

## THE LG-NORTEL JOINT VENTURE

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Peter MacKinnon, chairman of the recently formed LG-Nortel joint venture (JV), is back in his Dallas office after two hard weeks in South Korea (hereafter Korea). Next week, he is off to Europe for a well-deserved vacation with his family. In his office, MacKinnon surrounds himself with family photos, awards and souvenirs from around the world. He is highly dedicated to the LG-Nortel JV and currently spends two weeks each month in Korea. When in Dallas, he leaves the headquarters in Korea in the capable hands of LG-Nortel JV CEO Jae Ryung Lee.

MacKinnon tackles his work and personal challenges with 100 per cent dedication, as shown in his drive to make the LG-Nortel JV a success. He has a passion

This case was written by Bill Turner, Joe Bentz, Steve Caudill, Christine Pepermintwalla, and Ken Williamson (University of Texas at Dallas, EMBA 2007) under the supervision of Professor Mike Peng. The purpose of the case is to serve as a basis for classroom discussion rather than to illustrate the effective or ineffective handling of an administrative situation. The authors thank Mr. Peter MacKinnon for his time and for sharing his expertise and experiences. The views expressed are those of the authors (in their private capacity as EMBA students) and do not necessarily reflect those of the individuals and organizations mentioned. © Bill Turner. Reprinted with permission.

for life and is one of those executives who 'works hard and plays hard'. This is evident by the ice hockey stick sitting an arm's-length from his desk chair and the fact that he plays in three hockey leagues when visiting Korea. Finding a balance between work and personal life remains a challenge with the current heavy workload and extended travel to Korea each month.

Having travelled around the globe and having been an expatriate in Europe previously, MacKinnon is no stranger to international travel. He describes some interesting cultural aspects of doing business in Korea and highlights 'respect' and 'knowledge for the cultural differences' as important. He is keenly aware of the dynamics of the corporate culture in Korea and its implications on the success of the JV, given the mixed management of Koreans and a few North Americans living in Korea.

With MacKinnon's new boss, Nortel CEO Mike Zafirovski (Mike Z.), driving for management excellence, there is little room for missteps. MacKinnon is currently a very hands-on full-time chairman as demanded by Mike Z. The LG-Nortel JV must satisfy the needs of both the corporate parents (Nortel and LG) as the conduit for their telecom products and also be Nortel's gateway to the Korean telecom market. In addition, MacKinnon must lead and leverage a highly capable and innovative group of Korean engineers to develop new products for the advanced Korean and worldwide telecom markets.

This is MacKinnon's first time chairing a board of directors (see his bio in Figure 7.1a). Managing this new JV, with a multicultural management, is presenting a number of challenges. For the first six months since the JV was established, MacKinnon has been spending 16-hour days tackling a number of 'start-up' problems. He has been driving this mixed cultural team to resolve the recent tactical and

Figure 7.1a Peter MacKinnon bio

Peter MacKinnon is chairman, LG-Nortel JV and president, LG-Nortel Business Unit – a joint venture between Nortel and LG Electronics. In these roles, MacKinnon is responsible for magnifying the success of the joint venture by scaling its products into Nortel's global channels as well as coordinating the LG-Nortel and Nortel portfolios across Nortel's various business units. The portfolio includes Enterprise products, with a renewed focus on SMB, UMTS evolution to LTE, WiBro/WiMAX and Wireline/IPTV.

Prior to this position MacKinnon was president, GSM/UMTS Networks for Nortel. With a global customer base in more than 100 countries, he was responsible for R&D, product management, sales, marketing and customer support.

MacKinnon's previous roles at Nortel include: senior vice president, Wireless Networks Americas; vice-president and general manager of the Asia-Pacific wireless business unit and global responsibility for the product management and marketing efforts of Nortel's GSM networks business. He has also held positions in the North American SONET Transport Group – in product management, marketing, operations and design.

MacKinnon is a director on the board of Guangdong Nortel Telecommunications Equipment Ltd (GDNT) in China.

MacKinnon earned an MBA as well as a BS degree in electrical engineering from McGill University in Montreal, Canada. He is fluent in English and French and enjoys experiencing different cultures. He also plays golf, ice hockey and tennis. Mr. MacKinnon is married and has two daughters and a son.

Source: <http://www.nortel.com/corporate/exec/mackinnon.html> (accessed July 5, 2006).

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operational issues and is working to resolve cross-cultural and management tension. Lately, he has been contemplating how and when to shift to become more strategic and start to be a part-time chairman. His main challenge is how to establish the JV for success in the future and be the strategic part-time chairman that he wants and needs to be.

LG ELECTRONICS BACKGROUND

LG (Korea Stock Exchange: 6657.KS) was established in Korea as a private company in 1958 as GoldStar. As a global leader in home appliances, digital media devices, and display and information and communications products, LG has more than 64 000 employees globally and its 2005 revenues reached over \$16.9 billion (unconsolidated). It is comprised of 30 companies with about 130 overseas subsidiaries. As part of the LG corporate conglomerate, LG Electronics's goal is to enable the intelligent networking of digital products that will make consumers' lives better than ever.<sup>1</sup>

NORTEL BACKGROUND

Nortel (NYSE: NT; Toronto TSX: NT) is a 110-year-old Canadian company doing business in more than 150 countries with 2005 revenues of \$10.52 billion. Nortel's portfolio of solutions for telecommunications network providers, government and enterprises includes end-to-end broadband (packet and optical), Voice over IP, multimedia services/applications, wireless networks and wireless broadband networks.<sup>2</sup>

NORTEL'S EXPERIENCE IN NEW MARKETS

Expanding into new global markets, Nortel has had its share of successes and failures. Some expansions were accomplished through acquisition of wholly owned subsidiaries such as the acquisition of Matra in France and others through JVs. MacKinnon discussed one particular learning experience where Nortel entered into a 50-50 JV. Unfortunately, voting was deadlocked; the JV became ineffective and had to be shut down.

In 1998, with a presence in North America and Europe, Nortel entered into the rapidly expanding South Korean telecom market. This soon turned into a valuable lesson on how *not* to do business in Asia (through an understanding of the local culture but not of the 'business culture'). Nortel assumed that to do business in Korea, all you needed was a few local Korean employees in a local office. This was a vital misunderstanding. MacKinnon summed up the challenge by saying, 'You can't just hire a few Koreans and call yourself a Korean company; it's all about relationships'. This first attempt was not successful, and Nortel backed out of South Korea.

TELECOM IN SOUTH KOREA: AN INDUSTRY OVERVIEW

South Korea has the 10th largest economy in the world and has one of the leading telecommunications infrastructures in the world. This was not true just a mere

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30 years ago. In the late 1970s, with a population of 40 million, there was barely one phone line to every 160 persons. Today, there is nearly one phone line to every two persons. However, the demand for phone line service is in decline as more advanced services eliminate the need for basic phone lines. Mobile technology has advanced rapidly, and the subscriber base has grown to nearly 40 million with an increasing number of these subscribers using their service for wireless digital transfer.

WIRELESS TODAY IN SOUTH KOREA: AN ACCELERATING INDUSTRY

South Korea's CDMA Network is the largest EVDO wireless network deployment in the world and has the most advanced early adopters with 75 per cent user penetration. As of 2004, Korea already had 11 million subscribers using EVDO. Korea also boasts the most advanced data applications in the world, estimated to be two years ahead of North America. The government originally mandated CDMA wireless technology to be used in South Korea. However, recent mandates to the more widely adopted UMTS technology represent a major technology shift for the country and local equipment providers like LG.

code division multiple access

CDMA -> UMTS

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With the policy shift toward UMTS, LG was not prepared and did not have products for UMTS to meet these new government requirements. LG now found itself in need of a partner for UMTS products. Nortel had no footprint in the heavily competitive South Korean market since the 1998 retreat, and it needed a way to re-enter South Korea. LGE was the leader of the Korean consumer electronics market. It also was a major global force in electronics, information and communications products. Due to LGE's demonstrated innovative technology leadership position in Korea and Nortel's proven UMTS portfolio and worldwide reach, the mutual attraction was inevitable.

Universal Mobile Telecommunications System

On August 17, 2005, LG and Nortel signed a definitive JV agreement with a contract closure target date of November 1, 2005. Nortel entered into the JV with a \$145 million investment. For this investment, Nortel would receive ownership of 50 per cent plus one share of the company and control a majority of positions on the board. Gaining 50 per cent plus one share was a 'deal breaker' for Nortel given the past experiences on 50-50 partnerships. MacKinnon was named chairman and Jae Ryung Lee would become CEO. Other key positions were filled accordingly with Nortel and LG executives. The JV had over \$500 million in sales in the first six months, but not without organizational and cultural issues to deal with.

ISSUES WITHIN THE FIRST SIX MONTHS

Of the 1400 LG-Nortel JV employees, 1350 are South Korean and 50 are American and Canadian. While building the JV organization, cultural differences surfaced immediately. A higher than normal attrition rate was seen in part as the result of placement of younger former Nortel employees over older former LG employees. This is not acceptable in Korean corporate culture, and thus, many Korean employees left. MacKinnon had also seen the cultural divide when a Korean male employee started holding his hand and confiding in him about some issues the

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Korean male employee was having. MacKinnon never pulled his hand away, heard the employee's message, and knew immediately that this kind of cultural exchange might happen to Americans and Canadians unaware or less tolerant of these differences in the future.

The burdens of implementing both US GAAP and Korean GAAP have taken their toll and created additional process and stress on the organization. In one instance, contract template issues caused revenue recognition problems, which in turn created a (financially) reported order backlog. The contract template issues were identified, and a plan to correct them was developed. Two contract templates accounted for 60 per cent of the revenue with another 15 more accounting for the other 40 per cent to be corrected. The implementation was now critical to finally recognizing the revenue needed to prove the JV was already a success to both parents, LG and Nortel.

Pre-JV, LGE had been mainly focused on Korea, concentrating on the requirements of the demanding high-growth and innovative local market. Now these highly qualified engineers needed to take a broader worldwide view of product development so products could be funnelled back through Nortel's non-Korean markets.

Nortel cancelled a major project within the JV as the project was just ramping up its development. This decision was made after the most recent planning and forecasting exercises used by Nortel had shown that the business case and market outlook would not provide the returns required by Nortel. Regardless of sunk costs for development by the JV, the project was cancelled. The shock and awe felt by the Korean members of the JV were hard. They did not agree with this decision and could not understand why this first major project would be killed so soon into development. This caused major tension in the relationships with the LG and Nortel counterparts and with the Nortel corporate parent. CEO Lee started asking direct questions, such as 'How could you do this?' and 'Now why are we working together?'

With tensions mounting, small internal conflicts were happening in private. Then one day, in a public meeting, CEO Lee had a very emotional reaction and vented upon MacKinnon many of Lee's frustrations of working with a North American company. Understanding this was not the norm for a Korean executive, MacKinnon listened intently to everything Lee had to say. Once Lee finished, MacKinnon recognized that he must respond and struck back with a ten-minute speech directed at Lee. Afterward, the Korean managers at the meeting asked MacKinnon to go for drinks, but he declined. Seeing that MacKinnon had his hockey equipment with him when leaving, they realized that he had other plans that evening. In fact, MacKinnon had not taken up their offer to go drinking on a number of other occasions and was always sure to have other plans.

### THE FUTURE CHALLENGE OF THE LG-NORTEL JV

MacKinnon is currently a full-time chairman as directed by Nortel CEO Mike Z. However, Mike Z. is also concerned about the possibility that MacKinnon might be burned out. MacKinnon himself fully recognizes that eventually he needs to gracefully retreat, become more strategic and become a part-time chairman. To do this, he ponders how to set up the organization, processes and people to be most effective. In addition, he must ensure success before trade talks among Korea, the United States and Canada conclude, which would lower trade barriers and allow greater competition.<sup>3</sup> The big challenge for MacKinnon is: How can LG-Nortel be self-sustaining, and how can he pull away from the day-to-day operations of the JV?

### Case discussion questions

1. Did Nortel make the right decision by (re)entering South Korea through a JV? What other market entry alternatives did Nortel have?
2. Discuss the advantages and disadvantages of having a strategic alliance such as the LG-Nortel JV. What are the unique advantages of controlling 50 per cent equity plus one share?
3. What are the skills and attributes that successful JV managers would ideally possess? Does MacKinnon possess these skills and attributes?
4. What can MacKinnon do to reduce cross-cultural conflicts within the JV?
5. What can Nortel and LG do to improve the odds for the success of this JV?

### NOTES

- 1 LGE website: [http://us.lge.com/about/company/c\\_profile.jsp](http://us.lge.com/about/company/c_profile.jsp).
- 2 Nortel website: <http://www.nortel.com/corporate/index.html>.
- 3 E. Ramstad, 2006, In US-Korea free-trade talks, tense mood highlights the stakes, *Wall Street Journal*, July 11: A6.