

# Nora-sakari business background



**ASSIGN  
BUSTER**

In 2002 the Malaysian government gave Telekom Malaysia Bhd (TMB), the national telecom company, the authority to develop the country's telecom infrastructure. TMB did not have the technology and expertise to take on this project and therefore called for tenders to assist on a five-year project worth RM2 billion (6, 305, 000. 00 \$USD), installing digital switching exchanges in various parts of Malaysia [i](Lander n. d.).

**The objectives of the project were developed in line with the Malaysian government's Vision 2020:**

1. Invest in the digitalisation of its network in order to offer services based on the ISDN (integrated services digitalised network) standard;
2. Invest in international fibre optic cable networks to meet the needs of increased telecom traffic between Malaysia and the rest of the world; and
3. Facilitate the installation of more cellular telephone networks in light of the increased demand for the use of mobile phones among the business community in Malaysia.

NoraB Sdn Bdh in and Malaysian household name, one of the leading companies in the telecom industry was established in 1975 with a paid-up capital of RM2 million. Nora Holdings consisted of 30 subsidiaries, including 2 public-listed companies: Multiphone Bhd and Nora Telecommunications Bhd [ii](Bartlett, Beamish & Ghoshal 2008).

Since Nora's establishment they have gained experience in cable-laying projects; manufacturing telephone handsets; installing, operating, and maintaining payphones in the cities of Malayasia. They also have experience in distributing Apple computers; distributing radio-related equipment;

supplying equipment to the broadcasting, civil aviation, postal and power authorities in Malaysia and; manufacturing automotive parts[1] (Weblog 2008).

### **Sakari**

Sakari Oy was established in 1865 in Finland and began as a pulp and paper mill production company. In the 1960s they expanded into the rubber and cable industry[iii](Bartlett, Beamish & Ghoshal 2008).

In 1975 they entered into the computers, consumer electronics, and cellular phones industries through a series of acquisitions, mergers and alliances.

In 1979, a joint venture between Sakari and Vantala, was develop to increase and manufacture mobile telephones and gained a large percentage of the world. These markets are European including the United Kingdom, Malaysian, and Thailand for the production of mobile phones and mobile phone handsets.

In 2001, Sakari was Finland's largest publicly-traded industrial company and derived the majority of its total sales from exports and over-sea operations.

In January 2003, Nora Holdings SDN Bhd submitted its proposition for TMB's RM2 billion contract to supply switching exchanges supporting four million telephone lines.

Nora felt that was eager to secure this proposition because of the financial gain, but most importantly it was due to the added benefit of obtaining the knowledge in switching technology from its partnership with a telecom Multi-National Cooperation (MNC).

There were many reasons Nora and Sakari were interested in each other; to become joint ventures. Nora chose Sakari because they were internationally recognized company, they had special technical knowledge and expertise (SK33); and Sakari was the leading telecom company in Europe that has had experience with using high technology to enable a small country to have a fast growing economy. Nora was looking to doing the same in Malaysia (Weblog 2008).

Sakari also had many reasons to choose Nora Holding because they could gain access to knowledge and new technology, Nora's capability to penetrate South-East Asia markets, Nora was looking to expanding their R&D, Nora had lots of experience working long term with the Japanese companies and culturally different negotiations. Also Nora already has experience with supplying and distributing; furthermore they were awarded a license from the UK to sell their products in South East Asia as well as 8 other markets (Bartlett, Beamish & Ghoshal 2008).

Nora and Sakari Oy met 20 times for the period of a year. The key points of negotiation were: equity ownership, technology transfer, royalty payments, expatriates' salaries and perks and arbitration

**The reasons why the negotiations did not materialize into a joint venture:**

1. Difference in cultures;
2. Difference in management styles; and
3. Inability of both parties to compromise on key issues

**Question 1) Why have the negotiations failed to result in an agreement? Is the formation of the JV the best option for both companies to achieve their respective objectives? (Hint: Consider the motivation of each company)**

To ensure that Nora fulfils the terms within the TMB contract, a joint venture with Sakari must first be successfully negotiated. The negotiation process has yet come to an agreement due to the disagreement over numerous issues concerning the development of the joint venture. The overall reasons for the unsuccessful result of the negotiation process are that they both have different objectives, conflicting goals, and motivations and cross cultural miscommunication issues. The disagreements of objectives are based in the areas of equity ownership, technology transfer, royalty payments, and expatriate issues. The conflicting goals of both companies were focused on the future developments of both the companies.

However, there are several benefits mentioned in the case that initially motivated the two companies to form a joint venture. In Sakari's perspective, the motivations came in the form of entering a new market in Southeast Asia, while to Nora they were more motivated by Sakari's telecom technology and the opportunity of using this technology in the future.

**With the context set, the reasons why the negotiations did not materialize into a joint venture involved the following reasons:**

1. Difference in culture
2. Difference in management style; and
3. Inability of both parties to compromise on key issues.

With the help of Hofstede's Value Dimension there are a number of issues that hindered the two companies from reaching a mutual agreement. In Table 1. 1 a value dimension model is used to compare Finland's values to

those of Malaysia; as a result the model shows a difference in significance (by almost 50%) in each dimension.”[2]

Using Hofstede’s Cross Cultural Communication matrix it demonstrates how the power of individualism and uncertainty avoidance played a major role in the breakdown of the negotiations[3]. Both companies failed to identify the cultural differences that affected the way the negotiation was approached.

### **Table 1. 2 Individualism and Collectivism [4]**

#### **Malaysia (Nora)63**

#### **Finland (Sakari)26**

Individualism is one whose people are expected to develop and display their individual personalities and to choose their own affiliations, while collectivism is the extent to which individuals are more likely to work in groups [5]. According to Table 1. 2 Malaysia has a much greater focus on the group with a rating of 63 on the Hofstede’s matrix in terms of how individualized the society is. This rating means that Malaysia is a high context society where leadership within the group is important. This is shown evident in the case where at one point the top Malaysian managers did not attend some of the negotiations, until the near end of the meeting before the process broke down. Without top management involved, lower level Malaysian managers within the negotiation process felt weakened by the loss of their leadership[6]. On the other hand Finland scored a rating of 26. People in Finland are more focused on the development of individualistic persona and skills. As a result the Finnish management team relied less on leadership and more on the ideas of each other being applied within the negotiation process. The result of this management being applied to the

negotiation process led to one of their employees being sent home because he was “perceived as extremely arrogant and insensitive”[7] and possibly menacing the less leadership in Malaysia[8].

### **Uncertainty Avoidance Index [9]**

**Malaysia (Nora)36**

**Finland (Sakari)59**

The next dimension that the companies differed on was the uncertainty avoidance. The uncertainty index details how tolerant a country's management is to uncertainty (miniru). In this dimension, Nora was more likely to take risks involved in establishing a joint venture. They were responsible for the founding of the factory (manufacturing) as well as operational (managerial) offices, while keeping the company in good terms with the government[10]. In contrast, Sakari's higher uncertainty avoidance made it more difficult with the negotiations because of the lengthy problems with technology transfers and equity ownership distributions between companies.

Lastly, another major contribution to the unsuccessful agreement between the two companies was that Sakari negotiators were not as experienced and not as prepared as those representing Nora. This is evident in the case, where there was a lack of full support at Sakari headquarters in Finland as well as the lack of research on the Malaysian cost of living that should have been done by Sakari[11].

**Question 2) As Zainal, what would you do to ensure that Nora fulfils the TMB contract?**

**There are three options that Zainal can choose in order to fulfill the TMB contract:**

1. Accept Sakari's terms (which are unsustainable)
2. Forget JV with Sakari and consider other partners
3. Re-negotiate – look for a win-win solution

For Zainal to accept the terms proposed by Sakari, it would enable them to sign the deal, and move forward with the delivering of the 800, 000 telephone lines for TMB as set out in the 5 year contract. They would also have the opportunity to learn from Sakari's technology, although Sakari would only give them limited access.

The cons for Nora, if they were to follow the requests of Sakari, would be to give up on what they wanted out of the negotiation. Since Nora had already agreed to make additional investments, such as buildings and a switching plant, they would negotiate royalties of only 2%. However, if Sakari got their way, royalties would be higher, at the rate of 5% proposed by the Sakari negotiators. Nora's return on investment would thus be less than the desired 10% if royalty rates exceeded 3% of net sales. Giving in to a 5% royalty rate, would be one of the major downfalls for Nora. Moreover, the salaries and benefits would be much higher than originally anticipated, since the standard of living in Finland is much higher than in Malaysia.

Another disadvantage for Nora would be the location for dispute resolutions. The arbitration process would take place in Helsinki, following the norm commonly practiced by the Finnish firm, instead of in Kuala Lumpur, as Nora had preferred. Since the majority of the stakeholder in the JV was Nora it was



therefore much preferred to have the arbitration process occur in its home country.

In terms of the technology transfer, Nora preferred to have the switching system developed at the JV Company in Kuala Lumpur, so that Nora could acquire the root of the switching technology. If Nora submits to Sakari's requests to just provide the JV Company with the basic structure of the digital switch, Nora will not have access to the core of the technology it so needs.

A second option for Zainal to consider in order to complete the TMB contract is to not accept the JV and look for a new partner. From Nora's perspective, the benefits of this action would be that they could find a company that have similar interests in the fields of salaries and benefits, which would make it a lot easier for Nora to strike a deal.

On the other hand, the losses to Nora would also be substantial. Nora and Sakari had very similar interests in R&D, with both companies believing that it was one of the most important branches for a company. Having a partnership together, the two would focus more on research and development, and have the potential to achieve great results.

Moreover, by ending negotiations with Sakari, Nora would have to adamantly search for a new partner. Companies such as Siemens, Samsung and Lucent could be potential partners; however, the choices available are not as attractive since the solutions offered by each company weren't as customized, adaptable and compatible. This could prove difficult, and potentially a lot more work than simply compromising with Sakari.

The third option to consider would be to continue negotiations with Sakari in the hopes that they can make certain compromises regarding each company's objectives and requests. With a valuable high growth opportunity in the South East Asian market, the JV Company could be a hub to enter these markets for Sakari, which would be of huge benefit to them. Although the company lacks local knowledge, Sakari could learn from Nora and take advantage of the perks associated with being a first mover in the region. Since the chances of getting the UK contract were quite low, it would be advantageous for Sakari to consider the partnership with Nora. Nora in turn would benefit from the extensive technology knowledge that Sakari could bring them.

**Question 2) Should Zainal contact Kuusisto and renegotiate or not? Justify your answer.**

Yes, Zainal should renegotiate with Kuusisto. It would be of benefit for Zainal and Nora to forge efforts to renegotiating the JV contract with Kuusisto and Sakari as time is of the essence as searching for a new partner may be difficult as well as possibly fruitless. It was nearly a year into the four year TMB agreement and a joint venture had still not materialised. This would leave Nora with approximately four years to complete the project. There is potential for a lot more difficulty, extra time and work to be put in the process of searching for a new partner for the joint venture rather than compromising and renegotiating the deal between Nora and Sakari.

There are benefits in accepting a joint venture partnership as Nora would gain from the extensive technological knowledge that Sakari would bring forth. Sakari already has low chances of securing contracts with the UK and

therefore would also benefit from the deal as they would be enabled the business opportunity to enter into Asian-Pacific market.

Renegotiation between Nora and Sakari would require compromises on behalf of both parties involved. Both parties have a competitive advantage that both parties should recognise with each other and catered for. “ Nora [is] a leading supplier of telecommunications (telecom) equipment in Malaysia.” (Ainuddin 181) whilst Sakari is a very innovative niche market supplier of digital switches, and attributes their previous success to extensive research and development. Sakari would be deemed as the driving force behind the technological development of the JV whereas Nora is renowned as a strong force in Malaysia for their expertise. Together, the strengths of both these entities, a large amount of revenue could be actualised.

The matters needed for discussion, in order to reach a middle ground for each matter, include the key points of equity ownership, technology transfer, royalty payments, expatriates’ salaries and perks, and arbitration.

In terms of equity ownership, Nora owns the advantage in this spectrum due to their current business position in Malaysia, along with their close relations with Malaysian government officials. Sakari was calling for 49 per cent of the equity share which is too high, as Sakari was not supplementing any monetary value towards the start-up cost of the operations. However, Nora’s offer was also very low. A better and fairer suggestion would be for Sakari to offer a 40 per cent share of the equity ownership percentage and for Nora to retain an equity ownership of 60 per cent in the JV.

Technology transfer is a sensitive point for Sakari as it the important and strategic basis to what is valuable about their company. A compromise should be enabled where Nora allows Sakari to keep the technological production of the switches in house, and accept Sakari's assembly and installation arrangement as Sakari possesses the most and required experience in constructing the digital switches.

Royalties should be compromised towards Nora's suggested plan, as Nora has compromised the most so far. Sakari would be receiving side benefits from the JV's access to Japanese technology utilised in the assembly of the SMD components which is more sophisticated and developed than Sakari's current technology. Sakari accepting 3 percent of net sales would preserve the pivotal demand of Nora's request of 10 percent return on investment.

Expatriate salaries and perks should amend according to the conditions of Kuala Lumpur. Nora had research the cost of living expenses in Malaysia and had devised a salary and perks package that was fair and catered to the needs of employees of Sakari and for the location of the JV.

For arbitration, research must be conducted regarding arbitration rules between the government regulations of each country. As an uncomplicated and straightforward solution that reaches middle ground, the parties could agree to handle their arbitration matters on a geographical point that is situated between Helsinki and KL, such as Switzerland.

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