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JOINT VENTURES AND STRATEGIC ALLIANCES IN THE ZIMBABWEAN AUTOMOTIVE SECTOR SINCE 1980 – THE CASE OF SMES

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Abstract: **The trend toward "survival of the fittest" in the market place means each individual customer is more critical, making relationships and services offered more important than ever before. Similarly each client has a greater impact each SME's bottom line. This paper focuses on (1) the importance of joint ventures and strategic alliances in the automotive sector, (2) the driving forces of the need for joint ventures and strategic alliance and (3) the relative importance of factors in the success of these joint ventures and strategic alliances in this sector. 120 respondents, registered and unregistered SMEs in Masvingo town, were used to collect data. Questionnaires and interviews are the main instruments used in data collection. The research found out that of the 120 firms used as a sample, only 20% were registered while the rest were operating informally. On average each firm employed 5 – 15 workers, auto - electricians, panel beaters, spray painters and motor mechanics. Research also found out that SMEs rarely form joint ventures and strategic alliances despite the growing need for that. The main reasons being related to interpersonal relationships like lack of trust, control, communication, commitment, and ability of managers to work together as a team. More so there is an acceptable or optimal number of partners within a given joint venture. They must not be too small nor too many. Research also found out that vertically structured joint ventures and strategic alliances are mainly dominated by SMEs or organisations with complementary skills, experience of members working together, personnel stability, and a high level of company commitment. Research found out that joint ventures and strategic alliances results in, increase in competitiveness, facilitate access to unfamiliar or untapped markets, risk sharing, economies of scale, shared technology, and decreased costs. The government also benefit from job creation, increase in tax revenue and may solve the current liquidity crunch in the country if SMEs formalise their operations. The researcher also suggests that the government should help in accelerating and improving the successful outcome of joint ventures. Firms are not encouraged to take on higher risk and longer-term joint ventures and strategic alliances without government involvement. Moreover, the government should provide funding during the critical stages, helps joint ventures to overcome barriers and then helps firms to run more smoothly.**

Keywords: **Automotive sector, SMEs, Joint ventures and Strategic alliance.**

1. INTRODUCTION

Background to the study:

The automobile industry in Zimbabwe has been tremendously growing since independence. The industry is changing at a faster pace than motorists can catch up. Currently the Zimbabwean market is one of the major consumers of used cars and trucks amongst all Southern African countries. According to AfroAutos.com Zimbabwe imports more than 6000 cars and trucks annually despite exorbitant duty being charged by the government. The growth of this sector has been estimated at 13 – 15 % annually. This study seeks to investigate the importance of joint ventures and strategic alliances in the automotive sector and challenges encountered by micro and small scale players in the sector.

Justification of the study:

Several researches have been undertaken in the automobile industry from developed, developing, less developing countries and even at sector level focusing on various factors that affect the auto industry and various organisations in the sector. Of all these researches little evidence shows researches which has been focusing on the growth of SME and micro firms the importance of joint ventures and strategic alliances and the challenges they are currently facing in Zimbabwe. This paper will be of importance to the researchers themselves and many academics in the field of marketing and policy makers. The paper will also educate the majority of the players in formalizing their operations, planning and decision making process for them to be competitive, reputable and credible and participate to national advantage. The current national liquidity crunch is also partly caused by the informal sector so the government need to formalize their operations, pay taxes and create formal employment. They need to be formally empowered.

The automobile industry since independence:

The Auto industry consists of organisations and companies involved in the design, development, manufacturing, marketing and selling of vehicles, motorcycles and accessories. In 1986 the Zimbabwean government instituted reforms for the auto industry. Franchises were to be held by assemblers under a vertical integration policy. Willowvale Mazda Motor Industries became the main distributor of the passenger and commercial vehicles under government direction. Latter lack of foreign currency in the country restricted production of automobiles such that Willowvale Mazda Motor Industries sought for a technical partner to provide the product and transfer technology. A joint venture agreement was signed with a technical partner Mazda Motor Corporation of Japan in 1989. Industrial Development Corporation of Zimbabwe (IDC) and Itochu Corporation, were other parties of the strategic alliance. Over the years, the alliance has contributed significantly to the enhancement of gains in productivity, production capacity, quality and skills development making the company a world-class producer of the Mazda brand for Zimbabwe and the region. The assembly line could produce any automotive products that include passenger vehicles, tractors and light & heavy commercial vehicles

Currently the Zimbabwean auto industry is now dominated by dealerships and private importers selling pre-owned vehicles mostly shipped from Japan and the UK. Other vehicles are also imported from Singapore. The industry consists of both large scale and small scale dealers or players. Large scale players include AMTEC, Dulys, Amalgamated Motor Corporation, Puzey and Payne and manufacturers like Mazda. Micro players mostly appear in the form of car dealers and accessories dealers whose business can be both formal and informal. Competition in this sector is intense forcing companies to adopt new marketing tactics for survival and to retain customers.

Joint ventures and strategic alliances in the auto industry:

The motor industry is changing at a faster pace than motorists can catch up, there are mergers and counter mergers. Some of these mergers and counter mergers are hostile while others are friendly. According to a study by Price Waterhouse Coopers, a total of 250 mergers and acquisitions were completed in the global automotive industry over the first six months of 2014, which is a 13% increase from the 222 transactions completed during the first half of 2013. First Automobiles Works (FAW) and Volkswagen (VW) has merged and now producing Audi. FAW-Volkswagen Automobile Co. Ltd. is a large-scale joint venture passenger car manufacturer between FAW Group Corporation and Volkswagen AG, with share investments of 60% and 40% respectively. At the same time Volkswagen's 40% investment is divided between Volkswagen AG (20%), Audi AG (10%), and Volkswagen Automobile (China) Investment Co., Ltd. (10%). General Motors took over Saab and Daewoo, while signing up Isuzu, Subaru and Suzuki in Japan, taking key stakes in them in order to share their small-car expertise and gain access to the Asian market. Since 1989 Ford was the second biggest brand-acquirer worldwide. It has taken over Jaguar, Aston Martin, Land Rover and Volvo, while it has also bought heavily into Mazda.

So generally the automotive manufacturers have already polarized into six major alliances – General Motor Alliance, Ford-Mazda, DCX Alliance, Toyota, VW Group and Renault-Nissan. These major deals have reduced the future scope for further consolidation in the industry at world stage. This means the global automotive industry is unlikely to have more major automotive mergers.

The emergency of SME in the auto industry:

There is a strong conviction to involve the Small and Medium Enterprises (SMEs) in mainstream economic activities in Zimbabwe. A Ministry of Small and Medium Enterprises was established for that purpose whose vision is "To be the 'nerve' centre for economic growth and empowerment through the development of SMEs in Zimbabwe" and the mission is "To create and maintain an enabling environment that promotes vibrant Small and Medium Enterprises (SME) sector." The sector requires creation of an enabling environment for success. The global market is there for all enterprises, big and small. So as SMEs should aspire to be the "nerve" centre for economic growth. Most of the economic sectors were deregulated in the early 1990s to accommodate SMEs development. This gave rise to formation of many micro and small enterprises in every regulated sector. The rise of unemployment in the country due to economic hardships in the early 1990s also contributed to the emergency of SMEs in every sector. The automotive sector is one sector which was dominated by big companies, but national economic shrinkage and high unemployment rate gave birth to several SMEs in this sector.

The rapid growth in the automotive industry currently sweeping through Zimbabwe has resulted in an increased demand for lubricants, spare parts, ball bearings and other mechanical goods and accessories. The market for automobile spare parts, in particular, has been an attractive sector for Asian based enterprises, who have emerged as the leading supplier of these goods to many countries in Zimbabwe. This lucrative market has registered a substantial growth in the last five years mainly because of the rising demand of ex-Japanese vehicles.

According to ZimStat, SMEs in Zimbabwe contributes more than 60 percent to Gross Domestic Product, and hence remain an engine for economic growth. The small businesses in the automotive sector have accused Zimra of being heavy-handed towards them accusing them of wanton raids. This is because most of them are into cross boarder trading, dealership in ex-Japanese used cars and spare parts. The raids are done from the border, along the road and sometimes later when they are now selling their merchandise. This means SMEs indeed hold the keys to the country's future. They are a medium to fuel economic growth, prosperity and poverty reduction. So the country should make the trading environment conducive for SMEs in all sectors the automotive being one of the growing sectors. The country must nurture them through various ways like bilateral, regional and multi-lateral trade agreements to foster growth.

2. METHODOLOGY

This research was carried out in Masvingo City the automotive industry being the prime target. Managers of SMEs both formal and informally run were the respondents in the study. The researcher used both probability and non probability methods of sampling in the study. One hundred and twenty SMEs in the city of Masvingo, were surveyed during February 2015. The Researcher conducted in-person interviews with the general managers with the use of a standard survey instrument. The survey instrument used had four sections;

- Descriptive information about the organisation, background history, including size of market territory, lines of business, and size of the firm.
- The importance of the firm and its contribution on the local economy like number of employees and value of business in the local community.
- Managers' rating using a 5-point Likert scale on the importance of driving forces and success factors for joint ventures and strategic alliances. Open ended questions were asked to managers about business trends and the impact of the changing business environment on organisations.
- Managers were asked about emerging issues facing their businesses

The Researcher also asked managers whether they had participated in any joint venture or a strategic alliance in the last five years. If the reply was positive, managers were supposed to describe the nature of the strategic alliance and how successful it was. In addition, managers were also asked to rate the importance of the driving forces, key success factors of joint ventures and strategic. The Likert scale was used for the scoring of these factors.

3. LITERATURE REVIEW

Definition of a joint venture and a strategic alliance:

According to Cullen (1999), a strategic alliance is an "agreement between two or more different firms to cooperate in any value-chain activity from R&D to sales". According to Wikipedia, a **strategic alliance** is an agreement between two or more parties to pursue a set of agreed upon objectives needed while remaining independent organizations. This form of cooperation lies between mergers and acquisitions and organic growth. While partnerships may contribute to the increase of the value of the firm, not all alliances are in fact strategic to an organization.

Hitt (1996) offered this definition, "joint venture is when an independent firm is created by at least two other firms". Wikipedia defines a joint venture as a business agreement in which the parties agree to develop, for a finite time, a new entity and new assets by contributing equity. They exercise control over the enterprise and consequently share revenues, expenses and assets. There are other types of companies such as Joint Venture limited by guarantee, joint ventures limited by guarantee with partners holding shares.

A strategic alliance is an agreement for cooperation among two or more independent firms to work together toward common objectives. Unlike in a joint venture, firms in a strategic alliance do not form a new entity to further their objectives but collaborate while remaining apart and distinct.

The popularity of strategic alliances has been on the increase since in the 1990s. According to Harbison and Pekar (1998) 20 000 new strategic alliances were formed in America between 1987 to 1992, a 292% rise from about 5100 between 1980 and 1987. According to Cullen (1999) by 1999, U.S. corporations were involved in over 2,000 alliances with companies in Europe alone.

Besides, the most popular participation strategies include exporting, licensing, strategic alliances, joint ventures, and direct foreign investment. Each of these involves different levels of risk, capital, and returns.

Importance of joint ventures and strategic alliances:

Many organisations have many motivations towards the formation of strategic alliances. In a proper strategic alliance and joint venture, each partner can bring complementary strengths resulting in a competitive advantage for the participants collectively. The cooperative relationship should facilitate access to unfamiliar or untapped markets, risk sharing, economies of scale, shared technology, and decreased costs.

Joint ventures and strategic alliances force companies to share revenues and profits, but they also share the risk of loss and failure. Thus, the popularity of the cooperative strategies increases as projected risk increases, because joint ventures allow firms to take on projects that are otherwise too risky or too costly.

Economies of scale can be achieved when two or more firms pool their resources together, maximizing efficiency based on the project's needs. Cooperative strategies also allow small companies to join together to compete against an industry giant. Companies of different sizes may also benefit from joining together. The large company offers its capital and resources in exchange for the efficiencies or innovations found at the smaller company.

In cases where firms do not have the same strengths, creating alliances can allow them to share technology. This, in turn, can help firms produce more efficiently or at a higher quality. Firms must learn to recognize which other companies can offer complementary skills or technology.

When companies from developed countries cooperate with companies in less developed countries, they usually realize huge cost savings by seeking cheaper labour and untapped reserves of material. SMEs from the less developed countries like Zimbabwe benefits from advanced technology and increased access to capital from companies from developed nations. Both companies benefit from the cooperative alliance. Often, American companies provide SMEs with the required infrastructure and support that they never had before.

Cost reduction may also be a core business objective of the joint venture or strategic alliance, particularly among supply-side partners. Firms by investing together in new processes, technologies and standards, partners can obtain substantial cost savings in their internal operations. But however, a cost-saving alliance is not truly strategic unless it has an underlying business objective, such as “to achieve an industry-leading cost structure.”

Synergy is one of the reasons why firm may come together. This is the realization that the whole may be greater than the sum of the parts. When two or more firms are combined, their new venture should be greater than the sum of what each could have done independently. Management must analyse and evaluate the venture to make sure that it creates something greater than the two companies could have been on their own. Synergy facilitates the development of new products for the market quicker or better than if the companies had kept their resources separately. Synergy benefits everyone.

Joint ventures and strategic alliances are good alternatives to traditional mergers and acquisitions. Firms can take advantage of joint ventures to tap new markets, finance research and development, and market new or existing products. They provide the partnering firms with access to additional resources such as advanced technology, reputable management, reputable brands, distribution systems and customers. Additionally, by sharing risks and costs, a company is able to pursue multiple opportunities, thereby enhancing its likelihood of overall financial success.

The following are some of the advantages of joint ventures;

Advantages:

- Provides a competitive edge to small firms for survival purposes in highly competitive industries and markets. Increases in competitive edge might also result in expansion of the market share and reduction of competition within specific industries and markets.
- Provides shared expertise, and a greater range of knowledge especially in the management and technical teams. This improves quality of decision making.
- Improves efficiency, productivity, and financial stability for growth and survival. This may be attained due to improved service coordination, delivery, identifies delivery gaps, and reduces duplication of services
- Increases chances of new and fresh financiers or funders especially from financial institutions and the current Ministry of Small and Medium Enterprises. Most small firms in Zimbabwe fail to get funding because of several reasons and among the major ones are lack of collateral security, uncertainty issue etc. Mergers and joint ventures may help to solve such issues.
- Increases product and service credibility, reputation and public image. In most cases small businesses joint hands with reputable firms either within the industry or across industries which increases product credibility and public image.
- Joint ventures and strategic alliances offers customers with improved services, quality services and a variety of services. Car dealers, manufacturers and car servicing firms if they join hands and resources offer one stop shops to their customers which enhances satisfaction and customer retention.
- Joint ventures and strategic alliances helps to save costs and lower overheads through technical and managerial economies of scale therefore allowing firms to be profitable. Most small firms tend not to be profitable due to higher fixed cost of which if shared can increase profitability by these firms.
- Strategic alliances within industries promotes information sharing and networking. Firms share information related to recent customer researches, customer purchasing trends, tastes and preferences, research and development. This information is very important for innovation and product development which makes firms to survive and attain competitive edge. Companies with recent researches thrive and satisfy their customers better. Networking is a current marketing tool to gain advantages in the firm's referral markets. Firms need to be connected and powerfully networked and the social media is at the centre of the helm. Connected to customers, suppliers, affiliate companies etc. this promotes collective thinking, problem solving, and advocacy

Barriers:

- Strategic alliances may lead to future mergers or takeover of other poorly managed businesses. Studies have also shown that strategic alliances normally results in hostile takeovers.
- Risk of failure if one partner changes priorities, strategies, or leadership without consent. In a joint venture scenario, one partner may not cooperate well which may lead to business failure. Therefore there are higher risks of failure in joint ventures and strategic alliances.

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- Risk of sharing proprietary information, an expensive intangible asset and source of competitive advantage. Sometimes members of a joint venture or strategic alliance faces another risk of sharing strategic resources especially expensive information like manufacturing or production formulas, core strategies, policies etc. These may be the source of competitive advantage, of which shared there is higher risk of leaking to competitors.
- Fear of losing unique organisational brand identity or autonomy of operations especially when small firms joining bigger entities.
- Resistance to change
- Distrust of ownership and control issues
- Fear of job loss and undisclosed agendas within management

4. DISCUSSION OF FINDINGS

A total of 120 managers and directors of SMEs took part in this study with a 93% response rate. In terms of SMEs, they rarely enter into joint ventures and strategic alliances though they tend to share some simple and common tricks in the industry. Studies also show that majority of the micro players are related, like brothers or brother and sister. This becomes their bases of sharing small parts, accessories and information in the sector. Almost 97% of the respondents reveal that joint ventures and strategic alliances are not an option to them.

This section of the research therefore focuses on the driving forces and success factors, of joint ventures and strategic alliances from the perspective of managers. Managers were asked to rate these factors on a Likert scale from 1 to 5, with 5 being very important. From these ratings a weighted mean rating for each factor was calculated. Figure 1 below presents the weighted means for the driving forces behind joint ventures and strategic alliances in the industry. Figure 1 reports the mean ratings that managers assigned to factors that motivate and drives joint ventures and strategic alliances for SMEs in the automotive industry in Zimbabwe.

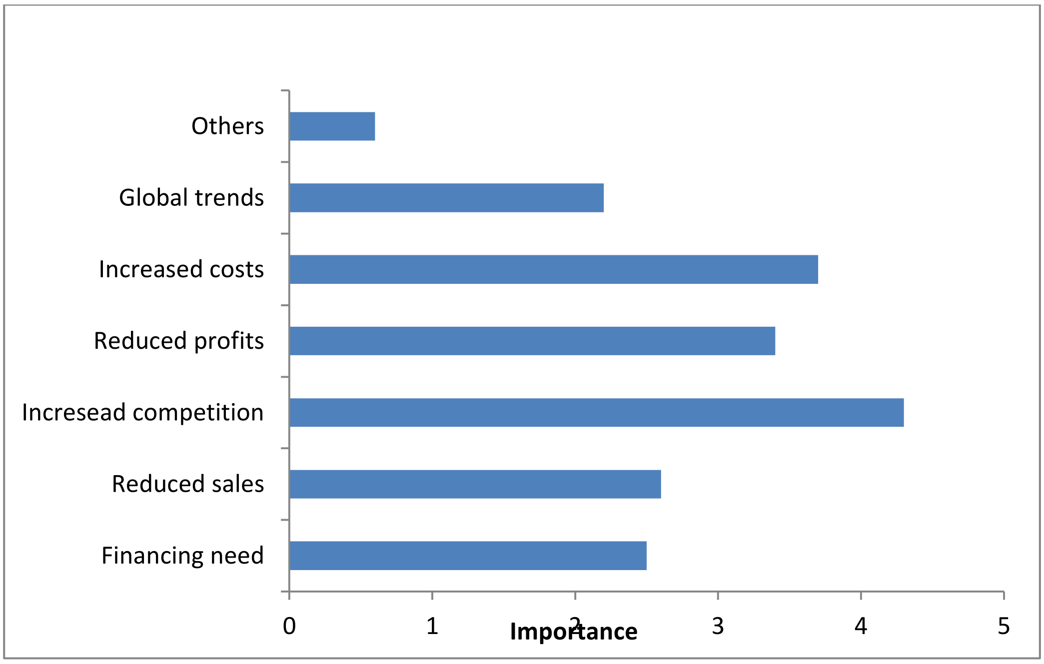

Figure 1: Weighted Mean Ratings for Driving Forces for joint ventures and strategic alliances

Figure 2 reports the mean ratings managers assigned to factors that contribute to the success of joint ventures and strategic alliances. Highest mean values were obtained from communication, trust, and achieving overall synergies while lower mean values were obtained from, decreased costs, financial stability of the firms, having common goals, and increased sales and profits.

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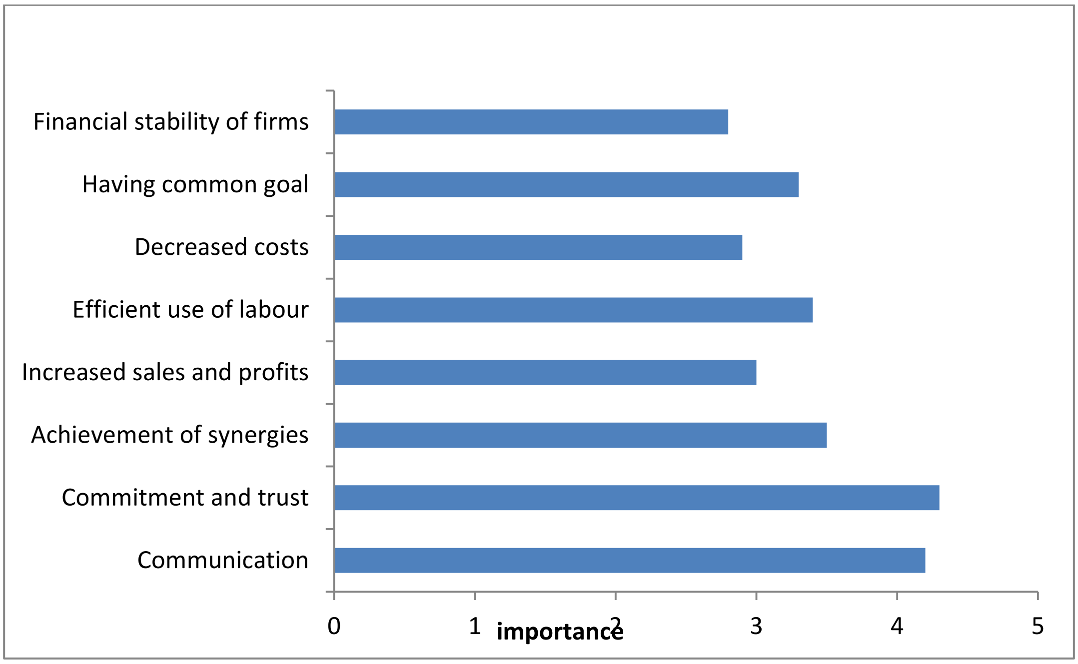

Figure 2: Weighted Mean Rating for Success Factors for Joint Ventures and Strategic Alliances

Interestingly, the highest ranked factors are those directly related to interpersonal relationships within the two firms involved while more tangible factors, such as decreased costs, financial stability of the firms, and increased sales were assigned lower ratings by the managers.

The managers were also asked if they had considered any joint ventures or strategic alliances in the last four years. They rated factors contributing to their decision to not enter into joint venture(s) or a strategic alliance(s). Figure 3 below shows a list of these factors and their weighted means. Due to the levels of organizational commitment, communication and investment required, not all partners are truly strategic alliances. A strategic alliance or joint venture can be mismanaged causing the firm's failure to achieve its core business objectives.

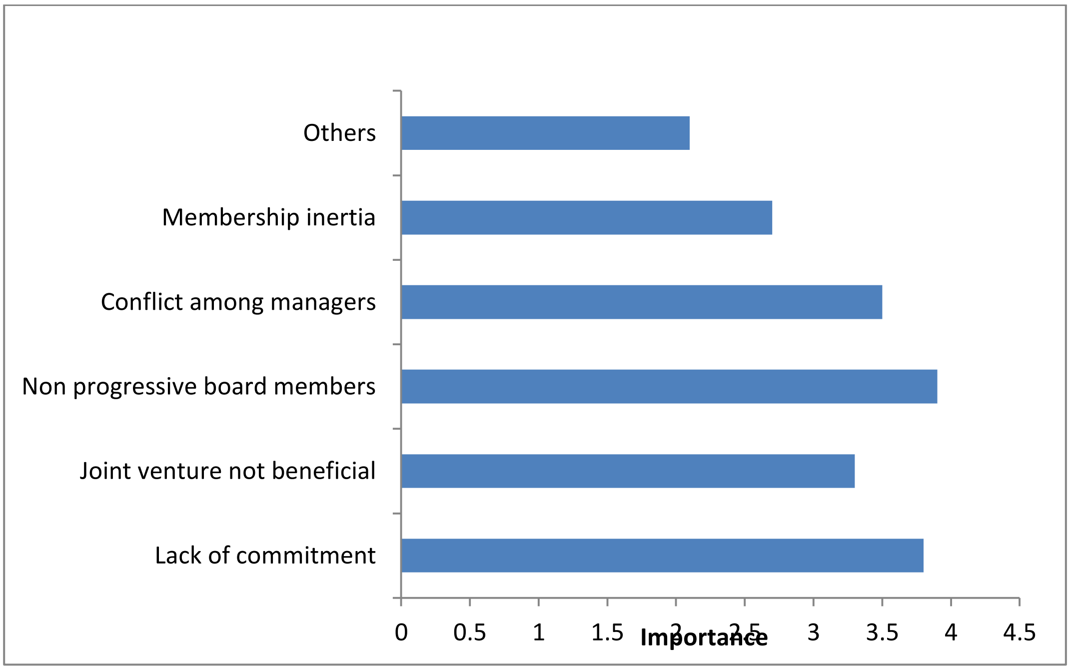

Figure 3: Weighted Mean Ratings for Factors for Not Entering into Joint Ventures and Strategic Alliances

The firm's ability to foresee problems was derived from its substantial experience handling key issues that arise in joint ventures and strategic alliances. These factors include:

- Changes in corporate control
- Dispute-resolution mechanisms and procedures
- Exit strategies
- Short-term and long-term governance and management problems
- Change in business environment

5. CONCLUSION AND RECOMMENDATIONS

Local small firms are facing the challenge of remaining competitive in a tough business environment characterized by too many competitors and dwindling customer base. The most important factors that motivate joint ventures and strategic alliances are related to increased costs, increased competition, decreased profits. For them to remain competitive enough there is need in participating in joint ventures, and strategic alliances. Due to lack of enough capital they are adopting information technologies in varying degrees, applications and software that can improve customer service. Joint ventures and strategic alliances enhance all forms of economies of scale, increase competitiveness and innovation in the sector. They need to benefit from all these forms of economies of scale.

There are several key factors to the success of joint ventures and strategic alliances and these are related to interpersonal relationships like trust, control, communication, commitment, and ability of managers to work together as a team. In conclusion, training for SMEs boards and personnel needs to include elements like communication skills, trust building, contract formulation and team building among other skills. The researcher also recommends that SMEs in the automotive sector should be formalised for the benefit of the nation. Several thousands of American dollars are circulating in this sector informally, without any formal banking and no payment of taxes. This is one cause of the current liquidity crunch in Zimbabwe. Employment creation is one major advantage the nation should derive from SME in the sector.

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