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Chapter One

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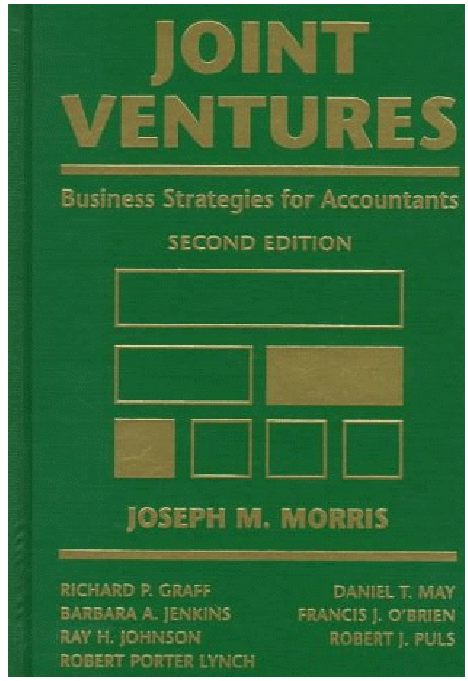


THE ALLIANCE REVOLUTION

The 1990's have been an era of massive organizational revolutions with a reconstructive overhaul that has reordered our business structures. To survive, rigid, hierarchical giants of the past have had to become far smaller, much faster, more flexible, less hierarchical, and look and act more like small and medium size companies, or face the alternative of becoming dinosaurs ready for extinction. Many multi-nationals, such as Chrysler, Shell, Dupont, Xerox, Hewlett Packard, IBM, and AT&T have reoriented their corporate structures to encompass multiple joint ventures in multiple markets around the globe.

Today's corporation requires tighter and closer relationships, requiring the joining of forces with allies, foreign or domestic, to assure continued growth. Some companies have recognized this need faster than others. Dupont now has over 125 international joint ventures; Corning recognizes more than 50% of its profits from joint ventures; Xerox and Chrysler extracted themselves from possible extinction using joint ventures; Exxon Chemical expects to see 25% of its revenues from joint ventures.

During the 1800's, joint ventures had been a mainstay of American business, playing a vital role in this country's formative years in the shipping, railroad, mining, and oil industries. Today the joint venture, as the most formalized member of the strategic alliance family, has taken on a significant role in stretching the realm of possibilities for innovation and financial rewards. According to a recent Booz-Allen study of over 2500 alliances, their average ROI was more than 50% higher than the average return for U.S. businesses.

Because joint ventures tend to be dynamic structures, they are often more flexible to operate. With a significantly lower cash requirement than an acquisition, combined with the stretching of managerial and technical resources, the returns on investment from a joint venture tend to be substantially higher, therefore the venture becomes inherently less risky.

As we move into the next millennium, the joint venture will continue to emerge as a major strategic weapon to create increased competitive advantage. But, despite its proliferation, joint ventures and strategic alliances continue to be a somewhat unfamiliar tool in our strategic arsenals. This book will show how to be successful in forming and managing a venture.

WHAT IS A JOINT VENTURE?

From a structural standpoint, a joint venture is a *separate business entity, formed and owned by two or more companies (the parents).* Typically the joint venture will have both a separate legal and tax identity, and often a separate management structure as well. However, the best and most dynamic of the joint ventures are truly *strategic alliances* -- characterized by a far richer set of defining traits that make them more sound and innovative than strictly a financial agreement. (See figure 1)

Figure 1 **Functional Definition of a Strategic Alliance:**

The best of the joint ventures are, above all, powerful strategic alliances, which have these strategic, structural, and operational characteristics:

- **Synergistic:** By bringing two organizations together, the result should be significantly greater than if they operated independently. The partners should see the relationship from a 1+1=3 perspective.
- **Strategic**: The relationship is not just of tactical convenience or strictly financially motivated -- it affects the partners' long term destiny.
- **Separate Management & Organization**: The relationship is more than an "unpopulated tax shell," but bringing together the unique talents of both organizations.
- **Tight Operating Linkages**: Typically, operational personnel of the parents will be exchanged in and out of the venture to ensure learning is transferred from and to the parents. Interaction between the joint venture and the parents tends to occur at multiple levels, including the top echelons, as well as among operational managers.
- **Beyond Win-Win**: Successful ventures make the commitment to ensuring that the other company truly emerges as a winner, recognizing that by both winning, they all gain more.
- **Top Rank Support:** Because the venture is a vital part of a company' strategic future, they receive the attention and backing of top management.
- **Reciprocal Relationships**: By sharing strengths and information, the partners migrate value and increase the possibilities for innovation and growth.

WHY ALLIANCES TODAY?

Alliances have been growing at the rate of 25% annually since 1987, and over 26,000 have been publicly announced in the last ten years. But is this just a short term aberration before we return to our senses? Or are the large number of joint venture formations a sign of greater comfort with a more cooperative style of doing business? Or, more importantly, does this trend signal a fundamental strategic shift in the very nature of what we think about business strategy itself?

CHANGING NATURE OF COMPETITION ITSELF

It is quite clear that the nature of competition itself is changing. Companies are learning rapidly that there are great advantages to cooperation, and that joining forces with a competitor is not tantamount to collaborating with the enemy, because not every competitor is an adversary.

Relationships are blurring as the distinction between who is a competitor and who is not is becoming far more intricate. For instance, at Bell South, a $13 billion regional telecommunications company, their relationship with AT&T has become quite intricate. AT&T is their largest supplier, their largest customer, their largest competitor, and their largest alliance partner. To Bell South, this must feel like organizational schizophrenia!

But the reality is: these multiple relationships are indicative of the types of associations corporations can expect regularly in the future. Such new complexities will require a new view of the competitive landscape, and a new set of rules of engagement.

TRENDS AND DRIVING FORCES

The proliferation of joint ventures is being driven by a multiplicity of forces, (see fig. 2) often with powerful and surprising results:

- **Global economic and competitive forces** have transformed the nature of some industries. In the airline industry, the liaison between United and Lufthansa has meant that Delta had to abandon its routes to Frankfurt. In an attempt to fortify its strategic arsenal, Delta linked with Swissair and drove American Airlines out of its Zurich route.

- **Converging technologies and markets** have been the primary factor in some of the

Fig.2. **DRIVING FORCES FOR JOINT VENTURES**

1) STRATEGIC DRIVERS
- World Class Company Goals
- Long Term Competitive Positioning
- Create More Profitable Lines of Business

2) RESOURCE DRIVERS
- Management Resources
- Technology Resources
- Financial Resources

3) TECHNOLOGY DRIVERS
- Hybridization of Technology
- Development of New Technology
- Commercialization of Technology

4) MARKET DRIVERS
- Globalization of Markets
- Access to Markets
- Closeness to Customer
- Speed to Market

5) RISK DRIVERS
- Share Uncertainty/Unpredictability
- Share Operational Risks
- Share Technology Development Risks

6) COST DRIVERS
- Economies of Scale
- Lower Capital Expenses
- Utilize Partner's Lower Operating Costs

7) REGULATORY DRIVERS
- Government Prohibitions
- Legal Requirements
- Taxation

8) PRODUCTION DRIVERS
- Control/Lower Cost of Supplies
- Improved Quality & Reliability
- Design for Manufacturing & Assembly

9) TRANSFORMATION DRIVERS
- Change an Inadequate Internal Culture
- Shift to New Industries
- Reengineer Core Processes

mammoth joint ventures in the tele-communications industry. The future of wireless telecommunications has emerged as a multi-billion dollar competitive battle, with companies such as Motorola, Sprint, Microsoft, and Loral creating joint ventures for the control of satellite-based cellular telephone systems. (see figure 3).

Figure 3 THE GALACTIC JOINT VENTURE SATELLITE BATTLE OF THE SKIES

Iridium Cellular Telecommunications and Its Competition

Strategy:

Iridium is a telecommunications joint venture designed to enable cellular telephone users to have full and complete access to global communications. By launching 60 Low Earth Orbit (LEO) satellites, Iridium will give cellular subscribers the opportunity to call anywhere throughout the earth by accessing a nearby satellite.

Cost and Financing Factors:

The startup costs before reaching break-even are estimated at over $3 billion. The joint venture raised an initial $1.6 billion in cash to get started.

LEOs, because of the low height, are destined to last only 60 months. Therefore, every month a satellite will fall out of orbit, requiring replacement -- a very heavy monthly operating cost.

Joint Venture Members:

Iridium is lead by Motorola, a $15 billion technology company with core capabilities in telecommunications, chip design, and computer systems. Other members include Sprint (itself a joint venture between GTE and the French and German telcos), Bell Canada, and Stet (Italian Telephone), plus financial investors, and international aerospace companies with satellite launching capabilities. The alliance partners have core capabilities in operating regional cellular phone companies, marketing communications products and services, customer billing, and the political savvy to navigate through their region's regulatory process and long distance tariff issues.

Competitive Alliances:

The winner of the global wireless telecommunications race will most probably go to the swiftest alliance that achieves has global access first. Other joint ventures are competing heavily for the first position in the marketplace. Among the competitors are:

Inmarsat: Spinout from an already existant shipboard marine satellite communications joint venture. Led by ComSat, the Norwegian telco, and a Japanese telecommunications ministry, the alliance expects to rush to market using the existing Inmarsat relationships with a large number of internationally connected telecommunications companies.

Odessey: A joint venture led primarily by Loral (a defense contractor) and Qualcomm (a high speed data communications R&D company) and others which will utilize developing super-ultra high frequencies (PCS) where the broader bandwidth will enable higher levels of data communications as well as voice communications.

Teledesic: A network of over 120 satellites designed to become a fundamental element in Microsoft's strategy to link telecommunications and computer systems. It is designed to leverage McCaw's large cellular presence with Microsoft's superior software abilities.

- **Systems Integration** has spurred the creation of numerous joint ventures as increasingly sophisticated technologies have required closer coordination of their research, development, and customer application. In the biotech industry alone, over $2 billion is invested annually in joint ventures of this sort. In the financial services industry, ventures are proliferating to better link the customer electronically with investment services, benefits processing, bundled services, and cash access.

- **Value Migration** within an industry has caused numerous joint ventures in the oil industry, as the profitability and risk profile of the industry has changed. Twenty year ago oil companies tended only to form joint ventures to reduce the high risks involved in exploration and drilling of new wells. Then, as the profitability was driven out of their refining operations, more and more oil companies, such as Shell and Mobil, formed joint ventures to operate their refining plants and then jointly distribute its output. As the next decade unfolds, these companies are forming new joint ventures with their petro-chemicals divisions to find new value-added possibilities together from their down-stream derivative products.

- **Globalization** has compelled many companies to engage in joint ventures to enable them to gain a position in emerging markets. In countries like Brazil and China, General Motors has established large scale ventures to create new breeds of economy cars for developing nation markets.

- **Innovative Technologies** have spawned numerous joint ventures. Today, 40% of all breakthrough technology development is done through collaborative ventures. IBM and Toshiba, two fierce competitors, teamed up to create a joint venture to develop and produce active-matrix lap-top computer screens. In the automotive industry, GM, Chrysler, and Ford collaborate regularly on new technologies, such as electric cars, batteries, brakes, and headlights.

TRANSFORMATIONAL ADVANTAGES OF JOINT VENTURES

What is perhaps the most impactful aspect of joint ventures their ability to change the very nature of the corporation itself. In 1982, GM and Toyota formed a joint venture called New United Motor Manufacturing, Inc. (NUMMI) that today produces Geo Prisms, Toyota Corollas, and Toyota trucks. NUMMI has paid off dramatically for GM by showing GM how to improve its own quality. What's more, the GM-Toyota joint venture provided much of the organizational learning that was necessary to establish the highly effective Saturn division, now the hallmark of GM's future.

Similarly, Chrysler gained extensively from its joint ventures. When Chrysler purchased AMC-Jeep, it acquired the learning of AMC's joint venture with Renault, which gave AMC new methods for lean production. And with Chrysler's joint venture with Mitsubishi, it gained core knowledge about using platform teams and taking advantage of the capabilities of its vendors by forming supplier alliances. Fortunately, these new capabilities were transferred into Chrysler just at the same time the automotive recession hit in 1989. As a result of the what it had learned, Chrysler transformed itself, going from the brink of bankruptcy to what is now the most profitable car company in the U.S. on a profit-per-car basis.

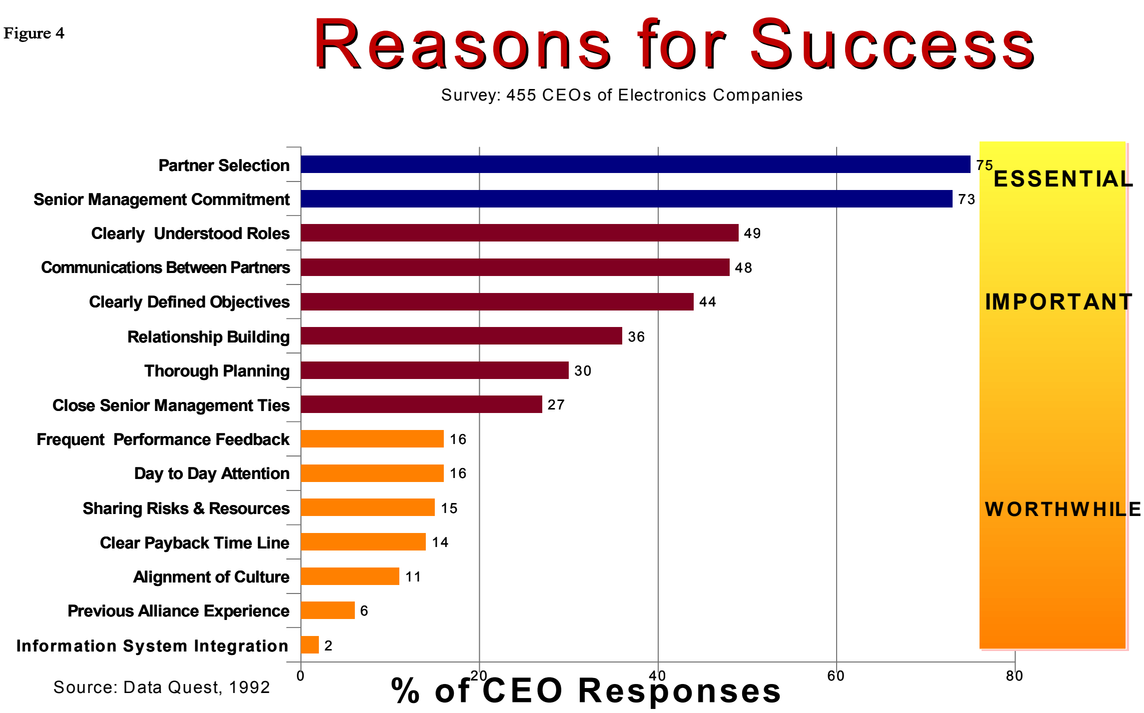
Transformations like these are not just isolated to the automotive industry. Between 1970 and 1979 Xerox had experienced massive erosion of market share due to intense competition from Japanese copy companies such as Ricoh, Sharp, and Canon. Turning to Fuji, their joint venture partner in Japan, Xerox learned how to adopt new methods of production, how to benchmark themselves against the competition, how to utilize suppliers more powerfully through strategic alliances, and how to accelerate production schedules. As a consequence, Xerox was able to recast itself and rebuild its business.

Smaller businesses have used the joint venture with equally striking results. In 1974, ten small Holstein milk farms in Canada linked together to form Semex, a joint venture intended to export genetic material from prize bulls. When they began, the export venture added only 5% to their revenues. Now, Semex has catalyzed a $50 million joint venture business, which provides 50% of the farms' total revenues.

FREE STANDING JOINT VENTURES

The free standing joint venture is intended to be independent and support itself as a fully self-sustaining business entity. Corning uses this approach in its joint ventures, and has been tremendously successful doing so with partners such as Ceba-Geigy, Dow, and Samsung. Similarly, Merck, in its joint venture with Sweden's Astra created Astra-Merck as an

Figure 4



independent company in 1994, which now does over $4 billion in sales.

SPIN-OUT AND PRE-ACQUISITION JOINT VENTURES

Often the joint venture is used to provide a smooth transition to a new strategic position in the marketplace. For example, when Dupont recognized the need to focus on its core competencies in petro-chemicals, it made the decision to spin-out its $1.2 billion pharmaceuticals division to Merck through a 50-50 joint venture. This enabled Dupont to remain competitive in the pharmaceuticals business and retain future options for expansion in this direction without having to develop a competency that could have been very elusive and extremely costly, with little return on investment for years to come.

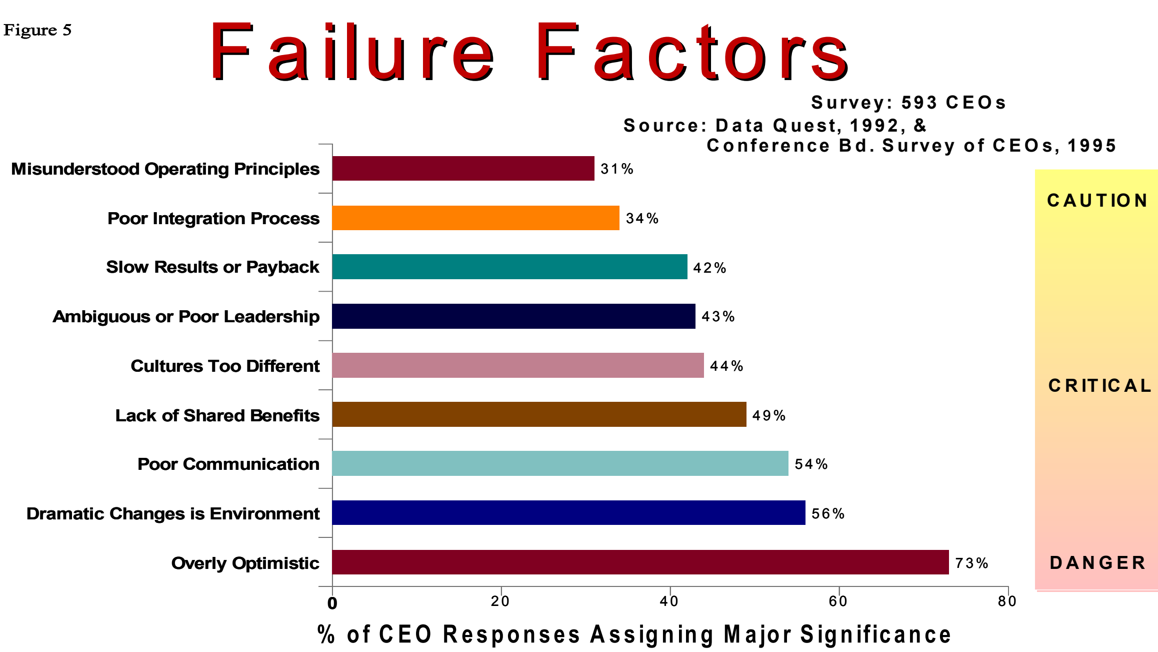
Others use the joint venture as a pre-acquisition mechanism to provide a longer and less traumatic period of transition, thus enabling far better integration than an outright acquisition as the business unit shifts between the old and new business cultures. When IBM decided to divest itself of its Rolm Communications Division, rather than selling it outright, it spun it off into a 50-50 joint venture with Siemens, who then eventually bought the entire division after assimilating Rolm into a new culture.

Unlike a merger or acquisition, the joint venture is seldom intended to be a permanent, stand-alone organization -- more often than not, its purpose is as an interim/bridging structure designed to enable the partners to have flexible options for the future. In fact, 80% of joint ventures are eventually bought out by one of the partners, with the average joint venture lasting seven years.

KEY FACTORS FOR SUCCESS

Successful joint ventures follow a very specific pattern that distinguishes them from

Figure 5



unsuccessful ones. In studies of hundreds alliance successes and failures, and examining the results of CEOs, a number of key factors for success clearly distinguish the winners from the losers. (see figures 4 & 5)

We have found, in case after case, *before* initiating the deal, CEOs were most concerned about: *control, control,* and *control*, followed by ownership/deal structure, oversight/board representation, valuation, and prevention of interference.

However, what's important to note from the Success & Failure Factor analysis (figs 4&5) is that, *from hind-sight, not a single experienced CEO ever cited control*, *quality of the legal agreements*, or *deal structure* as a factor that led to the success of the venture. This does not imply that these issues are unimportant — (e.g. the quality of the legal agreements will be very important in the event the alliance fails) — but they may have only marginal significance on the ultimate success of the venture.

Instead, in study after study, we have learned that what senior management should have been concerned about was their own personal *commitment* to the venture, their *vision* for its future, their *relationship* with the top management of the other company, the venture's operational *performance,* the "skin in the game" to ensure an fair *spread of the risks,* maintaining a high level of *communications,* and *flexibility* as the conditions that originally catalyzed the venture in the first place begin to change.

LESSONS FROM THE OLD MASTERS

Many joint ventures have lasted several decades or more, such as those created by Corning, Hewlett Packard, Xerox, and Union Carbide. When senior executives from these firms are queried about additional factors that lead to success of ventures over 20 years old, they enumerate several additional distinguishing factors:

- **Long Term Synergy:** Don't confuse "rationalization, cost cutting, and economies of scale with "synergy." True synergy is an "architected" process; it happens through careful strategic design and attention to the details of integrating the interactions between the two cultures to create a "superordinate" culture that is more than just a blend of the best elements of both parents.

  This is how Fuji-Xerox has grown to be a $7 billion company and has won innumerable quality awards in Japan.

- **Aligned Vision:** Successful integration requires forging relationships based on an "aligned vision," constantly looking beyond the near-term to create new competitive advantages over and over again. Those ventures that are willing to re-create bold new futures for themselves have a far greater likelihood of success.

- **Multiple points of contact**: High performance joint ventures achieve powerful results not because of their deal structures but because of their strategic and operational capabilities. These require frequent interactions at both the top echelons and at the middle management level. When these interactions begin to fade, trust begins to erode, and the success of the venture is surely ready to wane.

- **Retain Your Champion**: In case after case, the quality and longevity of the champions on each side has been a very strong indicator of success, or failure.

  In a recent study conducted of 462 joint ventures that received anti-trust approval by the U.S. Department of Justice, we found the correlation of success with champions was astounding. If there were no champions in place after 5 years, the success rate was a dismal 20%. However, even if only one champion was in place five years later, the success rate leaped to 60%! Successful Japanese joint ventures make the champion a life-time appointment for this reason.

  When seeking a champion, look for several defining characteristics: *a passionate crusader, an entrepreneurial risk taker, a person with a powerful and clear vision for the future, with demonstrated leadership and a successful track record, who puts their commitment to the 'greater good' of their organization above their personal gain or fame.* A powerful champion must be admired not only by their own organization, but also by the other partner's. Truly effective champions *must* have access to both their own top management, as well as the top management of other side, so that they may take rapid action to keep the alliance on the right course as it navigates the rocks of corporate lethargy and the shoals of conflicting demands.

- **Define the Boundaries Carefully**: The future will seldom be a reflection of the past. What looks reasonable today will often look foolish ten years from now.

  For example, companies that formed alliances with the Japanese in the 1960's never thought about China as a potentially lucrative market-place. Naturally, as China emerged from its isolationist shell and became a desirable market, the joint ventures in Japan saw the Chinese markets as their natural birthright -- also did both their Japanese and American parents. A battle like this can tear an alliance apart.

- **Change Structure as Needs Change**: Times change, the competitive landscape shifts, CEOs retire, technology accelerates, champions are promoted, and people move in and out of organizations.

  As a case in point, these situations all happened within eighteen months to one joint venture that had been successful in the insurance industry for ten years. It is no wonder the companies were locking horns and ready to take each other to court. Once they recognized the magnitude and multiplicity of the shifts they had experienced, they were ready to shift the framework of the alliance to make it adapt to the new conditions.

- **Reap Rewards from Innovations**: As a proving ground for designing bold new futures and taking risks for technology development, the joint venture has an admirable track record.

  Ford, for example, has used its joint venture with Mazda to gain a formidable competitive advantage by reengineering processes to cut costs, increase quality, shorten design cycle times, and improve labor relations.

  The best companies, such as Hewlett Packard, Xerox, and Corning have established sophisticated mechanisms for migrating the innovations from their alliances back into and throughout their organizations. But they don't stop simply at migration; they have developed *capability building* initiatives that enable them to form alliances faster, manage them better, coordinate them more effectively, thus achieving a much higher level of success and performance than their competitors.

THE IMPORTANCE OF BUILDING TRUST

In every successful alliance, experienced practitioners cite "high levels of trust and integrity as critical factors in their venture. This trust did not come easily or by accident, but rather from a number of factors, including: working together closely, intense face-to-face communications, a commitment to a win-win relationship, an aligned vision for the future, and an in-depth understanding of the other company's culture, pressures, and requirements.

Often joint ventures build and accelerate trust by using team-building exercises, careful use of negotiations techniques that will regenerate trust in the future, and spending ample time on the issues of operational integration. The accomplished veterans of numerous alliance formations quickly learn that the relationships between key executives and managers aree, ultimately, more important than the structure of the deal and who has control.

European, Japanese, and Canadian companies are generally more adept at building trust than their American counterparts because they understand the value of assigning people to the alliance who have *both character and competence*. Job rotational cycles for foreign firms are far less frequent than with American firms (who tend to have a revolving door approach to job rotation), seldom giving their executives time to build trust before shipping them off to new assignment.

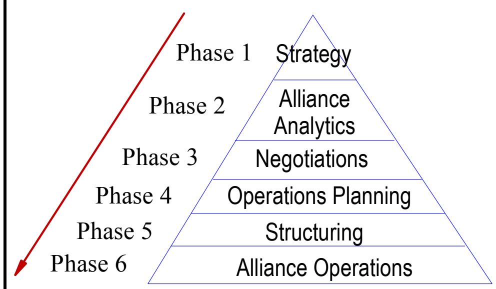
One technique used to create integration of personnel, seldom used in the U.S. but often employed elsewhere, is "secondment:" the assignment of personnel, on a temporary basis, to the other organization in order to supplement resources, learn new cultural patterns, establish personal relationships, build trust, and to better understand the needs and concerns of the other side.

Trust, however, must not be viewed as simply a nice thing to have in an alliance. More importantly, trust must be considered an essential ingredient to the success of the venture. High levels of trust enable much higher levels of performance, significantly greater innovation and creativity, enhanced problem resolution, expansion of possibilities, and much faster implementation. These all translate directly to the top and bottom lines of the venture, because they represent lower transaction costs between alliance partners. As one financial executive at British Petroleum exclaimed: "we thought we were lean and mean after doing our own internal reengineering; then we found we still could get another 30% in savings by a strategic alliance."

BEST PRACTICES AND ALLIANCE ARCHITECTURE

Recently we conducted a benchmark study of the alliance managers representing the top corporations throughout America that were the most prolific in forming joint ventures and strategic alliances. The corporations that participated (AT&T, Boeing, Dupont, GE, IBM, Motorola, Texas Instruments, and Xerox, among others) represented well over 1,000 alliance formations. The experienced managers identified vital "best practices" that led to their abilities to repeat success time after time:

Figure 6 **Alliance Architecture**
Strategy Drives Function
Form Follows Function



- **Alliance Architecture**: The best companies learned that they needed an "architecture" — a set of processes, practices, frameworks, and methodologies that would yield success on a regular basis. (see fig.6) Fundamentally, they learned that deal-making alone was insufficient to achieve success. The best alliance architectures always put the development of a strategically sound approach first, and, crucially, the structure of the deal was never finalized until the details of operational integration were worked out. ("form follows function"). As one executive proclaimed: During negotiations "spend 80% of the time on goals and alliance management, and only 20% of the time on how to structure the deal." The best companies ensured that sufficient time was spent on understanding the other company and their own needs before entering into negotiations.

- **Alliances & Acquisitions**: Companies that had effective joint ventures saw both alliances and acquisitions as important tools in their strategic growth arsenal, and knew how and when to use each for the most powerful impact. However, many noted using a more *formalized "cookbook" approach to the acquisition/divestiture process*, while *alliances used a more "customized architecture,"* which applies key principles, checklists, core questions, and development processes, much like an architect uses core principles to customize a building.

- **Top Management Involvement:** Virtually all companies linked alliance effectiveness to top management involvement. As one executive said *"Our partners are extensions of ourselves."* There must also be a very clear, concise, and rapid method of approval of alliances so that they do not wither before birth from bureaucratic indecision.

- **Internal Teamwork**: All executives pointed out the need for exquisite teamwork between the internal business development staffs and the operational units which would ultimately be responsible for the venture's success or failure. This requires seamless integration between "front end" and "back end" of deals, close integration between strategic planning, business development, finance, legal, and human resources, and coordination between the business development and operating groups regarding each other's respective roles, capabilities, and functions before forming the alliance.

  In particular, the best companies had built a clear role for the Business Development staff. Typically the staff is tasked with identifying and screening candidates, conducting business analysis, linking strategic action to the operational units, providing negotiations support, and designing a system to measure the effectiveness of the venture and get it back on track when necessary.

- **Finding the Right Partner**: Selecting the right partner may be the most important factor in creating a successful joint venture. The best companies have very specific and unique selection criteria, such as a combination of market presence, strategic fit, money, technology, etc. Generally, the more sophisticated the criteria, the greater the need for complementary critical core competencies. Several factors stood out:

- **Partner Searches**: The best companies engage in extended, proactive searches. These companies tended to indicate a higher success with alliances than companies who reactively responded to the first suitor who called.
- **Due Diligence:** As one executive said: "You must do good due diligence to find out the real strategic direction and position of the company and make sure that they have a strong desire for growth within the markets that you would be addressing."
- **Screening Factors:** Throughout the survey was the critical impact of both strategic fit and good "chemistry" as primary screening factors. These became essential "gating" factors at the front end of partner identification.
- **Trust & Ethics:** Tied closely to the chemistry issue was the factor of business ethics. This is more than just a platitude, and far stronger than an admonition. As many managers indicated, in an international deal, litigation is a highly undesirable option, and usually futile. Alliances thrive on high levels of trust. The absence of a good reputation indicated poor potential trust, and was a first-level "deal-stopper" for international ventures.

- **Staffing & Human Resources**: Highly successful globalized companies make a clear and direct effort to pro-actively link their human resources programs to their alliance formation efforts. Career paths are carefully chosen, and individuals with the right language skills and cultural sensitivities are placed in alliance positions where their managerial and cultural capabilities will greatly increase the venture's chances of success.

- **The Cultural Issues**: There was a clear relationship between those companies who had internalized an "international culture" and their ease at bridging the "cultural gap" in their ventures. Noteworthy was their observation that in the truly global company, the cultural issues involved in managing international alliances tended to focus more on the commonality of "corporate culture" than on the differences between their original "national cultures." For the truly global company, the issue of national culture tended to have less impact on alliance management and success, except in the way the partner's political system affected the legal structure of the deal. Executives from global companies tended to agree that if companies could bond on the issue of an overarching corporate culture for the joint venture, they could generally overcome the socio-political cultural issues.

- **Developing an Core Competency in Alliances:** For companies that place significant reliance on a large number of alliances for the global growth, it is vital to develop a core competency in forming and managing developing alliances. This requires a certain proficiency and depth in several areas, including:

  - Best Practices and Best Process
  - Transfer of Learning Capacity
  - Organizational Education (clarity)
  - Commitment to Continuous Improvement
  - Understanding Alliance Architecture
  - Data Base of Existing an Alliances
  - Performance Evaluation System
  - Maintaining Best-in-Class standards

- **Venture Management and Control**: Managing and controlling an alliance is a very critical and delicate issue in alliance formation and a clear concern for most companies.

The respondents were articulate about the subject, as one experienced practitioner commented: “We try to keep ‘control’ from getting in the way of collaborative effort. But at times, because of capabilities of the organization, for instance if they are weak in specific technologies, you have to have control of certain parts of the process.” Another experienced executive states clearly: “In order to achieve your goals, the structure and control has to be natural. You cannot really enforce control. You must set up the natural dynamics of the alliance so that controls are a natural part of the management process.”

Several companies believed an ounce of prevention was worth a pound of cure, and sought to use the due diligence process to determine the realm of mutual influence possible. Other companies saw the negotiations process, not as bargaining but much more as a planning process: “We want one unified plan for the venture -- we create a joint marketing plan, and a joint presentation given to both executive approval committees.”

Financial controls still tended to dominate the mechanisms for keeping (internal) stakeholders informed. However, a variety of mechanisms were used to keep problems at a minimum, including contingency planning, conflict resolution techniques, careful operational planning and integration, team building, project management, personnel selection, and the training of critical skills in alliance management.

WHAT THE FUTURE WILL BRING

For many companies, joint ventures will be the beginning of a new set of adventures and a powerful part of their growth strategy.

But for others with a long, futuristic view, the joint venture will be neither an end in itself, nor simply part of a globalization strategy. The most advanced companies see that another massive shift is just over the horizon: the shift to a new type of organization -- the Networked Enterprise -- highly networked, focused on delivering sophisticated, fast time results. Some companies -- such as Boeing, Chrysler, Xerox, Hewlett Packard, Intel, and Microsoft -- are in the midst of the shift now. For others, the transition is not far away.

The Networked Enterprise (see fig. 7) is a highly integrated, total-solution based entity made up of alliances between suppliers, distributors, technology development companies, information systems coordinators, and, at the hub, a systems integrator that puts all the pieces together in a way that the customer gets a complete package, without having to deal with a multitude of vendors, incompatible technologies, conflicting information, and confusing or interfering methods of customer application.

The primary driving forces behind the shift to the networked enterprise are the explosive amounts of new information today, the hybridization of technologies, rapid innovation, implosive time compression, and profusive multi/cross functionality needed to produce outstanding products and services in today’s fast-changing marketplace. This organizational shift will require the participants to master the ability create and successfully operate multiple alliances, which will form the new enterprise’s backbone.

But most importantly, the emergence of the Networked Enterprise is the most revolutionary and complex shift in organizational functioning and structure in the history of commerce. This shift will radically transform the nature of work, organizational interaction, leadership, and the very way we will think of business itself. Strategic alliances and joint ventures are one of the fundamental competitive building blocks needed to build these bold new futures.