

A well-structured partnership offers concrete benefits to both sides, often translating the synergy gained into a competitive advantage. Benefits include the following.

- Each company focuses on what it does and knows best.
- The partners share the risk and, therefore, minimize the consequences of failure.
- Partnering extends each side's capabilities into new areas.
- Ideas and resources can be pooled to help both sides keep pace with change.
- Even small firms can use partnering to take advantage of economies of scale and achieve the critical mass needed for success.
- Through partners, a company can approach several markets simultaneously.
- Partnering can provide a firm with technology, capital or market access that it might not be able to afford or achieve on its own.

TYPES OF PARTNERSHIP

Partnering can take many different forms. Agreements between firms may call for the transfer of technology, cooperation in research or project development, or the exchange of marketing rights. Sometimes firms provide equity to form a new, free-standing joint venture.

A joint venture is an independent business formed through the cooperation of two or more parent firms. Its basic characteristic is that it is a distinct corporate entity, separate from its parents. As such, it involves levels of organizational and managerial complexity that need careful consideration. The ownership split of a joint venture usually reflects the relative sizes and contributions of the partners. If ownership is split equally, it is usually because the partners are about the same size, and because each wants a strong voice in how the new company is to operate. A different equity split usually reflects unequal resource commitments.

Joint ventures have often been used as a way of avoiding restrictions on foreign ownership when entering a foreign market. In the case of Mexico, this is now less of a consideration given the liberalization of its economy and the relaxation of ownership restrictions governing direct foreign investment.

Nonetheless, forming a joint venture with another firm makes sense if the project requires commitments from the partners that are too complex and comprehensive to be spelled out in a simple contract. This is especially true of longer-term arrangements such as the operation of a build-operate-transfer (BOT) infrastructure project.