Joint ventures

Determinants of joint venture satisfaction in the IT industry

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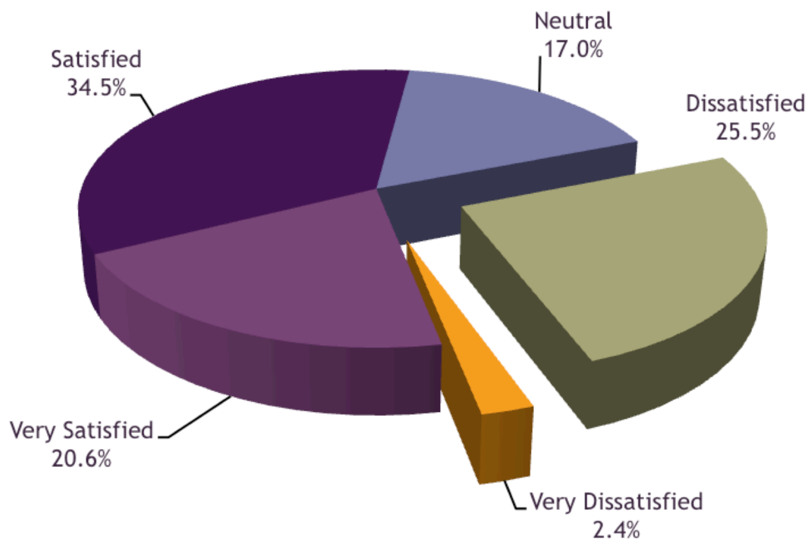
The rate of joint venture formation has grown rapidly in recent years. Yet, it has been estimated that more than half of these alliances turn out unsuccessfully. Our study shows that while more than half of CEOs and directors in IT joint ventures were satisfied, a good 27.9% of them were disappointed with the outcome of the venture. Our team of researchers finds out why.

Joint ventures in the IT industry

Fig. 1: % of respondents



The IT industry has grown significantly over the past decade, and it will continue develop at an exponential rate. In light of the challenges that accompany such growth, it seems that the formation of joint ventures is the best way forward for IT firms. In fact, a study by the Australian Bureau of Industry Economics found that IT firms benefit most from alliances as compared to firms in other industries.

25.5% of the respondents in our research (who were CEOs and directors) were “dissatisfied” with their joint ventures and 2.4% were “very dissatisfied”. Though a minority, a combined percentage of 27.9% is significant enough to warrant an investigation into the causes of dissatisfaction.

The research

A structured questionnaire was developed and distributed via a web survey. Respondents were members in the Australian Information Industry Association (AIIA), and a majority were CEOs and managing directors in the IT sector whose companies were a part of joint ventures. Most of our respondents were involved in joint ventures that were less than 2 years old. Hence insights from our research are beneficial especially for managers in young alliances and who lack the experiential knowledge.

Conflict that leads to dissatisfaction

Of all the variables tested, conflict – that is, disputes over the way things are being done and interpreted – is the greatest cause for dissatisfaction. This stresses the importance of containing and resolving conflicts between the two firms. Nevertheless, the best way to remedy or avoid conflict is to understand the underlying causes. Three of them were uncovered in our study:

1. Lack of dominant control - especially when power is distributed too evenly between the firms.

This may seem counterintuitive, but the lack of a dominant power could spark a confusion over which partner can and should exercise its power. If there is a dominant power however, the boundaries between both parties are clearer and thus less conflict will be manifested.

2. Inequity - the perceived difference both companies in terms of their *contributions* to and *gains* from the venture.

It is logical to conclude that perceived inequity encourages conflict between the partners, as supported by our study. Moreover, results show that *both* managerial and power imbalance contributes to perceived inequity. In the former case, the firm that expends more managerial resources incurs higher costs. In the latter case, the firm with the greater influence and power would have, by default, contributed more than their partners.

3. Managerial imbalance - an unfair allocation of managerial personnel and responsibilities in day-to-day operations.

The conflict arises when one manager imposes a process that is unfamiliar to parties in the other firm. When differences are not harmonised through a proper learning process, the venture is often disrupted.

The combined effect of all three factors therefore culminates any conflict experienced between the partners, which again emphasize the need for good conflict resolution. After all, conflict *is* the greatest cause of dissatisfaction amongst CEOs and directors. That said, the lack of a dominant control and perceived inequity can affect dissatisfaction directly - just not to the same extent as conflict can. Fig. 2 summarises our findings as to the determinants of satisfaction in a joint venture relationship. The relationships between the variables are also shown in the diagram.

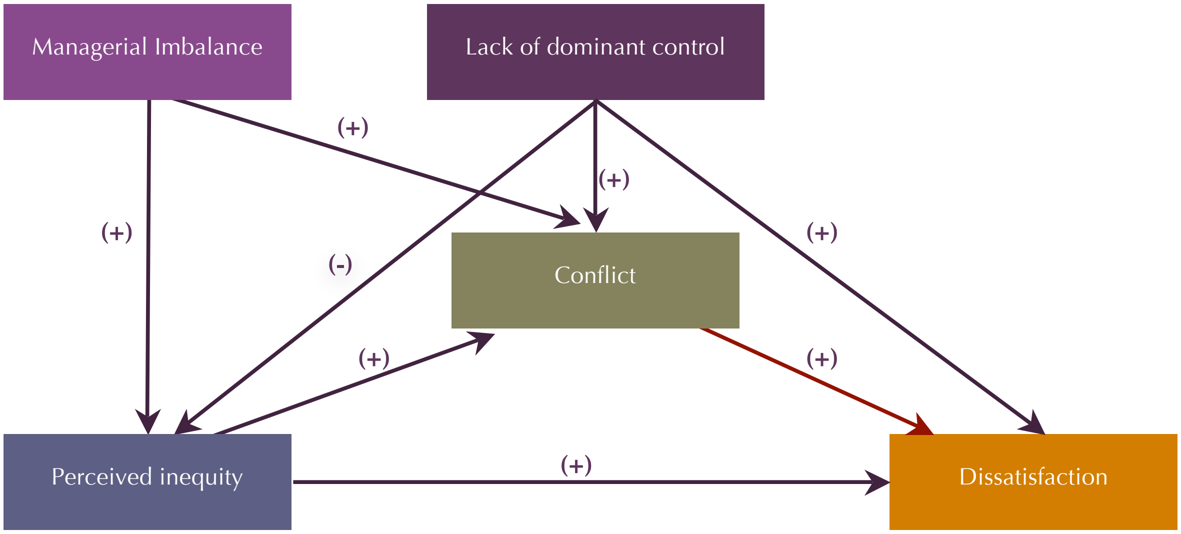


Fig. 2: Determinants of satisfaction in joint ventures

Contributions and gains in a joint venture

Inequity is perceived based on a firm's comparison of its contributions to, and gains from the venture, with those of the partner firm. In our survey, we asked respondents to rank the five different aspects of their contribution, in order of importance (see Table 1). It is interesting to note that a firm's contributions in terms of technological resources and market access were more important to them than other factors, like financial outlay.

Likewise, respondents were asked rank the gains expected from the joint venture. Clearly, the results show that attaining greater market access was often the main objective of joint ventures within the high tech industry.

Contributions	Rank
Technological resources and information	1
Providing market access	2
Investment in project (financial outlay)	3
Managerial support	4
Conflict resolution	5
Expected Gains	**Rank**
Market access	1
Cash flow	2
Technological resources and information	3
Risk reduction	4
Economies of scale	5

Table 1: Contributions and gains of firms in joint ventures, ranked in order of importance

Smaller firms,
Smaller stakes,
Less disappointments

In our study, we found that the smaller the size of a firm (in terms of head count), the more likely its people will be satisfied with the joint venture. Also, the smaller their stake in the partnership, the more satisfied they will be with the joint venture.

Implications for managers

Good conflict management skills are crucial to success.

As identified earlier, conflict is the greatest cause of dissatisfaction and it certainly pays to minimise or avoid any disputes over the way things are being done or interpreted.

Distinguish between the *appropriate use* of power and the *exploitation* of power.

While it is true that the dominant partner tends to be more satisfied with the venture, one must draw the line between the use of power to pursue *mutual* satisfaction, and the exploitation of power for selfish competition.

Share managerial responsibilities where appropriate.

Realistically, the complete sharing of responsibilities is difficult to achieve due to differences in strengths, resources, and experiences. However, success is still attainable if the more competent and experienced management team takes lead, regardless of their stake in the ownership. ■

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