Joint ventures and partnerships are all the rage. Both suffer from uncertainty of definition. Partnership is a word fraught with dangerous sub plots and, doubly so, when attached to an adjective such as true or real. As Carol O'Laughlin of Global Alliance puts it, "A true partnership does not mean one partner writes the cheque, another opens doors and another does the work".

Trust in joint ventures?!



A joint venture has similar issues. We all know a 'joint' as something you can set fire to and smoke. In the long term it addles your brain and, in the short term, creates deluded visions. Quite an apt description of many joint ventures some readers may have experienced.

Yet, joint ventures and partnerships have been around since the start of the business concept, from the time when a company did really mean the breaking of bread around the family table. Companies in 14th century Italy tended to be kept in the family due to worries regarding issues of trust such as cash and intellectual property.

Growth of joint ventures

Joint ventures are important today because the accelerating globalisation that has come with improvements in transportation, digital communications and changes in world politics, has led to companies making many more alliances to reduce risk, save costs or to be able to move quickly. This might relate to new product development, moving into new geographic markets and new market sectors or to gaining access to cheaper sources of supply.

In recent years about 60% of joint ventures have been in information technology and biotechnology. These are sectors where entry costs are high or rapidly changing technologies increase the risks. The concept expressed in Business International as far back as 1987 is that companies can 'combine complementary technologies, R&D capacity, skills, products, market presence, production capacity etc, in a way that will strengthen each partner'.

The clothing, footwear and leather industries have been awash with joint ventures for a long while as certain high quality leather and footwear came from a restricted number of sources. So, although it might not have the headlines of IT and Biotech, the footwear industry has pioneered many joint venture concepts and the general clothing and sportswear sectors have not been backward either.

The pioneer of the 'virtual corporation' concept was probably Nike. Over the years it has put together one of the best ordered and managed sets of partnerships of different kinds to create a supply network of first, second and third tier suppliers all round the world. The many forms of supply network and the partnerships and joint ventures set up within this structure have made it harder to define the boundaries of the firm and to work out who competes with whom.

Defining joint ventures

Walking round the shoe factories of Southern China and seeing a row of doors each with the name of a famous western brand, behind which is set out the secret new season's range, does make the outside observer wonder about the true meaning of 'Chinese Walls'. Yet the system has worked well for many years and helped Dongguan

quickly grow from an unpaved and hotel-free backwater into a major footwear capital and a prosperous city.

Can we really call these joint ventures when Nike manages the brand and the consumer experience but does not share ownership of the manufacturing? Perhaps in these circumstances strategic alliance is a better term. Whatever we call it the ownership set-up is important. Nike has the scale to fill factories and to control them without ownership. This is fine if you are a really large brand with big volumes.

Smaller companies such as ECCO or FootJoy view the quality of their products as a key component for their customers so they have to have a very tight control over manufacturing. Yet they cannot offer the volumes that would give them the same degree of control as Nike enjoys in a foreign plant. Their route has therefore been to own or to joint venture.

Practical examples

ECCO has taken a route that gives them pretty much total control of the plants they have overseas and, where local investment exists, it is usually a small component. The rationale is that a local partner understands the legislation, planning, labour and environmental situation and will help with location and infrastructure. The financial and ownership structure of the company will often be adjusted to suit the local tax regime, especially if grants and tax holidays are available for exporters.

The FootJoy shoe factory in China is a more evenly owned joint venture with a long-standing Taiwanese partner. As the factory only makes for FootJoy, inventory management, manufacturing techniques and new products can be kept exclusive to the company in a sports market where innovation and technology are clear drivers for consumer purchase.

The search for compatible partners is always important, as both sides must be aware of what they will be expected to contribute, as well as what they hope to gain. Margins are tight in a world of overcapacity and falling prices, so a silent partner making no contribution can expect to be promptly removed from the picture.

Driving forces

In the footwear and sportswear industries we are most often looking at a scenario defined as the buyer driven commodity chain. With the three companies previously mentioned, we have a brand name that takes charge of laying out plans for the procurement, manufacture and marketing of products. Alternatively, the controlling company might be a major retailer like Wal-Mart or Tesco, which has also pursued this approach in all labour intensive sectors.

As trade barriers have fallen and competition increased, companies have chosen to specialise on their core skills. It was in a university assignment that Phil Knight apparently first mentioned the future for overseas manufacture. But it was in his 1992 Harvard Business Review interview – 'High performance marketing: An interview with Nike's Phil Knight' – that he really acknowledged that the concept they should focus their core skills on only arose after they had passed the $1bn turnover mark. "Nike is a marketing company and the product is our most important marketing tool."

By establishing joint ventures and alliances companies aim to work with others who have specialist skills, in the correct locations for the required cost structures and with everyone doing what they do best. Costs are reduced and innovation increased. Less important areas are simply contracted out.

We are also beginning to see further additions to the thinking that says knowledge-based activities are pursued in one area while more day-to-day activities are pushed out elsewhere. This essentially means developed countries control the business strategy, design, product development and marketing, while countries with low cost labour do the manufacturing.

Potential problems

It sounds simple but what are the pitfalls? There are many. Those interested in thinking of new joint ventures only need to go back to the time of the Italian family breaking bread around the table: "Do you trust your partners?" In the eighties, a trip to Itae-wan (district of Seoul) used to be a somewhat humorous one. It was where US forces in Korea could pick up counterfeits, seconds and over-runs of sports clothing and footwear that was being made for export.

This is now a world industry and the loss of intellectual property through counterfeiting and other means must be factored into any JV thinking. GM and Honda are both involved in difficult and complex court cases over alleged copying of automobiles by Chinese makers.

Closely allied to this is the fact that the big winners in the ownership of the manufacturing element are countries with huge and fast growing populations and which will soon be amongst the world's top consumers. They also seem to have a better understanding of the value of education than some rather complacent developed nations.

As the centre of consumption begins to shift, where will the design and product development of our apparel finally reside? Will the knowledge economy continue to play into the hands of the developed world? If not, it would be wise to ensure tight control of IP if you are a developed country entering into a joint venture. For any joint venture partner recognising what knowledge is essential and what needs to be shared is paramount.

Key decisions

This also involves deciding the nature of the ownership which, as we have already shown, has elements of location and scale applied to it. There is no point having 100% ownership in a country where there is not a fair and proper legislative system and where an offer of very large volumes gives effective control with zero ownership.

Other issues of importance relate to the ease of moving capital about and the ability to remit dividends. Furthermore, the more you invest in a specific plant and location, the harder it is to move on. There are quite a number of 'legacy' plants sitting in Thailand and Indonesia with investors wondering if they might not be better off in China. So, this is very much a case-by-case analysis.

Most important of all is the choice of partner. Time and again we read that joint ventures stand or fall on the relationships developed between the two chief executives and amongst the senior staff. If they do not like each other and are not willing to make the adjustments continuously needed to make the relationship work, it will fail. Objectives need to be routinely re-aligned.

Ethical considerations

This has relevance in the ethical argument as no developed world brand or retailer can afford to work with a partner who breaks local laws, treats his staff badly or cheats on environmental matters. It is in part why the Global Alliance was established with partners such as Gap, Nike and the World Bank. As the Global Alliance CEO argues, "An effective partnership requires on-going compromises, time and investment by all parties. In the end, they often succeed or fail largely on whether or not the partnership remains accountable to an agreed set of standards and public trust, while also adding value for all participants - in other words, whether 'all boats rise."