What is a joint venture

International joint venture according to its definition is an enterprise which is formed as a result of the integration of the businesses of two companies. Businesses of one party are transferred to the Company and as consideration for such transfer; shares are issued by the Company and subscribed by that party. The other party subscribes for the shares in cash. The required proportion of the sun to be invested is agreed upon by both and finally the new business sees the light of the day (Anderson, 1990).

The promoter shareholder of the existing company and a third party, who/which may be individual/ Company, collaborate to jointly carry on the business of that Company. The shares are taken by the said third party through payment in cash. Usually the governments in order to protect its own industries formulate such laws which may require certain percentage (often 51 percent or more) of manufacturing or mining operations be owned by nationals of that country, thereby limiting others firms' local participation to minority shares of Joint ventures (Geringer, 1988)..

This, thereby, becomes an area of concern for the foreign firms as the risk factors and the cost of the projects are unusually high (Blodgett, 1992). A joint venture is more or less a strategic alliance between the two organizations which accounts for their cooperation in the business specific activities, so that each benefits from the strengths of the other, and gains competitive advantage (Contractor ; Lorange, 1988). Strategic alliances can be seen as the answer to the increasing improbability and ambiguity in the business environment.

Strategic alliances involve the sharing of knowledge and expertise between partners as well as the reduction of risk and costs in areas such as relationships with suppliers and the development of new products and technologies. However, an alliance involves competitors and largely has a shorter life span. Strategic alliances can be classified under the following characteristics:- It is usually non-equity and has a loosely structured relationship. A strategic alliance gives each partner a freedom to maintain its business independence.

Here one company takes the centre stage and plays the lead role in any contract and the rest of them will be “ partners” in the work. They could work as sub contractors or suppliers to the main company ?? The alliance can be struck between companies which would normally be considered competitors. Each partner must add distinct individual “ core strengths” in terms of technology, manufacturing capacity, access to distribution etc. Strength of the International Joint Venture In case of an IJV, its local partner is likely fetch advantage due to its in depth knowledge of the customs, traditions and tastes of the people.

For any organization to excel it is important to maintain a right balance between the management and the people. Hence the local partner serves as a coordinator for the domestic activities. It mostly remunerates profits by its well-known and reputable distribution network as well as valuable business and political associates. These sources also act as a stepping stone and thereby help the business to develop. A local partner may also help to shed the “ foreigner” image of the firm and thus may provide some guard against prejudice or expropriation if conditions change (Franko, 1971).

A local partner may also help in gaining the confidence of the people and brings an assurance regarding the project be in their own benefit. An IJV may also generate employment in the country and hence would extensively help the people (Chowdhury, 1992). Weakness of the Joint Ventures There are some probable disadvantages to IJV ventures. A major potential drawback of IJV, especially in countries that limit foreign companies to minority participation, is the loss of effective managerial control (Chowdhury, 1992). This is likely to create differences in the viewpoint of both the partners.

From the perspective of growth this is likely to hamper the long term goals. It may result in reduced profits, increased operating costs, inferior product quality, exposure to product liability, and environmental litigation and fines. The managerial control thus becomes an important subject of discussions and dialogue (Luo, Shenkar ; Nyaw, 2000). Since such ventures highly impinge upon the national markets, they can raise foreign or foreign anti-trust issues. As the IJV brings-in better technology, it is very liable to affect the small or cottage industries. What a Joint Venture Involves

For any two people to work together it is very important for both to share a same level of commitment, dedication and loyalty towards the project. An IJV involves an effective and efficient use of the funds. It requires the impartial participation of each partner. It also includes effective risk management as a lot of money and time is involved. Both the partners should have a right to be heard in the management assessment. Critical Success Factors ?? The two partners should share an excellent work rapport. They should know each other well and fully recognize, understand and accept the other’s requirements in advance.

They should appreciate each others brilliance in particular fields and work as one coherent unit. Effective communication is very important. All the communication channels must be kept open and a set level of transparency should be maintained. In case of any problem both the parties should be equally approachable and should amicably find out the solutions to their problems. The agreed reporting timetables and format should be adhered to (Glaister ; Buckley, 1996). Both the partners should give each other a required timeframe and should not expect sudden results.

Decisions should not be taken in haste and be given ample attention. How Does a Joint Venture Work? A successful joint venture is one where each partner contributes complementary skills and resources in an ongoing relationship offering mutual benefits. Much depends on what the two parties have to offer each other, and how these assets can be put together in a workable business structure (Gomes, 1987). A balancing act has to be done in terms of assets and funds contributed. To make joint venture work it is imperative that both should equally shoulder the responsibilities for marketing and key management decisions.

Contributions are made in terms of industrial set-up, facilities, local management, staff, market knowledge i. e. distribution and sales resources and relationship with the government (Beamish, 1985). . This type of tie up together would be particularly appropriate for joint ventures in developing countries where technology transfer is the major benefit sought by the local economy. By building a structure that reinforces each other’s respective strengths, and creating synergy, a better overall result is obtained than could be achieved by each partner.

Hence both of them are likely to seek benefit by this (Beamish, 1985). However, in a strategic alliance each company involved in it will benefit by working together. It may not be as formal as a joint venture agreement but however does well to both. Alliances are usually consummated with a written contract, often with agreed termination points, and do not result in the creation of an independent business organization. The objective of a strategic alliance is to gain a competitive advantage to a company’s premeditated position.

When you are a small company, a strategic alliance can allow you to graft your whole business onto the superior manufacturing, marketing and distribution structures of an established international company. Advantages of a Strategic Alliance The four key advantages that can be expected from a strategic alliance are increased leverage, risk sharing, opportunities for growth and greater responsiveness. Strategic alliance allows you to gain greater results from your company’s core strengths in terms of manufacturing capacity, access to distribution etc.

A strategic alliance with an international company will help to offset your market exposure and allow you to jointly exploit new opportunities. It is especially useful for the small companies as it helps them to build themselves in their core areas. By “ marrying” your company’s product to somebody else’s distribution or sharing R; D or production skills, one can expand business overseas quickly and more cheaply. By allowing you to focus on developing your core strengths, strategic alliances provide the ability to respond more quickly to change and opportunity (Deeds ; Hill. , 1996). Disadvantages of a Strategic Alliance

A strategic alliance though beneficial requires a high commitment in terms of time, money and people. It is usually very difficult to find a partner of the same compatibility. Many times it happens that the strategic alliances end on a bitter note due to the lesser interest of either one of the partners. Entering into a strategic alliance requires commitment above all else – in hours as much as dollars. It also takes time to build a strong alliance. Identifying and reaching agreement with the right company can be very time consuming, and developing a strong relationship can take years (Hannah ; Freeman, 1984).

There also exists a potential for conflict as a small company risks being subsumed by a larger partner. The strategic priorities change over time and hence the recovery of payments becomes difficult. The subjects like the cost/ownership of market information, market intelligence and jointly developed products can be an issue on the later stages if the managerial control is not effective (Bell, 1996). What's involved in Establishing a Strategic Alliance? ? For establishing any relationship it is very important to judge your direction, your goals and your aims.

You should also possess a clear idea of what you want and in return what you can give. Since the lack of the commitment act as a hurdle therefore a lot of background study and analysis is needed. A clear understanding of the markets in which you hope to compete should be made. Be aware of firm's strengths and weaknesses and decide which will be the ones to build on. Evaluate the pros and cons of each and everything and have a clear focus on the products and its distribution techniques. Know the people with whom you are planning to get involved.

Analyze as to how your partnership will fit into your overall strategic direction i. e. Market access, Manufacturing capabilities and Distribution channels (Demirbag ; Mirza 2000). Careful research and evaluation of candidates is crucial. Know the people with whom you are likely to work. Compatibility Though strategic alliances can be struck between partners of unequal size yet compatibility remains one of the most important ingredients between two partners. While looking for a compatible partner always examine your existing relationships and personal ties.

It is always better to be aware initially rather than start afresh. Operating style, company culture and senior management should all be taken care of (Barkema, ; Vermeulen 1997). Capability Know your abilities, potential, competence. Question your organizational abilities. Prepare a sample question list which includes questions on prospective partners, target markets, sales force, potential advantage in other markets, and availability of additional resources in terms of capital, human and upcoming technologies.

Also know your market strategy for better product consumption (Contractor ; Lorange, 1988). Prime Causes Of Failure One should always keep his feet firm on ground and never become over ambitious. People tend to formulate ambiguous goals which lead to failures. Unclear directions and uncoordinated activities also result into failures. Time too plays a crucial role as the results are based on the time span given to work (Erden, 1997). Steps for Success For joining hands with an international organization always respect time.

After the agreement is signed, your strategy should be to achieve the agreed Aim as quickly and successfully as possible. Respect all the areas of cooperation. Missed deadlines, non-compliance with specifications, poor project management and an unprofessional approach can doom your relationship from the start. Show high level of competence. Once the results are achieved, begin to take steps to add more value, e. g. increased service or sophistication of service. Work on the possible enhancements and carefully take steps to implement it (Harrigan, 1985).

Q(2) Having done the initial strategic planning, the following planning stages and give a thorough and in-depth discussion of all the relevant issues (30%), leading to some firm recommendations on how the company should proceed (20%). The basic step of initial strategic planning includes high level of operation planning. There is a need to identify the major issues which would be involved in implementing this collaboration from your company's point of view, followed by a detailed discussion as to how the company would attempt to manage it.

Judge, as to how the collaboration would be organized and controlled (Erden, 1997). The managerial control should also be effective enough so that it can look into the main issues and potential problem areas. In addition, anticipate areas where the local environment may present specific difficulties during implementation and also any restraints or difficulties that may arise from being involved in a geographically distant collaboration. Also look into the pros and cons of everything. Discuss " core strengths" in terms of technology, manufacturing capacity, access to distribution etc. nalyze your

targets and give yourself set deadlines to achieve them (Contractor. ; Lorange 1988).

Basic Operational Plan Requirements As required by Act 1465 of 1997, an operational plan (OP) must be prepared and submitted by each department/agency (or budget unit) as part of its “ total budget request document. ” It includes a detailed description on the agency and its program missions and goals, program objectives, and program activities. An operational plan addresses four questions: Where are we now? Where do we want to be? , How do we get there? , How do we measure our progress?

To find solutions to these questions, meaningful data must be included for prior fiscal years, the current fiscal year, and the ensuing fiscal year (the fiscal year for which funding is requested). The fund analysis thereby becomes an important area of thought. The OP is both the first and the last step in preparing an operating budget request. It provides a plan for resource allocation and can also be modified to reflect policy.

Changes in the fund utilization can be made during the budget development process. The operational plan (OP) is focused primarily on program level information. The program information must be placed in the overall context of the department/agency (budget unit) within which each program operates. The OP must act as an effective link between various departments, their programs, goals, objectives and performances. OP helps in answering and giving conclusions to some of the most important question.

Where are we now? – analyze the present conditions of the organization in terms of annual turnover, manpower, product range and investment

required. Where do we want to be? – We should clearly estimate and make targets. Have time bound improvement schedules for the product range and services. Take necessary steps to increase the turnover and make detailed and comprehensive business plans. How do we get there? – Make a detailed action plans and touch all the aspects in a meticulous and exhaustive way.

Ensure that plans are put into operation by assigning individual persons responsibility with target date for the executions. How do we measure our progress? – Continuously monitor the results. Supervise everything and every department by an activity sheet and if any deviation is observed then take suitable countermeasure in consultation with the IVC counterpart. Set up a proper department who looks into the progress with great detail and takes steps to achieve the goals and targets (Hannah ; Freeman , 1984).