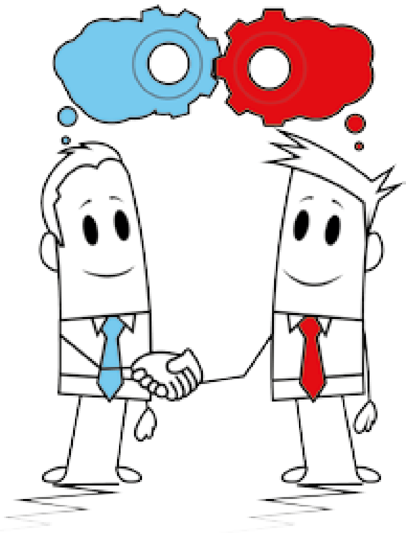
Expansion by COLLABORATIVE GROWTH

Understanding your requirements will help you get the most from a joint relationship

More than seven of every ten business leaders in East Africa believe collaborative growth will play a major role in driving shareholder value over the next three years. The KPMG Global CEO Survey results launched in June 2016 demonstrate that collaborative growth will play a fundamental role in corporate strategies globally, especially in East Africa.

In a world that is increasingly connected, the times of a one-sided venture, where one party (usually with bigger financial muscle) dictates terms, are fading away. In its place are mutually beneficial joint ventures, where partners leverage on counterparties' strengths for common growth. The business world acknowledges it, and the investor world rewards it with higher allocation of capital.



According to the survey results, six out of ten business leaders intend to create a partnership, joint venture or other form of collaborative arrangement to achieve growth over the next three years. Although a significant 40% of the surveyed respondents intend to sell their assets or capabilities, joint ventures are the perfect fit for local players that want to keep some skin in the game. Even though the intention of joint ventures is mutual benefit and common growth, the actual outcomes may be disappointing. Such failures can be very costly to the involved partners. For the joint venture to be successful, parties should bring unique value to the table and have a common vision and understanding of what it will take to achieve the vision. Understanding the requirements of the partners involved serves as a starting point.

Foreign investors seeking local partners are trying to leverage their financial and human resources, and are often positioning for future accelerated growth to boost slow growth in home countries. They are looking for unique competencies and local market knowledge and access in their local partner. Although some investors may seek the largest players in an industry, it is not rare to see them approach relatively smaller players offering unique market-disrupting products.

In seeking partners, the number one question for the local players is often how much money the suitor is willing to pay. In addition to this, it is advisable for them to seek financial muscle, technical know-how, intangible assets and, most importantly, a willingness by the investor to share expertise.

There is also a need to have a strong good governance model for the joint venture. In its most elementary form, good governance allows organisations to do the right thing, in the right way, for the right people, in a timely, open, honest and accountable way. It is equally important that both parties not just be cognisant of clashing cultures in a joint team, but also make a conscious effort to accommodate and tolerate the new culture. Moreover, attempts to learn the nuances and subtleties of the new culture demonstrate an enthusiastic willingness to see the joint venture work.

Parties to a joint venture, no matter what form it takes, should keep in mind that for the venture to be successful there is need for tangible and demonstrable benefits accruing as a result of the joint venture.

SHEEL GILL
HEAD OF DEAL ADVISORY KPMG EAST AFRICA
SHEELGILL1@KPMG.CO.KE
FOR MORE INFORMATION:
WWW.KPMG.COM/EASTAFRICA