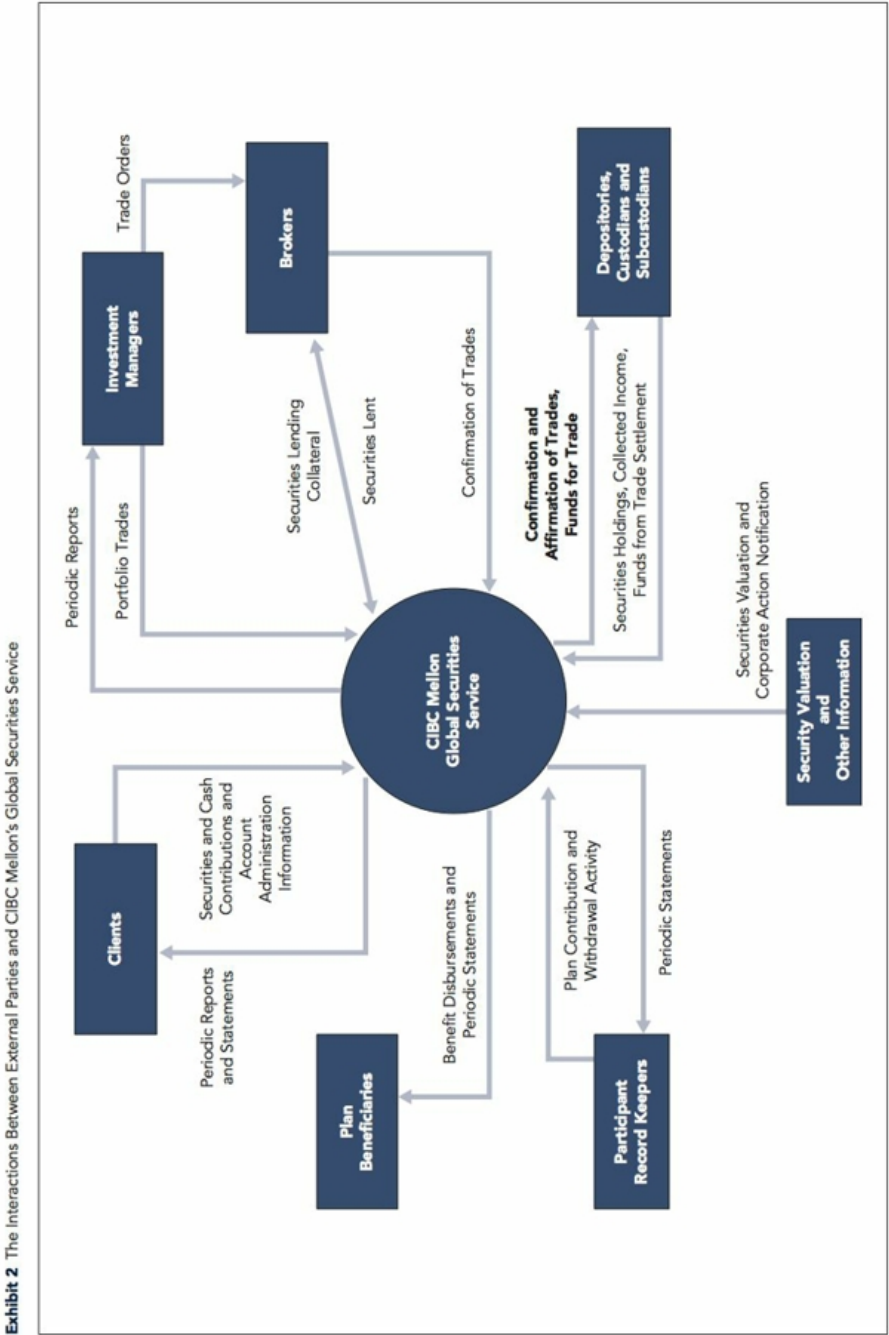


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Source: CICA 5970 Report, CIBC Mellon, 2009.

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Exhibit 3 Top General Reasons for Joint Venture Failures

1. **The rationale for setting up the JV wasn't a good one**—Two lousy businesses put together will not make one good business. Two lousy businesses put together give you one big lousy business. Double the fun! At the core there has to be a good business proposition that creates adequate returns to the shareholding partners. It helps when the founding partners each bring something special to the joint venture that the other doesn't have.
2. **Insufficient planning**—Parties need to agree up front to a comprehensive plan outlining the business transaction, which includes governance, dispute resolution, ownership of intellectual property, how each party will contribute to the JV (whether it's money, expertise, technology, etc.). It's also very important to identify and agree on exit arrangements. Parameters of any business transaction will change. You need to agree to how the exit occurs, up front.
3. **Inadequate capitalization**—Starting out, each partner must commit a set amount of capital that is adequate enough to get the business off the ground. Also, both partners need to agree on how they will fund additional capital calls.
4. **Lack of leadership**—This may be the most important factor of all. If you don't have strong leadership, you are going to fail. In any business, you always need outstanding leadership, but never more so than on the board of a joint venture and within the JV itself.
5. **Lack of commitment**—Poor performance by the JV can result in one or both parties getting disinterested quickly. Results do count. But even if the JV is successful, things can happen to one of the parents quite unrelated to what is happening at the JV that will lead to a lack of commitment. For example, one parent can get into operational difficulties which will cause them to take their eye off the JV ball or even force them to exit the JV. Or, one of the parents can have a perfectly legitimate change in strategy that results in the joint venture no longer being core to them.
6. **Cultural differences and differences of opinion emerge between the two partners.**
There is definitely a JV mindset—it's different working with another partner than just on your own. You have to sometimes temper your own culture to accommodate a quite different culture or approval of your partner to the benefit of the JV. Some companies are good at it, and some aren't.

Source: Tom MacMillan, November 2006.

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