STEP 2 IDENTIFY UNDERLYING RELATIONSHIP ISSUES

In our experience, underlying relationship issues show up most commonly in five areas: - decision-making, meetings, information sharing, staffing and reaction to change. Table 2 below suggests criteria for recognising when relationships are working well and when they are not.

Table 2 Recognising Relationship Issues

	When trust is high and relationships are working well	When mistrust is common and relationships less than positive
DECISIONS	<ul style="list-style-type: none"> • Decisions made are kept • All interests are taken into account • Decision criteria are well defined • Alternatives have been considered • Decisions are clear • The right decisions are taken at the right time 	<ul style="list-style-type: none"> • Partners do not honour commitments • Advocacy of single interests • Decision by argument • Jumping to conclusions • Different views of what was decided • Decision making is opportunistic
MEETINGS	<ul style="list-style-type: none"> • No surprises • No hidden agendas • Commitment to action • Open dialogue • Right people attend 	<ul style="list-style-type: none"> • Hijacked agendas • Individual motives unclear • Lacking clear purpose • Limited follow through on actions • All information and positions no dialogue • Attendees have no decision authority
INFORMATION SHARING	<ul style="list-style-type: none"> • Best information, right time to right people • Shared access to key documents • Formal and informal information • Continuous learning 	<ul style="list-style-type: none"> • Unwillingness to share relevant information • Decisions are ill-informed • Information silos • Multiple information repositories • Limited learning and knowledge sharing • Lack of confidence in decisions
PEOPLE	<ul style="list-style-type: none"> • A collegial environment to work in • People want to be seconded into the JV • Low staff turnover • Personal satisfaction • Leveraging off cultural differences 	<ul style="list-style-type: none"> • A competitive environment to work in • Cultural differences are a barrier • Conflicts of loyalty • People want to go back to their old jobs • High levels of personal stress
CHANGE	<ul style="list-style-type: none"> • Changes can be accommodated • Uncertainty addressed through dialogue 	<ul style="list-style-type: none"> • Change results in gridlock and conflict • Uncertainty leads to mutual suspicion

Team members can be asked to provide feedback periodically, using a simple points system to indicate how well they feel the organisation is working to each of the agreed standards and to identify areas where greater attention needs to be paid.

STEP 3 IDENTIFY ROOT CAUSES OF RELATIONSHIP ISSUES AND ADDRESS THEM

JV managers may find it very helpful to have a clear framework describing what they mean by trust. It needs to make sense to the toughest commercial minds around them.

Recognition of root causes will enable trust building to be focused upon more open and productive behaviours, demonstration of mutual interests, evidence of reliability and credibility. It may even be helpful to agree and publish examples of the sort of behaviours and indicators of trust that the JV organisation will try to live up to.

While there are a number of elements to a trusting relationship, some elements stand out regularly for people considered as “trustworthy”. Maister et al 2002 presented what they called the “Trust Equation” to assess how far someone induces a trusting relationship. We’ve adapted their equation slightly to read as follows:

$$\text{Trust} = \text{Credibility} + \text{Reliability} + \text{Rapport} + \text{Mutual Interest}$$

Credibility: Can I believe or put faith in what they say? Is there evidence that their thoughts and ideas are based on a solid foundation?

Reliability: They may be credible but can I trust that they will do what they say they will do? Reliability is usually evidenced by track record. At the start of a new relationship this element is missing and a track record has to be built. What is the evidence of an intention to be reliable so far?

Rapport: Can we openly address difficult issues together? Can we reason with each other and tolerate some upsets without assigning blame and breaking down the relationship? Will we be able to adapt as we join our different national or business cultures? Do we have good informal lines as well as formal lines of communication? Are we open to challenge and ideas from each other as partners?

Mutual Interest: Are our interests truly mutual? To what extent do I feel that they are motivated by their own self interest? Do I suspect that they have their own private agenda? Do I mistrust that they really have any of my interests at heart?

Perceived or real, exclusive self-interest on the part of a partner is the most damaging element to trust.

It can be helpful to assess where a relationship scores on a scale of 1 to 10 for each element. Calculate an overall index for the strength of a relationship. This is not a precise or scientific measure but it may help you to identify where underlying concerns need to be addressed. The equation can be applied at each of the various corporate and personal levels. It is also useful identify where relationships may need to be worked on, by scoring both how much you trust your partner and how much they trust you. The answers may be quite different.

FINAL THOUGHTS

To summarise, the HR Manager of a JV should be equipped to support management in:

- Assessing the significance of relationships from different perspectives.
- Observing operational interactions and recognising the symptoms of underlying relationship issues.
- Understanding the relationship risk arising from the dependence on a partner.
- Assessing the extent to which they, and a potential partner are perceived as trustworthy.
- Recognising the impact of relationship issues on JV performance.

By understanding how to view key relationships and how to improve them, the JV Manager has a proposition that will impact significantly upon the capability to deliver high performance. The HR manager will have done well to initiate the conversation.

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