STRATEGIC ALLIANCES

• Control

In joint venture agreements, control will likely be a key issue. It is also a subject that is far too complex to be treated here in any detail. A detailed discussion of the control issue is provided in the Investment Canada publication *Growing Together: Exploring the Joint Venture Option in Canada*.

The resolution of the control issue should result in a decision-making structure that is efficient, collaborative and synergistic. Control should be a business decision first and a legal decision second.

Ownership and control should be treated as separate issues. Careful consideration should be given to 50/50 ownership whenever possible. A 50/50 joint venture has great psychological value for the parties involved and helps to ensure that both parties are fully committed to the venture. A recent study by McKinsey and Company Inc. found that joint ventures in which ownership was split 50/50 had success rates superior to those in which financial holdings were unequally divided.[11]

Even with 50/50 ownership, however, one partner should be clearly responsible for ultimate management control. In some cases, partners can agree to maintain control over specific functions of the venture that are critically important to them. It is noteworthy that the McKinsey and Company Inc. study also found no instances of a successful joint venture

where management control was shared evenly between the owners.

• Conflict Resolution

Strategic alliances often involve partners with different cultures, capabilities, and in some cases ultimate objectives. A certain amount of conflict, therefore, is inevitable.

A moderate degree of conflict in an alliance can be quite healthy and a stimulus to creativity and improved performance. The key is to have a process in place that will keep conflicts from getting out of hand and causing serious disruption to the venture. Hence, companies should strive to reach some agreement how conflicts between the parties are to be handled once the venture is operational.

As a first step, partners should look at mitigating potential conflicts structurally or managerially. Where a high degree of conflict is anticipated, it may be best to start with a highly focused alliance and a simple structure and build the relationship working to find solutions to potential conflicts before attempting a more complex arrangement.

Having a mutually agreed upon and consistent set of management principles for the venture also helps. Many of the conflicts that arise during alliances are the results of misunderstandings or unclear or misread signals between the partners. Clearly defined and widely understood management principles and well defined responsibilities can help avoid some of the problems.

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[11] BLEEKE, Joel and David ERNST (1991), page 128.