

# International joint ventures

[Economics](#), [Globalization](#)



AR50126 Assignment Name: Mizanur Rahman In submitting this assignment, I certify that all this material is my own work, except where I have indicated otherwise with appropriate references. 0. 0 0. 1 Report on the ' Sandford' Joint Venture in East Timor Date: 30th September 2011 For: George Jackson From: Mizanur Rahman 1. 0 Executive Summary Freemantle Construction operates in a domestic environment against ever increasing competition in a saturated market, trying to maintain market share during economic downturn.

In contrast Sandford has a strong international presence in the hotel/leisure industry and is looking at diversification to improve their competitive advantage and compliment their current offerings. The opportunity presented by this Joint Venture (JV) will assist both Sandford and Fremantle in entering a new market. It will be challenging mainly because of the fact that both firms are from different industries and may have different goals/objectives along with differing management styles.

Furthermore, the JV's first project is situated in the Democratic Republic of Timor Leste (DRTL), which will have its own complexities to contend with, be it government/business policies or technology/skills shortages etc. The JV will have to consider a decision making processes throughout the partnership, which could be difficult, with each firm's needs possibly being different. For a successful JV, the partners need to be honest, trustworthy, committed and focus on what will be best for the JV rather than on their own needs.

Beamish (2008) quoted that firms enter JVs in order to create new products/services and enter new/foreign markets. This is the key benefit to

this JV, whilst there are many risk factors to consider, the rewards will possibly outweigh this but only if all the obstacles and opportunities are correctly assessed and an appropriate strategy is agreed and implemented.

2. 0 Introduction This report was commissioned by Mr Benny Garstead. The objective was to recommend an appropriate 'Diversification Strategy' and identify 'Opportunities and Obstacles' that will be encountered by the 'Sandford & Freemantle' JV in the DRTL.

Page 1 of 8 AR50126 Assignment Name: Mizanur Rahman 3. 0 3. 1

Diversification via JV What form of JV Prior to engaging in a 'Diversification' strategy both firms will have to agree on the type of JV to be implemented for this project, integrated where profit/loss is shared against an agreed percentage, or non-integrated where profit/loss is not shared. The benefit of an integrated system is that it requires capital investment from all partners and this signifies commitment and can enhance the chances of success.

These decisions along with objectives and how to manage the JV will have to be agreed prior to engaging the JV. Pearce (1997) indicated that JVs can become very demanding if the partners have differing objectives. The reasons behind the JV are simple, both parties contribute to the overall scale/skills pool, thus being in a position to penetrate new markets. However local knowledge in respect of the newly formed DRTL will be lacking. This gap will need to be filled, possibly with local partners/advisors if the JV is to be successful. . 2 Diversification Theory Ansoff's (1965) idea of diversification (see matrix below) highlights that this is when firms enter new markets with new products. The new product here is the combined offering of both firms,

in a completely new market. Berry (1975) alternatively states that ‘Diversification’ is an increase in the number of industries a firm is active in. There are numerous other definitions, but in essence it is based on desire for growth, by expanding a firm’s existing offering with other products/services etc. which can be directly or indirectly related to current offerings or be completely unrelated. The notion that this JV needs to be identified separately from both firm’s existing operations, by diversifying, could improve competitive advantage by providing focus in a niche market, where one service compliments/leads on to the other and thus being able to provide a tailored/total solution to the DRTL, where many international/domestic firms will be vying for the same business. Page 2 of 8  
AR50126 Assignment Name: Mizanur Rahman 3. 3

Why Diversify By integrating into related markets (related diversification, infrastructure hotels/leisure = revenue from building & tourism), Freemantle can enter into another market, which could boost their current position and secure cash flow to survive the current downturn. Rather than downsizing, they could potentially increase their turnover, albeit growth not necessarily means more profit. Sandford will also greatly benefit by being able to complement Freemantle’s offering by following on with the required tourism facilities. This type of synergy is called ‘Horizontal Diversification’.

A diversification strategy is simply a ‘growth’ strategy and in this instance could be seen as ‘differentiation’. Porter (1985) states in his ‘Generic Strategies’, firms looking for competitive advantage through ‘differentiation’ must consider the additional costs incurred in re-branding, promoting etc.

and the chances of recovering these, also the method is not unique and could be replicated by other competing firms. On a positive note Rumelt (1982) developed, from earlier studies of Chandler (1962) and Wrigley (1970), categories for various diversification strategies and from this, related diversification on average outperformed other diversification strategies. Furthermore, it was found that these firms had a natural advantage by expanding their skills into related areas. In general drivers for Sandford & Fremantle's choice to diversify would be based on: i. ii. iii. iv. v. Sandford's desire for growth Fremantle's need to escape a stagnant market Both need to acquire the skills in the construction/tourism sector Both desire to spread risk Both desire to access a virgin market

### 3. 2. 1 Advantages & Disadvantage

The principle advantages for this JV are: ? ? ? ? ? An increase in value/wealth to the firms, which would not be possible on their own. Economies of scale would be increased, assisting entry into the new market. Construction costs for Sandford would decrease. Economies of scope can be exploited by Freemantle delivering the required infrastructure and then the related tourism/leisure facilities. Provides movement away from declining activities for Freemantle. Spreading risk from interests in one area, as well as the risks involved in international JVs (IJVs). The Principle disadvantages could be: ? ? Slowing growth in its core business, if focus is shifted. Potentially would add to management costs by implementing a separate team to run the JV. Loss could be incurred during market consolidation process resulting in some parts of the business being subsidized by other profitable parts.

Page 3 of 8

AR50126 Assignment Name: Mizanur Rahman ? ? Diversification across national boundaries could result in the firms having to deal with varying

political/legal requirements of the different countries in which the JV firms have controlling interests.

May result in failure when there is a mismatch between core competencies/experiences. Freemantle's lack of international experience and Sandford's lack of local knowledge/influence.

#### 4. 0 4. 1 Obstacles and Opportunities for the DRTL project Virgin Market

The DRTL is a diverse country ecologically and culturally due to its multitude of linguistic and ethnic inhabitants, built up over its history from settlements to colonisation. The DRTL have to deal with many critical issues from the lack of infrastructure, as virtually everything will have to be rebuilt from ruins left from the war.

Despite the lack of facilities and the major task ahead, according to Moghe (2001) the success of the country lies with proper infrastructure, security, efficient policy and the ability to make clients and investors feel that they are on 'neutral territory'. One point to note is that there will be mass influx that will occur from foreign firms looking to capture some market share during construction, along with the firms that will remain and operate businesses (i. e. hotel/leisure and tourist facilities).

Aditjondro (2001) criticised this, as it would force the DRTL into a new form of colonisation, an economic one, thus resulting what could be viewed as simply an outpost for globalisation.

#### 4. 2 Globalisation

Society today is very global and thus making our domestic markets more competitive. This encourages firms to venture across international boundaries in order to offset seasonal fluctuations (i. e. construction during winter periods) through

increased opportunities and ultimately be spreading their risk across various options.

The choice to go global has many risks and potential obstacles to consider from cultural/language barriers to economic, legal and political risk.

Cartwright and Cooper (1996) underline that compatibility issues may arise from IJVs due to differences in national culture, managerial styles. The proposed JV provides a gateway for international expansion, which may be a comfortable area for Sandford but Freemantle need to fully assess their capability/competence in a foreign market by fully assessing the risks. 4. 3

Risk Bettis & Hall (1982) successfully demonstrated the link between risk and reward performance and diversification strategies. In their study they calculated return on assets to measure risk and reward performance. The result found a negative risk Page 4 of 8 AR50126 Assignment Name: Mizanur Rahman against return for related firms, which suggested the opportunity to simultaneously reduce risk and increase return. However, a detailed risk/reward analysis needs to be conducted to ensure that the JV is not affected by any change.

Areas for consideration (UK & USA ' v ' DRTL): Culture: Currency: Economy: Government: Legal: Labour: Language: Marketing: Transport: Technology: Homogeneous ' v ' Heterogeneous Uniform ' v ' Uniform (? /\$) Relatively Stable ' v ' Variable & unpredictable Stable ' v ' Maybe Unstable Free movement of goods ' v ' possible legal restrictions Skilled workers available ' v ' Impossible to source Generally Single Language ' v ' Different

Languages/dialects Many media streams with little restriction ' v' Fewer media Several competitive options ' v' inadequate Latest ' v' Outdated

An appropriate level of competency/ability and motivation is required amongst the staff, for a firm to operate effectively on the international scene. The varying strengths and weakness of both firm's skill base would need to be fully analysed, in order to compile a competent/capable team. Thus providing a balance of all necessary attributes and improving the chances of success. 4. 4 Corporate Social Responsibility (CSR) DRTL is one of the poorest countries in the world. The country will still be very fragile and under the watch of the UN.

Also the population may not trust outsiders as they have repeatedly been under forced control, so gaining trust for a successful JV will be imperative and thus a robust CSR policy needs to be agreed and implemented. If the CSR policy is not followed, the firm's image be ruined, causing failure abroad and potentially back home. The JV cannot claim to be an ethical setup if it ignores unethical practices linked to its operations e. g. : ? ? ? ? Use of child labour and forced labour Production that effects the livelihoods of indigenous people Violation of the basic rights of workers Ignoring health, safety and environmental standards

An ethical business has to be concerned with the behaviour of all businesses that operate in the supply chain – i. e. ? ? ? ? Partners Advisors Suppliers Sub-contractors The sticking point is if any of the above is required to be ignored, either to progress the project or to make profit. The decision needs to remain ethical to maintain long term success. Page 5 of 8 AR50126



Assignment Name: Mizanur Rahman 4. 0 Conclusion The capability/capacity of the existing construction industry in DRTL, like many developing nations, will be in its infancy (World Bank, 1984; Kirmani, 1988; Wells 1986).

For success local knowledge will be a necessity. Although there are several strategies available for IJVs, diversification strategies provide firms with high growth potential in international markets (Capar and Kotabe, 2003).

Diversification may be a fast track growth solution but if an appropriate strategy is not applied and the management fail to understand the JV, then serious financial impact is inevitable not only to the JV but also the parent firms. Available competencies and capability need to be assessed; also the product that is being provided needs to have resonance with the new market.

Hence extensive research rather than internet based research needs to be conducted at ground zero. Are the firms ready for an IJV, or are there skills gaps that need filling? 5. 0 Recommendations The recommendations are, but not limited to: 1. Conduct a thorough PESTEL analysis on the DRTL situation. 2. Conduct a SWOT analysis of the JV in DRTL. 3. Agree on the percentage level of profit/loss sharing for an integrated JV. 4. Agree the JVs Objectives, Decision Making Protocols. 5. Review competencies and capabilities of senior management and assemble the correct team. . Implement a CSR policy. 7. Network with DRTL decision makers and appoint a local partner or advisor. 8. Engage with the community. Once the above has been achieved then the JV can start prospecting for work. (2020 – 24 Citations = 1996 words) Page 6 of 8 AR50126 Assignment Name: Mizanur Rahman Bibliography Aditjondro, G. J.

(2001). East Timorese becoming guests in their own land [online]. Indonesia: Jakarta Post. Available from: <http://members.canb.auug.org.au/~wildwood/febguests.htm> [Accessed 27 September 2011].

Ansoff, H. I. (1965). Corporate Strategy: An Analytical approach to business policy for growth & expansion. New York: McGraw-Hill. Beamish, P. W.

(2008). Joint venturing. Charlotte, NC: Information Age Publishing. Berry, C.

H. (1975). Corporate Growth and Diversification. Princeton, NJ: Princeton

University Press. Bettis, R. A. , Hall W. K. (1982). Diversification Strategy, accounting determined risk, and accounting determined return, Academy of Management Journal, 25, pp. 254-264. Carpar, N. , Kotabe, M. (2003).

The relationship between international diversification and performance in service firms, Journal of International Business Studies. 34, pp. 45-355.

Cartwright, S. , Cooper, C. (1996). Managing Mergers, acquisitions and strategic alliances: integrating people and cultures. 2nd ed. Oxford:

Butterworth-Heinemann. Haendel, D. (1979). Foreign investments and the management of political risk. Colorado: West View Press. Hill, W. L. (2005).

International Business: Competing in the Global Marketplace. International ed. New York: McGraw-Hill. Kirmani, S. S. 1988). The Construction Industry In Development: Issues And Options, Discussion Paper, Report INU 10,

February, World Bank. Moghe, C. G. (2001) A framework for East Timor's economic planning [online]. Indonesia: Jakarta Post. Available from:

<http://www.thejakartapost.com/news/2001/02/22/a-framework-east-timor039s-economic-planning.html> [Accessed 27 September 2011]. Pearce,

R. J. (1997). Toward understanding joint venture performance and survival: A

bargaining and influence approach to transaction cost theory. Academy of Management Review, 22(1), pp. 03-225. Phatak, A. V. (1989), International dimensions of management, 2nd ed. Boston: PWS Kent Publishing Company. Porter, M. (1985). referred to in Hancock M. R. (2008) " Strategy in Construction" (ICM Module 6 work file. p. 2. 6, University of Bath. Ronen, S. (1986). Comparative and Multinational Management, 4th ed. New York: John Wiley & Sons Inc. Rumelt, R. P. (1982). Diversification Strategy and Profitability, Strategic Management Journal, 3, pp. 359-369. Page 7 of 8

AR50126 Assignment Name: Mizanur Rahman Scullion, H. 1992), Strategic recruitment and development of the ' International Manager': Some European Considerations, Human Resource Management Journal, 3, pp. 57-69 UN (2010). East Timor Country Brief [online]. Australia. Available from: [http://www.dfat.gov.au/geo/east\\_timor/east\\_timor\\_brief.html](http://www.dfat.gov.au/geo/east_timor/east_timor_brief.html) [Accessed 25 September 2011]. Wild, J. J. , Wild, K. L. & Han, J. C. Y. (2000). International Business: an Integrated Approach. New Jersey: Prentice-Hall. World Bank (1984). The construction Industry: Issues and Strategies in developing Countries, Washington D. C. : World Bank. Page 8 of 8