
NORA-SAKARI: A PROPOSED JV IN MALAYSIA (REVISED)

R. Azimah Ainuddin wrote this case under the supervision of Professor Paul Beamish solely to provide material for class discussion. Revised (2015) with the assistance of Dwarka Chakravarty. The authors do not intend to illustrate either effective or ineffective handling of a managerial situation. The authors may have disguised certain names and other identifying information to protect confidentiality.

This publication may not be transmitted, photocopied, digitized or otherwise reproduced in any form or by any means without the permission of the copyright holder. Reproduction of this material is not covered under authorization by any reproduction rights organization. To order copies or request permission to reproduce materials, contact Ivey Publishing, Ivey Business School, Western University, London, Ontario, Canada, N6G 0N1; (t) 519.661.3208; (e) cases@ivey.ca; www.iveycases.com.

Copyright © 2015, Richard Ivey School of Business Foundation

Version: 2019-04-10

On Monday, March 11, 2013, Zainal Hashim, vice-chairman of Nora Holdings Sdn Bhd¹ (Nora), was thinking about the Friday evening reception that he had hosted at his home in Kuala Lumpur (KL), Malaysia, for a team of negotiators from Sakari Oy² (Sakari) of Finland. Nora was a leading supplier of telecommunications (telecom) equipment in Malaysia while Sakari, a Finnish conglomerate, was a leader in the manufacture and deployment of mobile broadband network infrastructure. The team from Sakari was in KL to negotiate with Nora the formation of a joint-venture (JV) between the two telecom companies.

This final negotiation would determine whether a JV agreement would materialize. The negotiation had ended late Friday afternoon, having lasted for five consecutive days. The JV, if established, would be set up in Malaysia to manufacture and commission 4G (fourth generation) mobile network equipment to meet the needs of the telecom industry in Malaysia and in neighbouring countries, particularly Indonesia and Thailand. While Nora would benefit in terms of technology transfer, the venture would pave the way for Sakari to acquire knowledge and gain access to the markets of Southeast Asia.

The opportunity emerged two and half years earlier when Peter Mattsson, president of Sakari's Asian regional office in Singapore, approached Zainal³ to explore the possibility of forming a cooperative venture between Nora and Sakari. Mattsson said:

In the next five years, we expect over 100 per cent mobile network infrastructure growth in Asia, compared to worldwide growth of about 60 per cent a year. We expect mobile broadband (4G) to be the fastest growing segment in Asia, accounting for 40 per cent of all mobile network traffic by 2015. Mobile broadband network project revenues can range from a hundred million to several billion euros. In Malaysia, Thailand, Indonesia, and China, such projects are currently approaching contract stage. Thus it is imperative that Sakari establish its presence in this region to capture a share in the market.

¹ Sdn Bhd is an abbreviation for Sendirian Berhad, which means private limited company in Malaysia.

² Oy is an abbreviation for Osakeyhtiö, which means private limited company in Finland.

³ The first name is used because the Malay name does not carry a family name. The first and/or middle names belong to the individual and the last name is his/her father's name.

The large potential for mobile broadband networks was also evidenced in the low penetration rates for most Southeast Asian countries. In 2011, mobile broadband penetration rates for Indonesia, Thailand, Malaysia and the Philippines ranged from three to 30 connections per 100 people compared to the rates in Japan, Finland, United States and Sweden, which exceeded 75 connections per 100 people.

THE TELECOM INDUSTRY IN MALAYSIA

Telekom Malaysia Bhd (TMB), the national telecom company, was given the authority by the Malaysian government to develop the country's telecom infrastructure. With a paid-up capital of RM2.4 billion,⁴ it was also given the mandate to provide telecom services that were on par with those available in developed countries. In 2013, Malaysia had one dominant fixed line operator — TMB and three major mobile operators — Maxis, Celcom, and DiGi, all three of whom had been awarded 1800 MHz (Mega Hertz) wireless 4G spectrum licenses by the government. Maxis was the first to launch its 4G LTE (Long Term Evolution) service in 2013, followed by Celcom, and DiGi. TMB was also looking to move into the wireless 4G LTE space in order to increase coverage and quality of its nationwide broadband service. It planned to use a block of 850 MHz spectrum that it had licensed in 1998 and aimed to have one million subscribers on its wireless LTE network by 2017. Use of the lower frequency 850 MHz band would improve geographic coverage, and entail reduced TMB investment in cell sites relative to the competition.

As the nation's largest telecom company, TMB's operations were regulated through a 20-year license issued by the Ministry of Energy, Telecommunications and Posts. In line with the government's Vision 2020 program, which targeted Malaysia to become a developed nation by the year 2020, there was a strong need for upgrading the telecom infrastructure in rural areas. In his statement in TMB's 2013 Annual Report, the Group CEO said:

2014 will also see TM moving into the LTE space as the Group continues with its plan to expand its wireless broadband services, especially in under-served areas, and complementing TM's existing suite of fixed broadband services. Providing mobility solutions to TM customers is a natural progression and is in line with the industry evolution towards true convergence, not just from a technology or device perspective, but more importantly from a customer experience point of view, in the delivery of end-to-end broadband and data services.

Although TMB had become a large national telecom company, it often lacked the expertise and technology to undertake massive infrastructure projects. In several cases, local telecom companies would be invited to submit their bids for a particular contract. It was also common for these local companies to form partnerships with large multinational corporations (MNCs), mainly for technological support. For example, Pernas-NEC, a JV company between Pernas Holdings and NEC, was one of the companies that had been successful in securing large telecom contracts from the Malaysian authorities.

NORA'S SEARCH FOR A JV PARTNER

In August 2012, TMB called for tenders to bid on a two-year project worth RM1 billion for building an LTE radio access network in various parts of the country. The project involved deploying cell sites (towers) comprising antennae, amplifiers, LTE base stations and switches, laying fiber optic cable to connect cell sites with the fixed broadband network, and implementing network planning and optimization software. See Exhibit 1 for a simplified representation of a 4G LTE (and mobile broadband) network.

⁴ RM is Ringgit Malaysia, the Malaysian currency. As at March 11, 2013, US\$1 = RM3.11.

With peak speeds of up to 300 Mbps (Megabits per second), 4G LTE networks were about five times faster than 3G networks. (See Exhibit 2 for a comparison of 1G, 2G, 3G, and 4G LTE mobile networks). Each LTE cell tower could potentially support twice as many simultaneous network users (64 to 128) as a 3G tower (32 to 64).

Nora was interested in securing a share of the RM1 billion contract from TMB and more importantly, in acquiring the knowledge in LTE technology from its partnership with a telecom MNC. During the initial stages, when Nora first began to consider potential partners in the bid for this contract, MNCs such as Samsung and NEC seemed appropriate candidates. Nora also had the experience of long-term working relationships with Japanese partners, including a fiber optic joint venture with NEC, and a five-year technical assistance agreement with Samsung to manufacture telephone handsets. Alcatel-Lucent and Ericsson were not considered, as they were already involved with other local competitors.

Subsequent to Zainal's meeting with Mattsson, he decided to consider Sakari as a serious potential partner. He was briefed about Sakari's SK4LTE, a 4G LTE platform that was based on an open IP (Internet Protocol) centric and technology neutral architecture, which enabled the use of standard components, standard software development tools, and standard software languages. The core of its platform — the SK10 base station—was an industry benchmark in size, spectrum flexibility, data capacity, and energy consumption. The system was modular, and its software could be upgraded to provide new services and applications and could interface easily with new network equipment, thus providing the assurance of "future proofing." This was a very attractive feature of the SK4LTE as it would facilitate development and implementation of advanced wireless systems.

Mattsson had also convinced Zainal and other Nora managers that although Sakari was a relatively large player in mobile broadband networks, these networks were easily adaptable, and could cater to densely populated urban areas as well as geographically dispersed rural needs. Nora was also concerned that Sakari would be less willing to provide custom-made products and would tend to offer standard products that, in some aspects, were not consistent with the needs of the customer. Apparently, despite Sakari's larger size and global 4G LTE footprint, compared to that of some of the other MNCs, Sakari was prepared to work out customized products according to TMB and Nora's needs. Mattson pointed to the mobile network equipment JV manufacturing facility that Sakari had established in Brazil to cater to the needs of the local market and other Latin American countries, as an exemplar of what could be done in Malaysia.

Prior to the March 2013 meeting, 20 meetings had been held in KL or Helsinki to establish relationships between the two companies. Each side had invested no less than RM4 million in promoting the relationship. Mattsson and Ilkka Junttila, Sakari's representative in KL, were the key people in bringing the companies together. (See Exhibits 3 and 4 for brief backgrounds on Malaysia and Finland respectively.)

NORA HOLDINGS SDN BHD

Nora was one of the leading companies in the telecom industry in Malaysia. It was established in 1975 with a paid-up capital of RM2 million. Last year, the company recorded a turnover of RM640 million. Nora Holdings consisted of 35 subsidiaries, including two publicly listed companies: Multiphone Bhd, and Nora Telecommunications Bhd. Nora had 5,545 employees, of which 923 were categorized as managerial (including 440 engineers) and 4,622 as non-managerial (including 484 engineers and technicians).

Since the inception of the company, Nora had secured two cable-laying projects. For the latter project worth RM500 million, Nora formed a JV with two Japanese companies, Sumitomo Electric Industries Ltd.

(held 10 per cent equity share) and Marubeni Corporation (held five per cent equity share). Nora also acquired a 63 per cent stake in a local cable-laying company, Selangor Cables Sdn Bhd.

Nora had become a household name in Malaysia as a telephone manufacturer. It started in 1980 when the company obtained a contract to supply telephone sets to the government-owned Telecom authority, TMB. The RM130 million contract lasted for 15 years. In 1985 Nora secured licenses from Siemens and Nortel to manufacture telephone handsets and subsequently developed its own telephone sets — the N300S (single line), N300M (micro-computer controlled), and N300V (hands-free, voice-activated) models.

Upon expiry of the contract as a supplier of telephone sets to TMB, Nora suffered a major setback when it lost a RM32 million contract to supply 600,000 N300S telephones. The contract was instead given to a Taiwanese manufacturer that quoted a lower price. Subsequently, Nora moved towards the high-end feature phone domestic market, selling about 6,000 high-end sets per month, in Malaysia. Nora had also ventured into the export market with its feature phones. The foreign markets were very competitive and many manufacturers already had well-established brands. With the rise in mobile telephone usage, sales of fixed-line phones were stagnating and Nora expected the business to slowly decline in the coming years.

Nora had also secured a 15-year TMB contract to install, operate and maintain payphones in Malaysia. In 1997, Nora started to manufacture card payphones under a license from GEC Plessey Telecommunications (GPT) of the United Kingdom. The agreement also permitted Nora to sell the products to several countries in Southeast Asia. While payphone revenues were as high as RM120 million a year, profit margins were only about 10 per cent because of high investment and maintenance costs. With growing telephone ownership across Southeast Asia, particularly of mobile phones, growth in the payphone business had steadily declined since 2008. Demand for and installation of new payphones was largely confined to poor and/or rural areas. Payphone companies were going out of business in the developed nations and Nora was concerned about long-term viability.

In 2011, Nora acquired S&B Telecom's business for RM80 million, with the intent of securing a foothold into the fast growing and higher margin mobile network services business. S&B Telecom's work involved installation, commissioning, and maintenance of mobile cell tower equipment, and laying fiber optic cables to connect the cell towers with fixed networks. Nora saw this line of business as crucial for winning the TMB 4G LTE contract and establishing a successful JV with a MNC network equipment provider.

THE MANAGEMENT

When Nora was established, its founder, Osman Jaafar, managed the company with his wife, Nora Asyikin Yusof, and seven employees. Osman was known as a conservative businessman who did not like to dabble in acquisitions and mergers to make quick capital gains. He was formerly an electrical engineer who was trained in the United Kingdom and had held several senior positions at the national Telecom Department in Malaysia.

Osman subsequently recruited Zainal Hashim for the position of deputy managing director at Nora. Zainal held a master's degree in microwave communications from a British university and had experience as a production engineer at Pernas-NEC Sdn Bhd, a manufacturer of transmission equipment. Zainal was later promoted to the position of managing director and six years later, the vice-chairman.

Industry analysts observed that Nora's success was attributed to the complementary roles, trust, and mutual understanding between Osman and Zainal. While Osman "likes to fight for new business opportunities,"

Zainal preferred a low profile and concentrated on managing Nora's operations. Industry observers also speculated that Osman, a former civil servant and an entrepreneur, was close to Malaysian politicians, notably the Prime Minister, while Zainal had been a close friend of the Finance Minister. Zainal disagreed with allegations that Nora had succeeded due to its close relationships with Malaysian politicians. However, he acknowledged that such perceptions in the industry had been beneficial to the company.

Osman and Zainal had an obsession for high-tech and made the development of research and development (R&D) skills and resources a priority in the company. About two per cent of Nora's earnings was reinvested into R&D activities. Although this amount was considered small by international standards, Nora planned to increase it gradually to 5 to 6 per cent over the next two to three years. Zainal said:

We believe in making improvements in small steps, similar to the Japanese *kaizen* principle. Over time, each small improvement could lead to a major creation. To be able to make improvements, we must learn from others. Thus, we would borrow a technology from others, but eventually, we must be able to develop our own to sustain our industry competitiveness.

To further enhance R&D activities at Nora, Nora Research Sdn Bhd (NRSB) formed a wholly owned subsidiary (WOS) with a staff of 60 technicians/engineers. NRSB operated as an independent company undertaking R&D activities for Nora as well as private clients in related fields. The company facilitated R&D activities with other companies as well as government organizations, research institutions, and universities.

SAKARI OY

Sakari was established in 1865 as a pulp and paper mill northwest of Helsinki. In the 1960s, Sakari started to expand into the rubber and cable industries when it merged with the Finnish Rubber Works and Finnish Cable Works. In 1975, Aatos Olkkola took over as Sakari's president and led it into businesses such as computers, consumer electronics, and cellular phones via a series of acquisitions, mergers and alliances.

In 1979, a JV between Sakari and Vantala, Sakari-Vantala, was set up to develop and manufacture mobile telephones. Sakari-Vantala had captured about 14 per cent of the world's market share for mobile phones and held a 20 per cent market share in Europe for its mobile phone handsets. Outside Europe, a 50-50 JV was formed with Tandy Corporation, which had made significant sales in the United States, Malaysia and Thailand.

Sakari first edged into the telecom market by selling switching systems licensed from France's Alcatel and by developing the software and systems to suit the needs of small Finnish phone companies. Sakari avoided head-on competition with Siemens and Ericsson by not trying to enter the market for large telephone networks. Instead, Sakari concentrated on developing dedicated telecom networks for large private users, such as utility and railway companies. In Finland, Sakari held 40 per cent of the market for telecom infrastructure, versus Ericsson (34 per cent), Siemens (25 per cent), and Alcatel (1 per cent).

In 1989 Mikko Koskinen took over as president of Sakari. He announced that telecommunications, computers, and consumer electronics would be maintained as Sakari's core business, and that he would continue efforts in expanding the company overseas. To do so, he envisaged the setting up of several alliances, each designed for a specific purpose. He said, "Sakari has become an interesting partner with which to cooperate on an equal footing in the areas of R&D, manufacturing and marketing."

Due to the recession in Finland, which began in 1990, Sakari began divesting its less profitable companies within the basic industries (metal, rubber, and paper), as well as leaving the troubled European computer market with the sale of its computer subsidiary, Sakari Macro. The company's new strategy was to focus on two main areas: telecom systems and mobile phones globally, and consumer electronic products in Europe. The company's divestment strategy led to a reduction of Sakari's employees from about 41,000 in 1989 to 29,000 in 1991.

The Finnish economy went through a rapid revival in 1993, followed by a new period of intense growth. Since the mid-1990s the Finnish growth had been bolstered by intense growth in telecommunications equipment manufacturing as a result of an exploding global telecommunications market. Sakari capitalized on this opportunity and played a major role in the telecommunications equipment manufacturing sector.

In 1998, despite having nearly \$15 billion in telecom equipment sales, and being the world leader in mobile phones, Sakari was still a small company by international standards. There were six larger competitors headquartered respectively in the United States (2), Sweden, France, Canada and Germany. Sakari lacked a strong marketing capability and had to rely on JVs to enter the world market, particularly the United States. In its efforts to develop market position quickly, Sakari had to accept lower margins for its products, and often the Sakari name was not revealed on the product.

In 2001, Sakari was Finland's largest publicly-traded industrial company and derived the majority of its total sales from exports and overseas operations. The company had succeeded in globalizing and diversifying its operations to make the most of its high-tech capabilities. Sakari had also started marketing under its own name. As a result, Sakari emerged as a more influential player in international markets and had gained international brand recognition.

In 2007, Sakari combined its telecoms infrastructure operations with those of Magma to form a JV named Sakari-Magma (SM). The plan was to reduce cost, identify product and service complementarities, and provide a superior market alternative to both Ericsson's high-end offerings and Huawei's low cost solutions. SM became a leading global provider of both wireless and landline telecom infrastructure equipment to telecom operators around the world. However, the JV struggled to support existing customers of Magma and work effectively with services partners. In 2011, SM announced that it would cut 17,000 jobs over the next two years and restructure its business to focus on mobile broadband solutions.

By January 2013, SM had secured 75 LTE network infrastructure contracts worldwide and had an LTE contract share of 18 per cent behind Ericsson at 38 per cent and Huawei at 32 per cent. Its SK4LTE platform had sold well in developed nations such as Canada, Germany, and South Korea, as well as in developing countries such as China, Brazil, and India. In the first quarter of 2013, Sakari purchased Magma's stake in SM for \$2 billion, and announced the sale of its devices business to Oscorp for \$7 billion.

Sakari attributed its success in the telecom industry to R&D. Strong in-house R&D in core competence areas enabled the company to develop technology platforms, such as its SK4LTE system, that were reliable, flexible, widely compatible and economical. About 20 per cent of its annual sales revenue was invested into R&D and product development units in Finland, the United States, Germany, China, and India. Sakari's current strategy entailed global operations in production and R&D. It planned to set up additional R&D centres in leading markets, as well as in Southeast Asia – a region where it had no business experience.

THE NORA-SAKARI NEGOTIATION

Nora and Sakari had discussed the potential of forming a JV in Malaysia for more than two years. Nora engineers went to Helsinki to assess SK4LTE technology in terms of its compatibility with Malaysian

requirements, while Sakari managers travelled to KL to assess Nora's capability in manufacturing and installing 4G LTE equipment and the feasibility of gaining access to the Malaysian market.

In October 2012, Nora submitted its bid for TMB's RM1 billion contract to supply and install 4G LTE equipment supporting 1200 cell sites. Assuming the Nora-Sakari JV would materialize, Nora based its bid on supplying Sakari's 4G LTE technology. Nora competed with five other companies shortlisted by TMB, all offering their partners' technology — Alcatel-Lucent, Ericsson, Huawei, NEC, and Samsung. In mid-January 2013, TMB announced three successful companies in the bid. They were companies using technology from Alcatel-Lucent, Ericsson, and Sakari. Each was awarded a one-third share of the RM1 billion contract and would be responsible for delivering 400 cell sites over a period of two years. Industry observers were critical of TMB's decision to select Sakari and Ericsson, despite both being market leaders in 4G LTE products and services. Sakari's SK4LTE platform was criticized for failing to make any impact in the United States, one of the world's largest and most important mobile markets. Ericsson was criticized for lacking flexibility in adapting its solutions and delivery priorities to align with customer needs.

The February 4 Meeting

Following the successful bid and ignoring the criticisms against Sakari, Nora and Sakari held a major meeting in Helsinki on February 4 to finalize the formation of the JV. Zainal led Nora's five-member negotiation team, which comprised Nora's general manager for corporate planning division, an accountant, two engineers, and Marina Mohamed, a lawyer. One of the engineers was Salleh Lindstrom who was of Swedish origin, a Muslim and had worked for Nora for almost 10 years.

Sakari's team was led by Kuusisto, Sakari's vice-president. His team comprised Junttila, Hussein Ghazi, Aziz Majid, three engineers, and Julia Ruola, a lawyer. Ghazi was Sakari's senior manager who was of Egyptian origin and also a Muslim who had worked for Sakari for more than 20 years, while Aziz, a Malay, had been Sakari's manager for more than 12 years.

The meeting went on for several days. The main issue raised at the meeting was Nora's capability in penetrating the Southeast Asian market. Other issues included Sakari's concerns over the efficiency of Malaysian workers in manufacturing, maintaining product quality and ensuring prompt deliveries.

Zainal said that this was the most difficult negotiation he had ever experienced. Zainal was Nora's most experienced negotiator and had single-handedly represented Nora in several major negotiations for the past 10 years. In the negotiation with Sakari, Zainal admitted making the mistake of applying the approach he often used when negotiating with companies based in North America or the United Kingdom. He said:

Negotiators from the U.S. tend to be very open and often state their positions early and definitively. They are highly verbal and usually prepare well-planned presentations. They also often engage in small talk and 'joke around' with us at the end of a negotiation. In contrast, the Sakari negotiators are serious, reserved and 'cold.' They are also relatively less verbal and do not convey much through their facial expressions. As a result, it was difficult to determine whether they are really interested in the deal or not.

Zainal said that the negotiation on February 4 turned out to be particularly difficult when Sakari became interested in bidding on a recently-announced tender for a major telecom contract in the United Kingdom. Internal politics within Sakari led to the formation of two opposing "camps." One "camp" held a strong belief that there would be very high growth in the Asia-Pacific region and that the JV in Malaysia was seen

as a hub to enter these markets. Although the government had liberalized equity ownership restrictions and allowed the formation of WOS's, JVs were still an efficient way to enter the Malaysian market for a company that lacked local knowledge. This group was represented mostly by Sakari's managers positioned in Asia and engineers who had made several trips to Malaysia, which usually included visits to Nora's facilities. It also had the support of Sakari's vice-president, Kuusisto, who was involved in most of the meetings with Nora, particularly when Zainal was present. Kuusisto had also made efforts to be present at meetings held in KL. This group also argued that Nora had secured the contract in Malaysia whereas the chance of getting the United Kingdom contract was low in view of the intense competition prevailing in that market.

The "camp" not in favour of the JV believed that Sakari should focus its resources on entering the United Kingdom, which could be used as a hub to penetrate the European Union (EU) market. There was also the belief that Europe was closer to home, making management easier, and that problems arising from cultural differences would be minimized. This group was also particularly concerned that Nora had the potential of copying Sakari's technology and eventually becoming a strong regional competitor. Also, because the United Kingdom market was relatively "familiar" and Sakari had local knowledge, it could set up a WOS instead of a JV and avoid JV-related problems, such as joint control, joint profits, and technology leakage.

Zainal felt that the lack of full support from Sakari's management led to a difficult negotiation when new misgivings arose concerning Nora's capability to deliver its part of the deal. It was apparent that the group in favour of the Nora-Sakari JV was under pressure to further justify its proposal and provide counterarguments against the United Kingdom proposal. A Sakari manager explained, "We are tempted to pursue both proposals, but our current resources are limited. Thus, a choice has to be made, and soon."

The March 4 Meeting

Another meeting to negotiate the JV agreement was scheduled for March 4. Sakari's eight-member team arrived in KL on Sunday afternoon of March 3, and was met at the airport by the key Nora managers involved in the negotiation. Kuusisto did not accompany the Sakari team to this meeting.

The negotiation started early Monday morning at Nora's headquarters and continued for the next five days, with each day's meeting ending late in the evening. Members of the Nora team were the same members who had attended the February 4 meeting in Finland, except Zainal, who did not participate. The Sakari team was also represented by the same members in attendance at the previous meeting plus a new member, Solail Pekkarinen, Sakari's senior accountant. On the third day, the Nora team requested that Sakari ask Pekkarinen to leave the negotiation. He was perceived as extremely arrogant and insensitive to the local culture, which tended to value modesty and diplomacy. Pekkarinen left for Helsinki the following morning.

Although Zainal had decided not to participate actively in the negotiations, he followed the process closely and was briefed by his negotiators regularly. Some of the issues that they complained were difficult to resolve had often led to heated arguments between the two negotiating teams. These included:

1. Equity Ownership

In previous meetings, both companies agreed to form the JV with a paid-up capital of RM8 million. However, they disagreed on the equity share proposed by each side. Sakari proposed an equity split of 49 per cent for Sakari and 51 per cent for Nora. Nora, on the other hand, proposed a 30 per cent Sakari and 70 per cent Nora split. Nora's proposal was based on the common practice in Malaysia as a result of historical

foreign equity regulations set by the Malaysian government that allowed a maximum of 30 per cent foreign equity ownership unless the company would export a certain percentage of its products. Though these regulations were liberalized by the Malaysian government effective July 1998 and new regulations had replaced the old ones, the 30-70 foreign-Malaysian ownership divide was still commonly observed.

Equity ownership became a major issue as it was associated with control. Sakari was concerned about its ability to control the accessibility of its technology to Nora and about decisions concerning the activities of the JV as a whole. The lack of control was perceived by Sakari as an obstacle to protecting its interests. Nora had concerns about its ability to exert control over the JV because it was intended as a key part of its long-term strategy to develop its own mobile broadband equipment and related high-tech products.

2. Technology Transfer

Sakari proposed to provide the JV with the basic structure of the SK10 base station. The JV company would assemble the base stations at the JV plant and subsequently install the exchanges in designated locations identified by TMB. By offering Nora only the basic structure of the SK10, the core of Sakari's 4G LTE platform would still be well-protected.

On the other hand, Nora proposed that the basic structure of the SK10 base station be developed at the JV company. Based on Sakari's proposal, Nora felt that only the technical aspects in assembling and installing the SK10 would be obtained. This was perceived as another "screw-driver" form of technology transfer while the core technology associated with making the base stations would still be unknown.

3. Royalty Payment

Closely related to the issue of technology transfer was the payment of a royalty for the technology used in building the base stations. Sakari proposed a royalty payment of 5 per cent of the JV gross sales while Nora proposed a payment of 2 per cent of net sales. (Net sales were overall sales minus returns, allowances for damaged or missing goods, plus any discounts.)

Nora considered the royalty rate of 5 per cent too high because it would affect Nora's financial situation. Financial simulations prepared by Nora's managers indicated that its return on investment would be less than the desired 10 per cent if royalty rates exceeded three per cent of net sales. This was because Nora had already agreed to make large additional investments in support of the JV. Nora would invest in a building to be rented to the JV company to accommodate an office and the base station plant. Nora would also invest in another plant to supply the JV with antennae and amplifiers required for the cell sites.

An added argument raised by the Nora negotiators in support of a two per cent royalty was that Sakari would receive benefits from the JV's access to Japanese technology used in manufacturing antennae and amplifiers. Apparently the Japanese technology was more advanced than Sakari's present technology.

4. Expatriates' Salaries and Perks

To allay Sakari's concerns over Nora's level of efficiency, Nora suggested that Sakari provide the necessary training for the JV technical employees. Subsequently, Sakari had agreed to provide eight engineering experts for the JV company on two types of contracts, short-term and long-term. Experts employed on a short-term basis would be paid a daily rate of US\$1640 plus travel/accommodation. The permanent experts would be paid a monthly salary of US\$26,000. Three permanent experts would be

attached to the JV and the number would gradually be reduced to one, after a year. Five experts would be available on a short-term basis of less than three months each year to provide specific training.

The Nora negotiation team was appalled at the exorbitant amount proposed by the Sakari negotiators. They were surprised that the Sakari team had not surveyed the industry rates, as the Japanese and other western negotiators would normally have done. In response to Sakari's proposal, Nora negotiators adopted an unusual "take-it or leave-it" stance. They deemed the following proposal reasonable in view of the comparisons made with other JVs that Nora had entered into with other foreign parties:

Permanent experts' monthly salary ranges to be paid by the JV company were as follows:

- (1) Senior expert (seven to 10 years experience).... RM32,800–RM37,700
- (2) Expert (four to six years experience)..... RM30,300–RM34,100
- (3) Junior expert (two to three years experience)... RM27,900–RM31,600
- (4) Any Malaysian income taxes payable would be added to the salaries.
- (5) A car for personal use.
- (6) Annual paid vacation of five weeks.
- (7) Return flight tickets to home country twice a year for singles and once a year for families.
- (8) Any expenses incurred during official travelling.

Temporary experts invited by the JV for technical assistance would be paid the following fees:

- (1) Senior expert..... RM1,800 per working day
- (2) Expert..... RM1,600 per working day
- (3) The JV company would not reimburse the following:
 - Flight tickets between Finland (or any other country) and Malaysia.
 - Hotel or any other form of accommodation.
 - Local transportation.

In defense of their proposed rates, Sakari's negotiators argued that the rates presented by Nora were too low. Sakari suggested that Nora's negotiators take into consideration the fact that Sakari would have to subsidize the difference between the experts' present salaries and the amount paid by the JV company. A large difference would require that large amounts of subsidy payments be made to the affected employees.

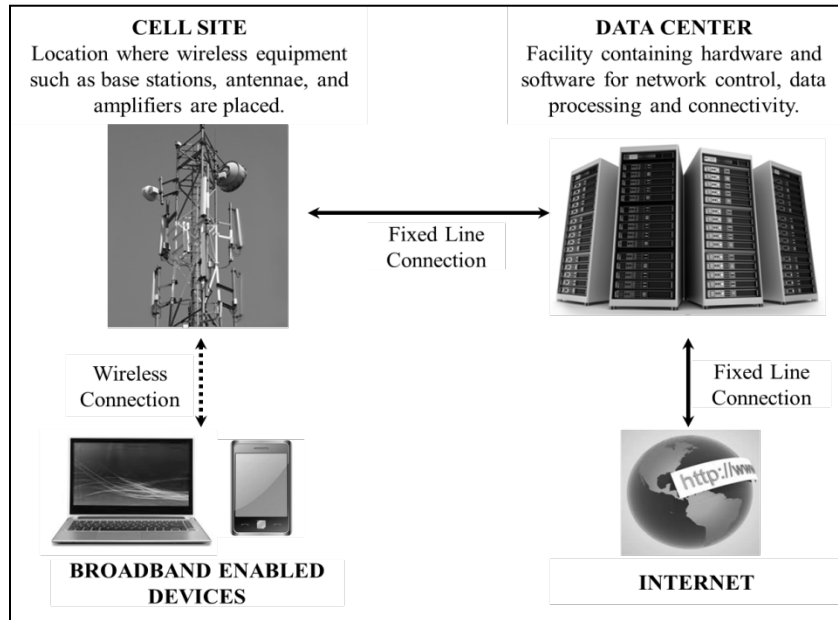
5. Arbitration

Another major issue discussed in the negotiation was related to arbitration. While both parties agreed to an arbitration process in the event of future disputes, they disagreed on the location for dispute resolution. Because Nora would be the majority stakeholder in the JV, Nora insisted that any arbitration should take place in KL. Sakari, however, insisted on Helsinki, following its commonly practised norm. At the end of the five-day negotiation, many issues could not be resolved. While Nora could agree on certain matters after consulting Zainal, the Sakari team had to refer contentious items to its board before making any decision.

THE DECISION

Zainal read through the minutes of the negotiation and was disappointed that an agreement had not yet been reached. He was concerned about the contractual commitment Nora had made to TMB. Nora would be expected to fulfill the contract soon but had yet to find a partner to provide the technology. Companies such as NEC and Samsung, which had failed in the bid, could still be potential partners. However, Zainal had also not rejected the possibility of a reconciliation with Sakari. He could start by contacting Kuusisto in Helsinki. But should he?

EXHIBIT 1: HOW 4G LTE (AND MOBILE BROADBAND) WORKS: A SIMPLIFIED NETWORK REPRESENTATION



Source: Dwarka Chakravarty.

EXHIBIT 2: MOBILE NETWORKS: EVOLUTION AND COMPARISON

GENERATION	1G	2G	3G	4G LTE
<i>Introduced</i>	1980s	1990s	2000s	2010s
<i>Peak Data Rate</i>	2 Kbps	0.5 Mbps	63 Mbps	300 Mbps
<i>Services</i>	Voice	Voice, Text	Voice, Video, Data	Voice, Video, Data
<i>Signal</i>	Analog	Digital	Digital	Digital
<i>Network</i>	PSTN	PSTN	PSTN and Internet	Internet

Note: Kbps/Mbps = Kilo/megabits per second; PSTN = Public Switched Telephone Network.

Source: Qualcomm, "The Evolution of Mobile Technologies," www.qualcomm.com/media/documents/files/the-evolution-of-mobile-technologies-1g-to-2g-to-3g-to-4g-lte.pdf, accessed June 16, 2015.

EXHIBIT 3: MALAYSIA: BACKGROUND INFORMATION

Malaysia is centrally located in Southeast Asia. It consists of Peninsular Malaysia, and the states of Sabah and Sarawak on the island of Borneo. Malaysia has a total land area of about 330,000 square kilometres, of which 80 per cent is covered with tropical rainforest.

In 2013, Malaysia's population was 30 million, with approximately 13 million in the labour force. The population was relatively young, with 40 per cent between the ages of 15 and 39. The average household size was four, but extended families were common. Kuala Lumpur had close to 1.5 million inhabitants.

The population is multiracial; the largest ethnic group is the Bumiputeras (the Malays and other indigenous groups such as the Ibans in Sarawak and Kadazans in Sabah), followed by the Chinese and Indians. Bahasa Malaysia is the national language but English is widely used in business circles.

Islam is the official religion but other religions (mainly Christianity, Buddhism and Hinduism) are widely practised. All Malays are Muslims, followers of the Islamic faith. During the period of British rule, secularism was introduced to the country, which led to the separation of the Islamic religion from daily life. In the late 1970s and 1980s, several groups of devout Muslims undertook efforts to reverse the process, emphasizing a dynamic and progressive approach to Islam. As a result, changes were made to meet daily religious needs. Islamic banking and insurance facilities were introduced and prayer rooms were provided in government offices, private companies, factories, and even in shopping complexes.

Malaysia is a parliamentary democracy under a constitutional monarchy. In 2013, the Barisan Nasional, a coalition of several political parties representing various ethnic groups, was the ruling political party. Its predominance had contributed to political stability and economic progress in the last two decades.

The recession of the mid 1980s led to structural changes in the Malaysian economy, which had been too dependent on primary commodities (rubber, tin, palm oil and timber) and had a very narrow export base. To promote the establishment of export-oriented industries, the government directed resources to the manufacturing sector, introduced generous incentives and relaxed foreign equity restrictions. Heavy investments were made to modernize the country's infrastructure. This led to rapid economic growth in the late 1980s and early 1990s. The growth had been mostly driven by exports, particularly of electronics.

From 2003 to 2008, Malaysia's GDP grew at an average rate of 6.5% per year. Malaysia was severely affected by the global financial crisis of 2008-2009, given its economic exposure to the U.S. and Japan – top export destinations and key sources of foreign investment. In 2010, the government launched its New Economic Model (NEM) comprising a number of reforms to boost private sector driven, inclusive economic growth to enable Malaysia to achieve developed nation status by 2020.

From 2011 to 2013, GDP grew at an average of 5% per year. Consumer price inflation averaged 2.3% and the unemployment rate was 3%. In 2013, the services sector accounted for over 50% of GDP, with manufacturing making up 25% of the economy. Malaysia had also succeeded in nearly eradicating poverty. Malaysia had a GDP per capita of US\$10,500 and was ranked 18th among all countries in terms of ease of doing business by the World Bank.

Sources: *Ernst and Young, "Doing Business in Malaysia", 1997, Ernst and Young International, New York.*
The World Bank, <http://data.worldbank.org/indicator/>, accessed April 29, 2015.
Other online sources.

EXHIBIT 4: FINLAND: BACKGROUND INFORMATION

Finland is situated in the north-east of Europe, sharing borders with Sweden, Norway and the former Soviet Union. About 65 per cent of its area of 338,000 square kilometres is covered with forest, about 15 per cent lakes and about 10 per cent arable land. Finland has a temperate climate with four distinct seasons.

In 2013, Finland was one of the most sparsely populated countries in Europe with a population of 5.4 million, 80 per cent of whom lived in the urban areas. Helsinki had a population of about 590,000. Finland had a well-educated work force of about 2.7 million. About half of the work force was engaged in providing services, 25 per cent in manufacturing and construction, and four per cent in agricultural production. The small size of the population and an ageing demographic (33 per cent of the population above the age of 55 and only about 30% in the age group 15 to 39), led to scarce and expensive labour. Thus Finland had to compete by exploiting its lead in high-tech industries.

Finland's official languages are Finnish and Swedish, but only about five per cent of Finns speak Swedish. English is the most widely spoken foreign language. About 75 per cent of Finns are Lutheran Christians and about one per cent are Orthodox Christians. Finland has been an independent republic since 1917. A President and a 200-member single-chamber parliament are elected every six and four years, respectively.

Since the mid-1990s, the Finnish growth has mainly been bolstered by intense growth in telecommunications equipment manufacturing. The Finnish economy grew at an average of nearly 5% per year from 1994 to 2000. Finland was one of the 11 countries that joined the Economic and Monetary Union (EMU) on January 1, 1999. Finland has been experiencing a rapidly increasing integration with Western Europe. Membership in the EMU provide the Finnish economy with an array of benefits, such as lower and stable interest rates, elimination of foreign currency risk within the Euro area, reduction of transaction costs of business and travel, and so forth. The EMU did pose structural risks in regard to monetary interconnectedness of stronger and weaker economies without a corresponding fiscal union.

The IT sector slump in 2001 and 2002 had its impact on the Finnish economy, which for the years 2001 to 2003 registered an average growth of 2.1 per cent. The economy rebounded from 2004 onwards, achieving a growth of 5.2 per cent in 2007, but was hit hard by the global financial crisis of 2008-2009. A feeble recovery in 2010 and 2011 was stymied by the debt crisis and economic downturn in Europe and Finland's economy declined in 2012 and 2013. The GDP in 2013 still languished at about 5 per cent below its 2008 level. In the period from 2011 to 2013, Finland's average consumer price inflation and unemployment rate were 2.6 per cent and 7.9 per cent, respectively. Finland's 2013 GDP per capita was US\$39,000 and it was ranked 8th among all countries in terms of ease of doing business by the World Bank.

Finland is a developed nation and its standard of living is among the highest in the world. The Finns have small families with an average household size of two. For long, the stable trading relationship with the former Soviet Union and other Scandinavian countries led to few interactions between the Finns and people in other parts of the world. The Finns are described as rather reserved, obstinate, and serious people. A Finn commented, "We do not engage easily in small talk with strangers. Furthermore, we have a strong love for nature and we have the tendency to be silent as we observe our surroundings. Unfortunately, others tend to view such behaviour as cold and serious."

*Sources: Ernst and Young, "Doing Business in Finland", 1997, Ernst and Young International, New York.
The World Bank, <http://data.worldbank.org/indicator/>, accessed April 29, 2015.
Other online sources.*