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Consulting to Tensions in a Business Joint Venture

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Abstract

A joint venture (JV) is initiated as a strategy for harnessing different capabilities; yet, in their realization, strong forces often irrationally seem to split apart the very capabilities that need to be integrated for business success. In this article we explore the early years of a joint venture in the pharmaceutical industry. We address three splits:

- Between the JV board (50/50 membership) and the operating level in terms of creating the requisite governance to work through critical differences among stakeholders.
- Between the culture in the JV and the two parent cultures that created mistrust and confusion in interpreting the abilities and concerns of one another.
- Between the leader's skill in negotiating the deals to create the JV and his inabilities to link the various capabilities that had been harnessed in the JV.

INTRODUCTION

As pharmaceutical companies have found their historically high margins being challenged by the growth of managed care, they have pursued two strategies. First, they have dramatically increased marketing directly to the consumer to create countervailing pressure from patients on their physicians for a brand-name drug rather than its generic equivalent. Second, they have more aggressively sought to switch products from prescription (ethical) to over-the-counter (OTC), thereby marketing directly to the end consumer.

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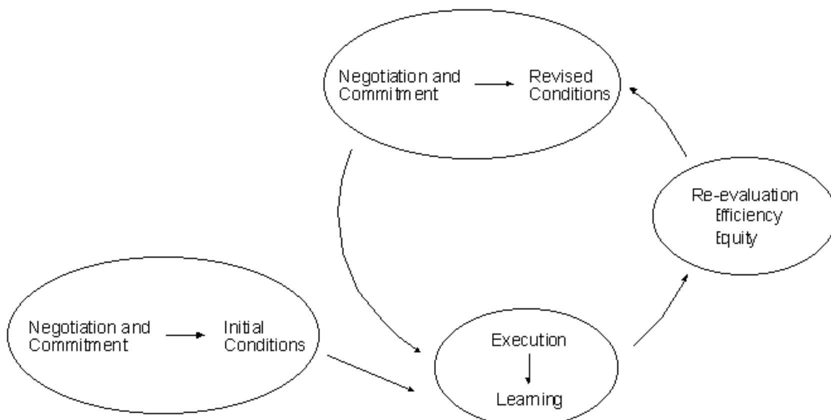
The first essential ingredient in this strategy is a rich pipeline of ethical drugs that are coming off patent (therefore facing major competition from generics), have high safety records and have high consumer visibility because of their use with common, chronic or reoccurring conditions. To realize the value in this pipeline requires core competencies in consumer marketing prowess and in-depth knowledge of how to manage the switch from an ethical drug to OTC. Switching a drug entails persuading the Food and Drug Administration via the necessary research and positioning the product claims vis-à-vis oversight from the Federal Trade Commission.

Because few single companies are likely to have all of these necessary ingredients, joint ventures (JV) have been the major strategy in linking several firms together. However, the JV then faces the challenges of linking in a new business operation and its governance elements that come from two different corporate cultures. Alliances and mergers stir up ambiguities on four major boundaries:

- Identity – who are we
- Politics – who gets what
- Authority – who is in charge
- Task – who does what (Hirschhorn and Gilmore, 1992)

As Doz has noted, ''small differences in organizational style and culture can develop into major problems once the initial honeymoon phase of the relationship is over'' (Stiles, 1994: 134).

Arino and de la Torre (1998) have conceptualized a model of the collaborative venture or alliance process as illustrated below.



Source: Arino, Africa and Jose de la Torre ''Learning from Failure: Towards an Evolutionary Model of Collaborative Ventures.'' *Organizational Science*, Vol. 9, No. 3, May–June 1998, p. 308.

The two parties begin in parallel, assessing what benefits an alliance offers that they are not able to get on their own and, after due diligence that works through the business factors, the initial conditions are established and the new entity is launched. However, in addition to the integration of the two cultures in the alliance during the executing and learning stage and in the ongoing re-evaluation, the JV itself experiences a lifecycle, from the initial group that begins it to the staffing up and developing a mode of operating. Different stages require different leadership styles. Spekman et al. (2000) suggest that initially the leadership tasks involve strategic thinking, negotiating and advocating on behalf of the vision. As the entity comes into being, the role shifts more to being a networker, facilitator and mediator in the service of achieving the established goals.

Throughout these stages, rational and irrational dynamics intertwine. The very use of the 'honeymoon' metaphor is a clue to the presence of powerful emotional forces as well as the business imperatives of the profit and performance targets. JVs and mergers share some characteristics and differ on other dimensions. In terms of differences, JVs often are a win–win for both or a lose–lose for both (Ernest and Halevy, 2000: 50), whereas mergers often benefit one party and have a negative impact on the other – often the acquirer overpays. Alliance success rates are near 50/50 percent (Bleeke and Ernst, 1993), while merger failures approach three quarters. Marks and Mervis (2001: 80) assert that ''Fewer than one quarter of mergers and acquisitions achieve their financial objectives, as measured in ways including share value, return on investment and post combination profitability.'' One similarity between mergers and JVs is that working through the group and intergroup dynamics is essential to realizing the effort's strategic logic (Kets de Vries, 1991). This is particularly challenging with alliances because the roles and responsibilities are more emergent across the two parents, while in merger and acquisitions there is a single corporate structure that can direct the operations.

In the following paper we explore a JV at a period of revaluation and how the dynamics among the leader and his team and the JV's relationship to the JV board were significant impediments to the venture's success. Why does a talented executive sow the seeds of his own destruction? Why does a JV board abdicate when either of the top executive groups from each company would have moved much more quickly to address the issues if they had been internal? What might explain why splits prevent the different competencies from coming together to create value? We will also explore how we as consultants were caught up in the dynamics with our own dilemmas in establishing who was the client.

THE CASE

The JV, comprising a consumer-health firm ('Consumer') and a pharmaceutical company ('Rx'), arose out of complementary interests. Consumer realized the growing potential of OTC products but needed prescription products that could be switched; Rx had a rich pipeline of potential switchable products but had neither the distribution structure nor the marketing expertise to capitalize fully on their potential. Thus, the two companies created a 50/50 percent partnership, which reflected their sense of the equal strategic value of the different core competencies brought to the venture. JV's governance structure (illustrated in Figure 1) consisted of a board comprised of three members from each parent; the board oversaw the JV president and his management team running the venture. One Rx board member also

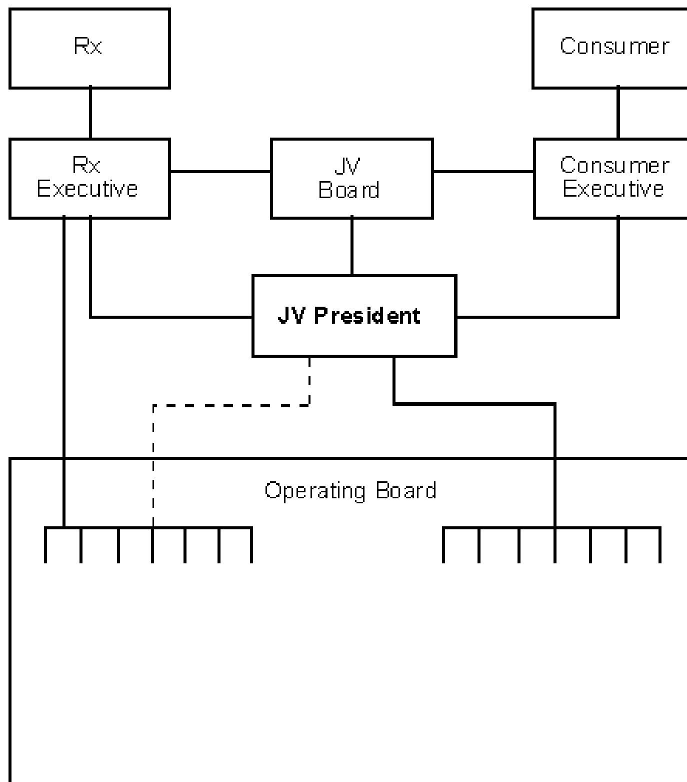


Figure 1: Governance of the JV.

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was head of a newly created Rx division for consumer drugs and reporting to him were various Rx functional liaisons or oversight executives in each of the areas of marketing, finance and manufacturing who were also members of the JV Operating Board. Significantly, the person from Rx's research function, which was a powerful separate division difficult to influence, did not report to this position. The JV president, who came from Consumer, in effect had three bosses: the board, the Rx head of the new consumer group and a senior executive from Consumer.

At the outset of the venture no products were involved, so the primary task was selecting which compounds were most profitable to work through the US Food and Drug Administration (FDA) regulatory process for switching drugs from ethical to OTC. By the close of the first year, however, the venture had acquired a current OTC product from another company and the leadership team immediately began building this product's market share and developing line extensions. As the core expertise for this work lay predominately within Consumer, most of the people working full time within the JV at this point came from that partner. At the same time (by the close of the first year), the JV team was also in a race for switching a product – from prescription to OTC – in a highly competitive category; the company first getting FDA approval would realize enormous gains. This opportunity raised a variety of issues on the seams between the JV and the parents – especially on the Rx side, with its powerful research division.

It was in the context of these dual challenges that the president of the JV organization sought consultation; he saw the tensions and duplications in its structure and dynamics as serious liabilities, especially when compared to the major competitors.

One of the authors had met the JV president when he attended an executive-education seminar as his coach, going over the feedback from a 360-degree instrument on his leadership style. He was experiencing pressure both from his team and from the board for some 'team building' to work out increased tensions among different stakeholders and develop a more functional set of organizational understandings.

In this case study we explore the dynamics of this JV. We first look at the individual leadership, what should characterize that role and the increasing misfit of the person in the role. We next examine the failure of the JV Board to address the tensions between the two parents and the JV. We look at how the primary risks (Hirschhorn, 1999) of the individual partners set in motion a flight from the challenge of real complementarity. We conclude with implications both for the leadership and management of such ventures and for consulting to such emerging entities.

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THE CHALLENGE OF DEVELOPING A FUNCTIONAL BOARD

Complementarity has empirically been associated with JV success (Hill and Hellriegel, 1994), as has symmetry in size and amount of ownership. Ironically, however, in the Consumer–Rx venture, both these presumably advantageous factors seemed hampering. Symmetry led to stalemates and duplication that hurt both cost and speed. Complementarity led to splitting rather than collaboration in the various functions that resided, to different degrees, in both companies.

Early on we became aware of interaction effects of the two parent companies' cultures (see Figure 2). The meaning that executives from one culture attributed to the behavior of the other was derived from its meaning in their own culture, leading to misunderstandings. What was 'good staffwork' or 'challenging questions' from the Rx side was viewed as implying that 'we cannot be trusted to run our own business' in Consumer where units enjoyed relatively high autonomy.

At the outset of the venture it is important to have a common goal – an agreement on what it will take to satisfy the needs of each party. Clearly, the JV, like any group, needs to know the goal to be able to focus its energy and resources and these appropriately come from the parents. Unfortunately, Rx and Consumer did not deal with this issue. The intended goal, switching, became less clearly the sole focus as the

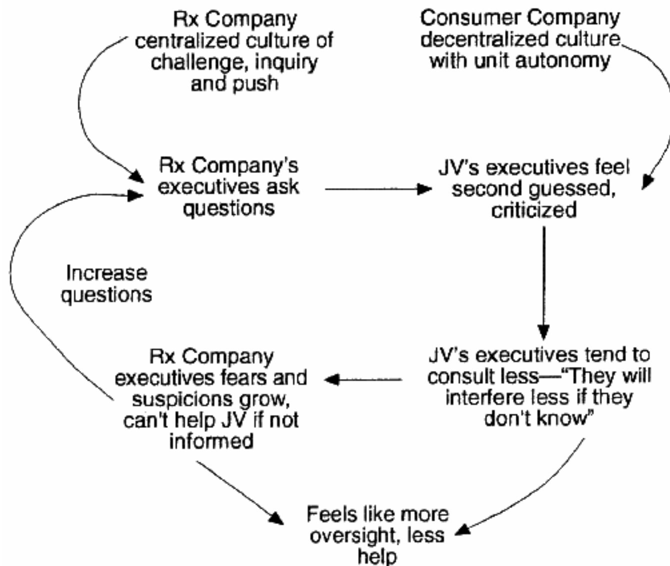

Figure 2: Example of vicious cycle of misunderstanding.

JV took on an existing product and worked to build share. The parents used different metrics to determine success. At the strategic level, Rx and Consumer did not deal with many of the tensions between them. The board meetings, composed of an equal number of representatives from each parent, were described as 'tea ceremonies' in which decisions were often left hanging. Perhaps because each parent had equal power, and/or because they felt that any conflict could potentially kill the venture, issues of strategy, decision making, leadership and control were rarely addressed and resolved.

What was troubling in this case was that the skills residing in both companies for identifying difficulties and promptly confronting them seemed strangely absent. One executive in the JV offered the image of the board as: ''Two doctors present as a patron in a restaurant is choking, each waiting for the other to do the Heimlich maneuver.'' Either one, individually, would have taken action. ''No one ever took charge and asked the tough questions,'' the executive continued. ''For example, during all the struggles to get the key product switched, people knew that there was a long-term purchasing agreement for the key active compound in the drug, which would make it difficult to get the price [of the resulting product] competitive. However, no one put that issue forcefully on the table and worked it through to a conclusion.'' This illustration also reflects the different business perspectives of the two companies. In the OTC market (Consumer's area), price is more critical than in Rx's market, where patents offer protection from direct competition.

One executive member of the board commented that the board sessions needed to be more ''mud wrestling than a tea ceremony,'' and we suspect that others felt the same way – yet all seemed to collude in keeping the sessions polite and controlled. We suspect that this deference stemmed from a resistance to work through the strategic implications of the joint venture that would inevitably imply significant changes in each company as well as in the venture itself.

Critical to the board leadership was the failure of the vice president for Consumer in Rx and the Consumer senior executive to become a productive pair (Gilmore et al., 2000). In our consultancy we had many interactions with the Rx for OTC but only one interview with the senior vice president from Consumer. They did not meet regularly. Implicitly, he had delegated his authority to the president of the JV. This put the president of the JV in an impossible position of both representing the JV and the interests of Consumer. He, in effect, was authorizing himself from the Consumer side and then having to deal in a more classic sponsor-change agent relationship with the VP for Consumer Drugs from Rx.

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Individual Leadership: The Increased Misfit Across Time

The president of the JV used the ambiguity of the board to sustain his cowboy approach to running the JV. He had been the individual that Consumer assigned in the early negotiation and commitment stage to scan ethical drug companies for the best pipeline of potential switch products. He had negotiated the strategic alliance. He enjoyed the role of independent maverick. The rhythms of an ethical drug company are much slower than a consumer company. This executive began to chaff at how long the process would be to select the drugs to switch and to work them through the torturous process of the FDA (where most of the expertise was in the Rx side of the relationship). The JV president decided to purchase a current OTC product from another company, we believe as much to have a product as for its fit with the original aims of the JV. The board did not block this move. The JV leader was once again well suited to the political dealings needed to land the product and developed a particularly sophisticated negotiation strategy that prevents a bidding war with another company. At this point the JV is dependent upon his skills and he enjoys being in control. He does not staff the board to work through key issues, but shapes the agendas to keep them uninvolved.

Because the immediate operating imperatives are to build market share for this product, the JV, not surprisingly, is informally dominated by people from the Consumer side. Although functional executives from Rx are on his operating committee, they are not insiders. Once again, the JV president has relatively high autonomy and ably meets the challenge of marketing the existing product and developing line extensions. In hindsight, this purchase may have led to his overfocus on the current marketing challenges rather than the complex dynamics of switching existing Rx compounds.

Meanwhile, the longer-term agenda of selecting what Rx products to switch and managing the switching process begins. For this the leader needs a different or additional set of skills. Instead of striking the best deal and managing people over whom he has direct authority, the leader must now possess collaborative skills to balance and manage the needs of the JV, Consumer and Rx. The president must lead a team of people, most of whom do not report to him directly. In fact, he must lead a group of people working in three companies whose goals and cultures are sometimes at odds. For instance, while in the initial stage he essentially had only to organize the marketing skills of the people who reported to him; now he must coordinate the needs of two R&D functions – a small unit in the JV and the vast resources in Rx's R&D – and three finance functions (Rx, Consumer, JV), etc. Thus, in this stage

of the JV, the leader must help people work through inevitable conflicts and be comfortable in leading by influence, not by control.

At this stage in the JV's evolution, the core leadership issue is getting the right person someone with a high degree of tolerance for ambiguity and considerable skill in working in what has been termed a 'negotiated order.' A recent research effort (Spekman et al., 2000) notes the shift in the necessary core leadership skills – in the early phases of a venture these are visionary, sponsor, advocate; in the later stages, they shift to networker, facilitation manager, mediator. We suspect that the JV president could not make this shift, and the board was unable to see quickly enough the increasing misfit between the JV president and the now-needed skills as the core tasks shifted.

Nor was the JV president good at receiving feedback. Several years into the JV, the JV's oversight boss from Rx, in an effort to make sure the president integrated Rx employees into the JV, suggested some changes in both the operating structure and personnel policies. The Rx executive felt the president was running the JV as if it were an extension of Consumer, not a 50/50 venture between Rx and Consumer. The Rx's functions of finance, marketing, operations and R&D were not being integrated into the JV's top team; they were being relegated into a checker role versus helping access resources within Rx for the JV.

The president experienced the Rx's request as an attempt to control him. He responded politically. The JV president expanded the discussion to include other issues. By doing so, he believed he could eliminate some of Rx's functions that he considered to be bureaucratic oversight rather than value-adding help. At this point we were called in to consult for the JV. Initially, we experienced the request at face value – to help the working alliances become more efficient by working through roles and responsibilities (Gilmore, 1988). However, with hindsight, we suspect we were brought in as an ally of the JV president, to push back against these demands. Furthermore, although in our proposal we had espoused the criticality of bringing 'the system into the room,' over the course of the consultancy we complied with his demands for more control, working often with only half of the relationship.

There had been other attempts to help the president become aware of how his need for control was hurting his effectiveness as a leader. He received feedback on his leadership style – for example, from his boss, peers and direct reports – but when this feedback was reviewed with the president, he responded, "They don't understand what I need to do as an entrepreneur." The staff "pissed on me," he stated.

Colleagues described the president as a "control freak." He seemed to feel that he needed complete control over all the resources (to a

degree that would negate the very premise of the JV), namely leveraging resources that were also being used by each of the other companies. While he was intellectually in touch with the JV's potential to compete successfully with companies five times its size because of leverage, his behavior enacted the opposite. One observer characterized him as ''insecure, so worried about being watched and critiqued that he wanted to manage impressions and keep as many viewers out of the operations – not to share how he was running the business.'' He used meetings aimed at fostering cooperation (both ongoing oversight meetings as well as retreat sessions as part of the intervention) as a way of getting by and fooling people; he always did the real work in one-on-ones outside. Thus, he engaged in a neurotic, anxious cycle of preparation with many last-minute changes and much rehearsal. This led to an effective performance in the meeting where he adopted an ingratiating selling style, then post-meeting contempt for the participants and low follow-through on what might have been achieved.

In our consultancy we experienced a similar dynamic – substantial progress in the meetings but with weak follow-through. Furthermore, in the post-meeting work, there was always regression to high control. In several instances we had reached agreements with the management teams of the JV and its functional counterpart from Rx about a proposal, but when the president went back and recrafted the agreements into documents for presentation to the board he reasserted his control to the point that the original parties to the agreement withdrew their consent. In addition, by delaying this board-presentation work until the last minute, he acted unilaterally in pulling the final document together. He was thereby enacting this dynamic as well as having it shape the substance of the recommendations.

In the course of our consultancy, despite its intended focus on intergroup boundaries, he seemed reluctant to engage such issues directly. We had, for example, proposed a joint retreat of his management team and its Rx counterparts to ''get the system in the room'' (Weisbord, 1987), yet he preferred to begin with a session with his own direct reports first, as if to develop a party line before he would let each of them authentically work with their functional counterparts. He also rejected our suggestion that, at the end of the planned retreat where both groups would come together, the bosses from Rx and from Consumer also hear the tentative agreements.

Triangular Dynamics and Distortions in Perceptions of Competencies

In Bowen's theory of triangular dynamics (1978), often there is one underfunctioning node that causes the other pair to become 'hot'

because it is carrying a disproportional amount of the tension. In Figure 3 we have mapped the major triangles in this case. The top triangle comprises the senior executive from Consumer, his counterpart in Rx and the president of the JV. In this triangle the Consumer senior executive underfunctioned with each of his pairs; that is, he underfunctioned with Rx by refusing to settle important issues. Occasionally, he would detour an issue that he and his counterpart at Rx should have addressed directly (e.g. cutbacks in the expense budget) through the president of the JV, furthering the sense of the JV as really part of Consumer. Also, because Consumer had a hands-off management style, the Consumer executive tended to underfunction in regards to oversight responsibilities with the JV. Thus, all the political struggles became displaced into the Rx–JV leg of the triangle.

Rx did not trust JV's intentions to act on behalf of Rx's interests (because Rx felt that JV's identity was Consumer). However, since JV was caught in the middle, trying to meet both Rx's and Consumer's needs, there was little that JV could do to assure Rx without upsetting Consumer. In fact, it is likely that whatever JV did, Rx experienced it as clearly in Consumer's best interest. As a result, Rx overfunctioned even more, further exacerbating JV's concern with loss of control.

Because the senior executives at the parent companies avoided resolving the issues at the political boundary, a series of additional dysfunctional issues were created at other intergroup boundaries. For

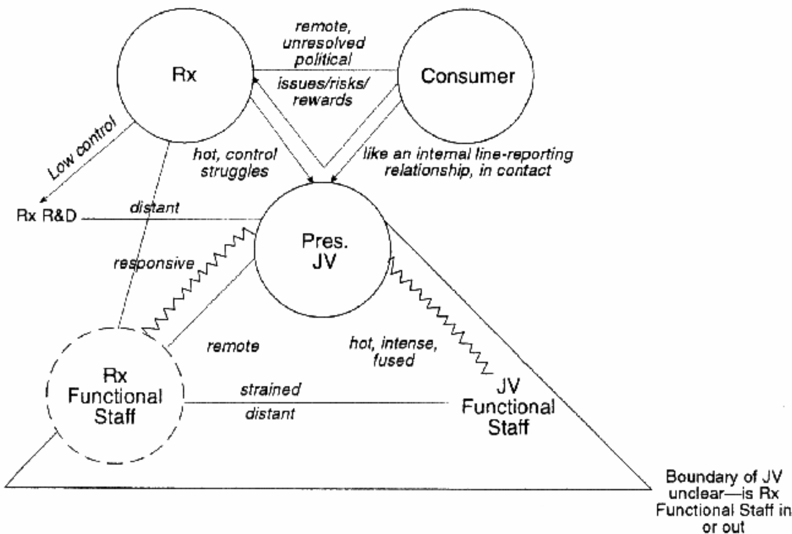

Figure 3: Dynamics of interlocking triangles.

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example, at the authority boundary the key question is, ''Who is in charge of what?'' Initially, the assumption was that while Rx would be in the lead for R&D, Consumer would be in the lead for marketing. Each parent had a distinctive competence. However, the JV was not an R&D or a marketing company; it was both. The JV needed to create a new way of synthesizing these two competencies in terms of its own market dynamics. The JV wanted to be in charge of its own strategy and destiny. Nonetheless, because the parents had not resolved the issues at the political boundary, authority issues remained contentious. That is, intergroup authority issues were framed in local political terms since an inclusive framework for winning had not been worked out. Thus, each group tended to be overprotective of its competence, refusing to open up to possible compromises or new ways to structure a solution to new problems. As a result, although the JV had competencies in OTC R&D, Rx would not consider the JV's suggestions. Marketing's dynamic was reversed with the JV denigrating the marketing expertise in Rx.

What would have been manageable task boundaries if the parents' senior executives had resolved the political and authority issues became dysfunctional relationships. The Rx staff assigned to the JV (i.e. finance, operations, manufacturing, etc.) based on Bowen's framework was the underfunctioning node. Since the authority of the Rx staff was not defined, the JV president kept them at arm's length to maintain control. People assigned to the JV from Rx naturally listened to their bosses at Rx.

We believe that in this case the intergroup dynamics led to a double displacement:

1. From higher to lower actors – namely, the staffs experiencing tensions that more appropriately belonged in the board conversations or among the JV president and the two executives to whom he reported.
2. From unresolved political (who gets what) to unresolved authority (who is in charge), to distortions in relative task competencies among the parties.

As key stakeholders felt the political and authority uncertainties rise, they began to use claims about superior know-how (task boundary) as a way of resolving this uncertainty. What began as a rational marriage of differences (Rx good at discovering and having switchable drugs, Consumer excellent at marketing and distribution) was treated as if all of this competence resided in one party or the other – thereby indirectly 'resolving' the authority struggles. That is, if you have all the competence and the others have none, there is no reason to collaborate in that particular area. It was striking how frequently, when we were

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interviewing both sides of any particular functional interface, we heard the same story. For example, creating manufacturing capacity (told from two completely different points of view) often was discussed with the implication that the other added little value.

This dynamic went beyond perceptual distortions, where each side overimagines its own competence and underattends to the other. In this case, the JV president, because he felt so unable to influence effectively the R&D of the Rx parent, failed to support *his* key R&D person, who knew OTC clinical trials well, against Rx's huge research arm, which was relatively inexperienced in the OTC business. Thus, the distorted, simplifying thinking of the joint venture's logic got in the way. Because the major strength in developing new prescription drugs is conceptually located in one of the venture parents, the 'strength' gets over-generalized, and that R&D group in Rx is deferred to on all R&D issues

The JV R&D manager came to feel that this distinction that placed all the research strength in Rx ultimately served the JV president as a perhaps unconscious tradeoff – ''If I [as JV president] do not push back against the surface-level thinking that all R&D competence lies in Rx, then you [Rx] will in turn defer to me on all the marketing and distribution expertise.''

Nonetheless, the key strategic issues in OTC products were much more likely to have genuine interfunctional character, e.g. shaping the clinical trials in ways that foreshadowed legally defensible advertising claims that would be overseen by the Federal Trade Commission, not the FDA where Rx's expertise lay.

On the other hand, should Rx let Consumer become more influential in its research area via the JV – really learning how different OTC products are – Rx might fear some injury to the power and historic autonomy of its R&D group. Often when the JV people felt that Rx's R&D was discriminating against them, this appeared similar to the issues that business-oriented units in Rx also complained about. The threat to Rx was that its historic, ethical drug focus would have to be changed.

CONCLUSION

In the literature, as noted earlier, the 50/50 ownership structure of JVs has often been associated with success because significant asymmetries in the size of the two parties or the risks in the particular venture may create enormous difficulties. However, in this situation the evenness of the ownership may have contributed to the difficulty in really authorizing the JV president and then holding him accountable to integrate the complementary competencies. Rather, they shared or

divided up the leadership. Since Rx was felt to have the premiere research organization in the pipeline of switchable products, it was given the leadership on the R&D side, with Consumer equally empowered on the marketing and distribution side – their distinctive competence. However, the location of these two competencies was different. The power in Rx on research was in its legendary research organization, which was almost semi-autonomous from the rest of the company. This was feasible when their task was discovery but unsustainable as the competitive arena shifted to switchable products. The competence in marketing and distribution was in the JV.

However, a key strategic issue in moving from ethical to OTC drugs is the shift in corporate philosophies and procedures required to be a successful player in the OTC market. For example, for a prescription drug company it is rational to keep clinical trials focused on safety and efficacy – then, only after FDA approval, to begin to think about the marketing issues. If the FDA learns that another study is underway (perhaps testing different dosing or the efficacy for different conditions), it is likely to delay approval until those data are fully available. Delay, in turn, has huge consequences on profitability. In OTC situations, by contrast, one needs to be thinking at the moment of composing the clinical trials not only of the FDA and the safety and efficacy issues; one also must concentrate on what sustainable claims can be made in a marketing campaign that will differentiate the product from those of competitors and that will pass muster with the Federal Trade Commission. In this situation, the risks of delay need to be weighed against the offsetting gains that come from superior positioning of one's products in a highly competitive consumer market.

In the Rx – Consumer JV, where in the structure and process created would these difficult strategic tradeoffs get made? Arguably, the two parent companies had too much oversight and involvement in the JV in the functional areas of marketing, sales and manufacturing yet left Rx too autonomous in the core area of research. One of the key issues was the historic high levels of independence that research had in Rx before the JV. As is often the case, the JV required not just change within the area of the JV but would ultimately create transforming pressures on the parent companies themselves. Thus, we suspect that the reason the parents displaced the work into the lower triangle was essentially conservative – to preserve their two cultures and not face the transforming pressures that really authorizing the JV might pose for both companies. For Rx it would have entailed thinking about the historic semi-autonomous role of its vaunted research division and more flexibility in the way it managed the approvals by the FDA when the key safety in terms of the toxicity of the drug had been settled and

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the issues of concern to the FDA were now the ecology of use by self-medicating consumers. This required a customer orientation that was not in their culture. For Consumer, it is less clear what they were conserving. It may have been that for them, it really was less of a joint venture and more like many of the relative independent subsidiaries that they expected to meet its profit targets and remain relatively separate from the rest of the company. Alternatively, they may have feared that authentic collaboration might have led to their competencies being learned by Rx, reducing the need to continue the JV.

In looking back on our consultancy we had fallen prey to the very dynamic that was stalemating the system. Rather than being brought in by the JV president, the true work that was needed should have been sponsored by the board, with the key pair as the steering group. Instead, we became yet another player in the triangular dynamics, creating the illusion of progress rather than its substance. We would subscribe based on our experience to Kernberg's counsel (1985) to work from the outside in, first looking at issues of mission and structure, then at intergroup dynamics and regressive pulls from the group, and only then at the leadership issues that might reside in a particular individual. In this case, we see the complex interweaving of these different levels. At the strategic level, anxieties about potential changes in the parent organizations or one side or another 'stealing' one's core competency kept the board in a polite stalemate. This, in turn, created a vacuum that fit with the JV president's wish to be autonomous. As he was unable to create the necessary collaboration, the various functional executives became less reality oriented about their real skills and the potential for valuing the competencies of their counterparts.

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