SUCCESSFUL FOUNDING OF INTERNATIONAL JOINT VENTURES WITH PM

The importance of JV-planning and integration of the partners objectives as key factors with special focus on Central and Eastern Europe

Dr. Thor Möller and Florian E. Dörrenberg
Berlin and Bremen, Germany

Summary

The paper discusses the situation in Joint Ventures (JV) and reasons why a lot of them fail. Based on analyses of key factors for successful management of JV some theoretical aspects and practical approaches are shared. The two main key-factors for the success of JV are identified. First, it is very necessary to put the objectives of all potential partners in charge, especially during the early phases of the JV. Second, the concentration on the principles and methods of project management which must be applied in a real JV-project. This leads to a new model for the successful founding of international JV with PM. Furthermore, some examples about specific situations in JV between SME-companies from the east and west of Europe underline this approach. The paper is finished by a bouquet of well-chosen recommendations for the successful implementation of a JV-project, especially during the start-up phase. Special focus is put on the specific needs of Small and Medium-Sized Enterprises (SME).

1. The situation in international joint ventures: reasons and implications

In international business the joint venture (JV) is one of the most popular ways to co-operate between companies. Especially for the goal of an joint production of goods. But experience of many companies and various empirical studies point out the bad situation in most of the JV in history and today. A lot of them fail or even are not working with profit for a long period (before failing). Just about one third of the JV are running successfully. The main reasons for this situation are: lack of planning, no organised setting of objectives, wrong expectations, different problems with the partner, lack of communication, bad qualification of the staff, bad quality of products, arrogance, no cultural fit, etc.

But are there any key factors of successful JV management? Is there any way to find out the best practise? Many researchers and managers discussed these questions already and analysed a lot of important factors. In different empirical studies and with the experiences of the authors the following basic factors were analysed (see Figure 1). To ignore them means to initiate potential risks and problems for the JV.

- Application of project management
- win-win-situation between partners
- systematic information management
- open and honest communication
- cultural fit of the partners
- management of conflicts and crises
- local presence of each partner
- trust
- setting of standards
- technology-transfer
- know how-transfer
- individual contacts
- risk management
- continuity
- organisational structure is accepted by all partners
- briefly defining of objectives
- cross-cultural management
- long-term planning
- patience, enough time
- etc.

Figure 1: Basic Factors for successful JV-Management (no ranking)

During a 3-year research project at the University of Bremen (IPMI - Institute for Project Management and Business Informatics) these basic factors for successful JV were analysed and reflected. Most of them are based on two key factors: the respect of expectations and objectives of each partner as well as the application of PM-methodology. Following the current figures from European Community a growing number of JV are organised between SME, not with partners from large companies. Thus the following findings intend mainly to give some piece of advice to the project managers and CEOs representing the huge number of SME.

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2. The situation for companies in transition countries

Most JV are established between partners from different nations. Especially since the break down of the “iron curtain” there is a fast growing number of JV with partners from western countries (“Euroland”) and partners in Central- and Eastern Europe Countries (CEEC). Nearly all JV are located in one of the CEECs. Therefore it is very necessary to have a lot of information about the region and the potential partners there. Naturally, this is a task of the cross-cultural management too.

The here mentioned objectives of JV-partners in CEEC are in general and just an example. Because of two reasons it is very necessary to analyse the specific and individual objectives in each individual case. First of all one should avoid to forget any specific or individual objective. And second the partners will honour ones efforts to helping them to identify and verify their objectives. For this purpose a general analyses of the interests/objectives of JV-partners in CEEC should be done in each case.

The CEEC are also called “Transition Countries” as they have significantly changed their economic and social situation. Nowadays they are on their way to the (social) market economy. But for this they had to manage a fundamental change in their political, economical, social, cultural, etc. systems. Hardly changes in every stage of life were the consequence for all people and institutions in CEEC. The rudimental identity with the socialistic system went off in a few months. Conglomerates had to start to manage in an economical way and by own profit and losses. In consequence, a lot of people lost their work. Plenty of new private companies were established and had to make their first experiences with the so called market economy, too. The situation for the people in CEEC has completely changed, too. Many people lost their jobs, the social net was broken totally, many people didn’t get their wages and pensions for some month. The confrontation with fundamental changes for all people in CEEC had many consequences for the social life. At one hand they lost a lot of advantages of their system and got a lot of new disadvantages, at the other hand a lot of new advantages came up and a lot of old disadvantages were gone.

Even the companies had to manage tremendous changes. Before the collapse they produced goods and services in a very reactive way. Usually there was a lack of raw materials and goods as well as bad conditions in the production areas (very old and partly not working machines, etc.). The managers were partly not able to make their own planning and decisions. After the collapse of the soviet system a complete new situation took part.

This leads to very framing as well as challenging new conditions for JV-projects with partners from CEEC. As an example, Figure 2 shows some objectives and motives and their relation.

objectives and motives of the western partners:	Objectives and motives of the eastern partners:	relation of objectives
Maximise profit in the JV	maximise profit in the JV	conflict
Explore new markets in CEEC	use of international distribution system	complementary
(very) cheap work forces (lower wages and salaries per unit)	improvement of quality, stability, get hard currencies, wages and salaries in hard currencies, travels to Western Europe	complementary
easier access to resources like raw materials, real estates, information	getting western industrial goods, technology transfer, transfer know-how, access to (tropical) food	complementary
image in home country and CEEC	more personnel prestige in CEEC	complementary
market knowledge and contacts of the CEEC partner, especially to the governmental institutions	stimulation and motivation of the employees	complementary
lower tax rates	additional material and financial resources	complementary
use of specific know-how	better education	complementary
use of free capacities	creation of new capacities	complementary
reduction of the risks	sharing of risks	conflict

Figure 2: Objectives and Motives of Partners in East-West-JV

Some more implications are discussed in the presentation.

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3. Key Factor 1: "Feel in charge for your partners objectives"!

Every profit-driven organisation is looking for stability in its development and is trying to increase its profitability. There are different alternatives to explore new markets, increase the profits and/or reduce the costs. Of course, every partner in a JV wants to achieve his (very) own objectives. Only if a partner can expect this, he will give his contribution to the JV. Otherwise he will stop his engagement and tries to find other possibilities to reach what he is looking for.

International co-operations are complex enterprises. There are not only the contractual partners involved. The whole JV is influenced by many other stakeholders with a wide range of interests which are concerned directly or indirectly. External groups for example are the local government, the people who are living nearby, etc. They are interested in jobs, taxes, environmental protection, etc. Furthermore the companies themselves have different internal groups of interests. Some of the employees for example may be afraid of loosing there jobs – for others it may be the big chance in their career.

As a result, the first fundamental factor for long-term success of a JV is based primarily on the fact, that all partners should reach their objectives. This is the only good basement for a better understanding and co-operation. In long-term-thinking only a win-win-situation between all partners in JV gives a solid basis for successful business. But for that it is necessary to know ones own objectives as well as to have detailed knowledge on the intentions, needs and (sometimes hidden) objectives of the (potential) partners.

Especially in international JV there is a need for a high effort in communication as well as it is absolutely necessary to understand and accept each other really – stimulating a growing relationship from "contractual parties" to "living partnership". The success of the JV will finally be measured by the ratio between expected and realised success of each involved group. The mentioned research study as well as the practical experience show that there are two indices of "best practice" in reaching the objectives of the stakeholders. To avoid a lot of problems in advance or even to solve upcoming problems the partners should think about and give their own contribution to the JV first. To do this, the practical experience from a number of JVs proposes an approach step by step.

First of all the "mother" company (often: the investor) should analyse its current situation and the mid-term objectives. The company should be sure about its own intentions and objectives, its strengths and weaknesses as well as about the possible contribution to the JV. The same analyses should be done together with the potential partner. Figure 3 shows the chain reaction of contribution and return on investment.

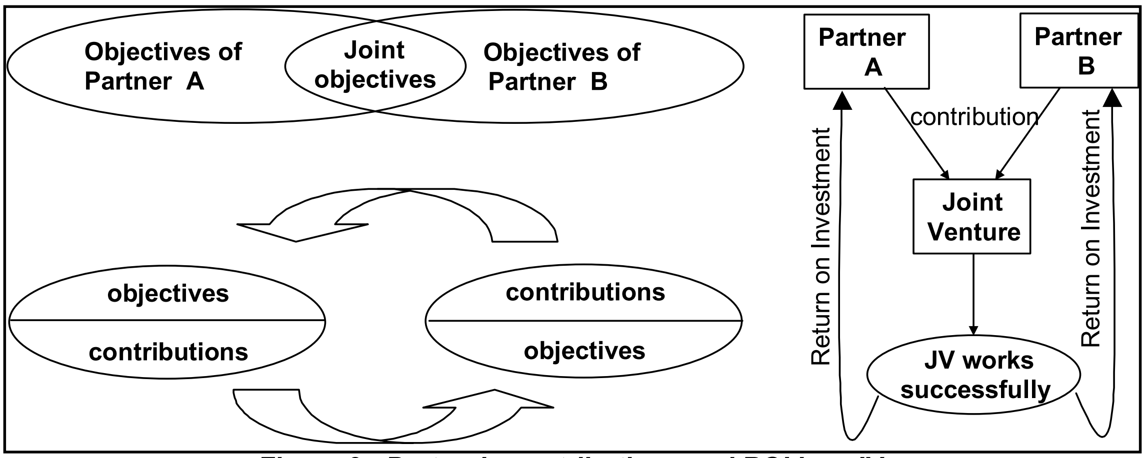

Figure 3: Partner's contributions and ROI in a JV

All partners have their own goals and objectives. If these groups are expecting to reach their objectives during the planning and founding/establishing and execution phases of the JV, they will give a good contribution. Of course the situation takes also place during the operating phase of the JV. If one of the groups mentioned above is not realising its own expectations (= often the hidden criteria for success), it will react vice versa. Investments will be stopped or they will reclaim them soon. In this case the so called "spiral of failure" will destroy the success of the JV (see Figure 4). The first step of this spiral of failure often is, that the acting parties did not put the interests of all involved groups.

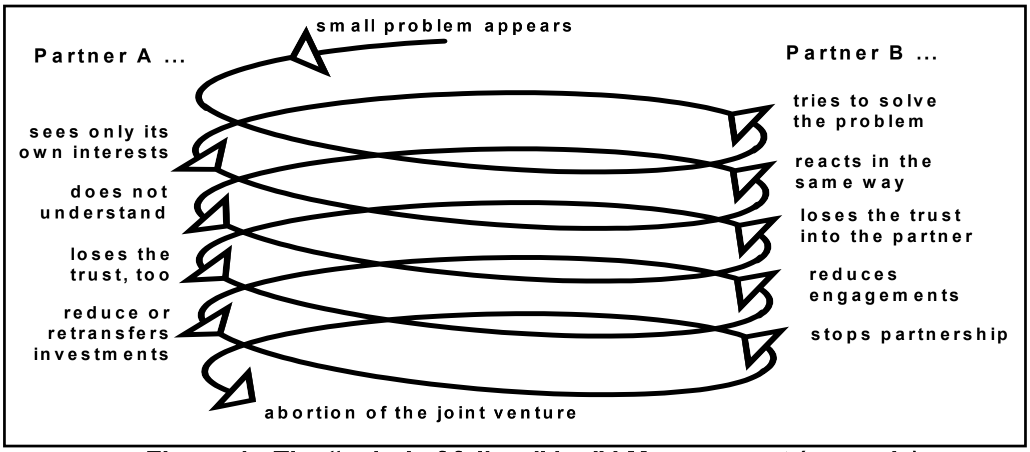

Figure 4: The "spiral of failure" in JV-Management (example)

It is obvious that each project manager should be interested that his JV-project also meets the interests (or even hidden agenda) of all partners. There should be a „spiral of success" intended and realised by the proj??ect managers off all partners.

4. Key Factor 2: "Manage the JV as a project"!

What can be done to reach the objectives of all partners involved in a JV project? How can we avoid risks and problems coming up especially in international JV? The answer sounds simple: JV are projects! But practice shows, that only a few number of JV (about 30%) are handled as a project.

By consequence the second fundamental factor for success of an JV is a precise and honest planning in the start-up-phase followed by a transparent and real wanted controlling of the operating phase of the JV proj??ect. It is an important recommendation from successful JV projects to use the well known methods, tools and techniques of project management. Successful management of JV means to manage all possibilities meeting the usual management of a company, international and cross-cultural affairs, co-operational aspects, etc. To set the first steps and establish a JV the investor should use the methods of project management. Only in this case he will be able to explore most of all possibilities in advance and manage them well.

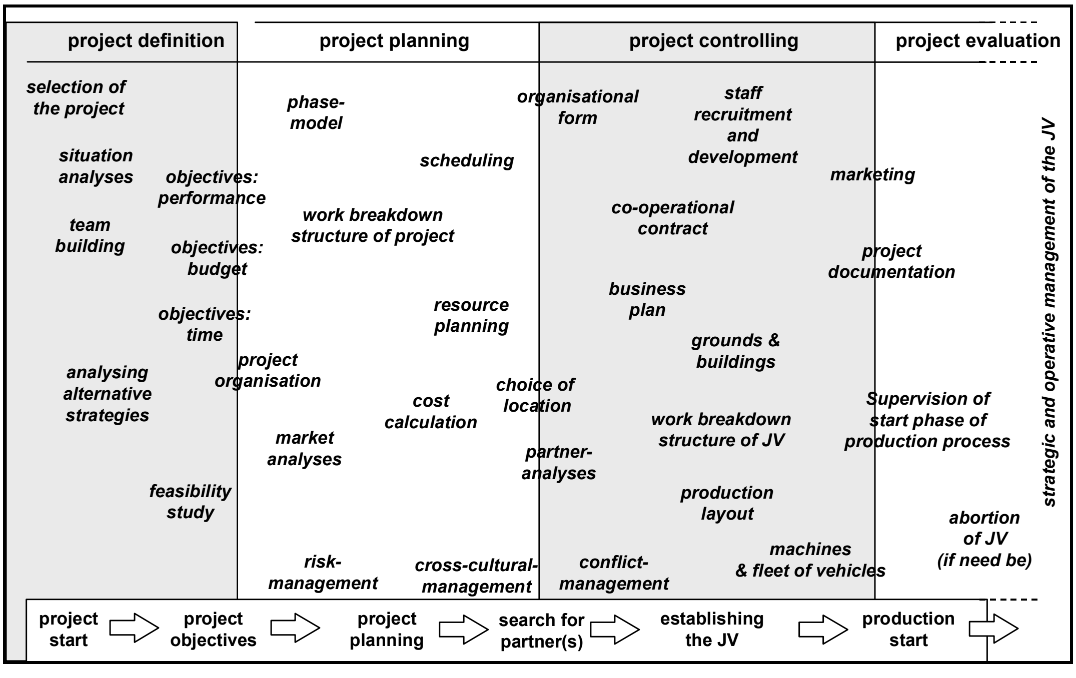

Figure 5: Model for the management of an international JV-project (phases)

To support this, a newly concept for project-oriented planning and starting of a JV was developed (see Figure 5). It is based on a number of modules which must be selected in two steps. There are typical phases and activities integrated and the company is able to develop its own individual concept for the JV-project. For minimum the company will get an individual phase model and work breakdown structure. Some parts of this concept are discussed in the presentation.

5. Conclusions

Altogether the "lessons learned" from different types and situations of JV can be summarised in a list of findings (see Figure 6). They are primarily drawn up for the successful implementation of a JV-Project, especially during the start-up phase. But they are also reasonable for the further realisation of the JV.

1. A JV should be done as a project – draw up a project charter and a "living" project plan!
2. For a long-time success all partners must benefit - put your partners objectives in chart!
3. Anti-JV-activists will appear soon - analyse the stakeholders very well and involve them!
4. Calculate the effort for the JV – and double it for the early phases!
5. It takes a long time until the ROI will come – check out to have enough time!
6. Start an JV only with a good partner – finish it with mutual benefit!
7. Share your knowledge and information - Communicate! Communicate! Communicate!
8. Trust is important – try to realise a spiral of success!
9. Some companies are overestimating their strengths – try to analyse the real ones!
10. Keep to the criteria for success or failure of your JV – abortion is an opportunity!
11. Avoid creeping of performance – do only what all partners have agreed on!
12. Know your partners motives and objectives – make yourself be known by the others!
13. Every self made experience will cost money – share the experiences from established JV!
14. ...

Figure 6: Recommendations for successful management of JV (no ranking)

Some of them may be very common - but practise shows, that people even often forget to regard them. According to best practice in business and management, they can be reached by serious project management.

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About the authors

Dr. Thor Möller studied business administration at the University of Bremen. For 4 years he was a member of the Institute for Project Management and Business Informatics (IPMI) at the University of Bremen where he was the manager of an international transfer program (Tempus) and co-ordinator of the universities co-operation with the University of Latvia in Riga. In 1998 he finished his PhD about Project Management in East-West Joint Ventures at IPMI. Since 1996 he is working as a management consultant and management trainer in Europe and published different papers in project management. In 1999 he was the manager for the department business administration at the German main association for construction (Zentralverband des Deutschen Baugewerbes e.V.) in Berlin. Today he is working as a project manager at the UCB Umwelt Consult Berlin GmbH.

Florian E. Dörrenberg has more than 10 years experience in project management. He is consultant and coach for a bpr-project in one of Germany's largest non-profit R&D institutions and he is doing his doctorate at the IPMI Institute for Project Management and Business Informatics at the University of Bremen. His subject is contract management in international projects. Mr. Dörrenberg is Delegate in the Global PM-Forum and German Delegate in the Council of IPMA (International Project Management Association). He holds different positions in the German PM association and is VP Education of the PMI-Chapter 009 Frankfurt/Germany. Since 1997 Mr. Dörrenberg is a certificated assessor for the German Project Management Award. He holds a master degree in industrial management and engineering and is one of Germany's 33 certificated and licencened trainer for the well-known course "PM-Fachmann". Furthermore he has published several papers and is co-author of two books on PM.

contact:

Thor Möller
www.con-thor.de
thor@con-thor.de

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