JOINT VENTURE AS A MEANS OF ACHIEVING STRATEGIC GOALS

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Abstract

As the competition in the marketplaces continues unabated, companies explore and develop strategies to capitalize on. When a given opportunity is complicated or risky to pursue by a single firm and requires a wider range of skills and resources, business alliances are formed. Its formation can be done both on a local and international scale. A joint venture (JV) is one of the most prevalent types of such company synergies.

***Keywords*: joint venture, limited liability, ownership, parenting companies, interdependency, negotiation, tax transparency**

Joint Venture Overview

The history of joint venture started in the late 1800s with the railroads, further, spreading to the manufacturing and service industries (Harrigan, 1988). As the Chinese and European markets opened up, the term "joint venture'' became considerably more popular (IONOS, 2023).

Definition

A joint venture is a temporary consortium of two or more financially and legally independent organizations established to achieve a specific goal by pooling their resources and forces jointly. Here, the parties remain independent but share the financial risks and management responsibility. In most cases, a joint venture is a new, separate firm created by two or more sponsoring enterprises, so-called parenting companies. Although the features of joint enterprise resemble partnership, the key difference is that JVs are initiated by the people, entities and even governments to accomplish a specific project within a certain period of time. Whereas a partnership is a business agreement between the individuals only and not limited to a particular business task. Partnership-based companies are oriented to run a business on a long-term basis.

Legal Structure

Usually, a JV obeys the corporate law of the country where it is headquartered. Therefore, it is crucial to define the concept of the company, the location, and the target market comprehensively to set up the right form of a JV legal structure. The contributions, obligations, management bodies, staff allocation, intellectual property

provisions, financing, tax and dismantlement considerations should be discussed in the negotiation step, the results of which will be outlined in the contract between the partnering business entities. In general, tax treatment depends on the JV legal structure and residency.

The Most Common JV Structures

	Advantages	Disadvantages
Company Limited by Shares	•Universally recognized •Clear corporate identity •Comprehensive legislative framework •Liability is limited to a share capital amount contributed by the entities •Tailored share rights reflect the motivations, size and contributions of JV parties	•Potential for double taxation •Potential for flexibility restriction •Increased public and administration information disclosure •Not tax transparent
Contractual Venture	•Quick to set up and easy to dismantle •Useful for strategic alliances, single-goal and short-term ventures •Ownership of JV parties' own assets is retained •Direct taxation of each JV entities	•No separate legal entity •Difficult to raise external loan finance •Each JV party is liable for all venture losses
Limited Liability Partnership	•A separate legal identity •Limited liability of members •Legislative framework is not comprehensive •Common vehicle for commercial ventures •Fiscally transparent	•Not clearly defined LLP members' roles and responsibilities •Insignificant public fillings •External financing and third-party contracts may undermine limited liability
Limited Partnership	•Flexible •Fiscally transparent	•No separate legal identity

	•Not taxed on JV's profits •Sensitive details remain between the JV parties •Investment vehicle	•General partner has unlimited liability •Difficult to raise external loan finance

Motives for JV Formation

Companies may consider entering a joint venture for a variety of reasons.

1. Resource leverage. A joint venture will only benefit from the combined capital of its parties. It might be that one company has a superior distribution channels, while another one is proficient in low-cost production.

2. Cost reduction. A firm can address a gap in human capital, technology or market distribution channels by collaborating with another company without having to invest huge amounts of money to acquire those resources. Moreover, in a JV the risks and expenses are shared. Venture parties can leverage its output at a lower cost per unit by implementing the economies of scale than they would separately.

3. New market penetration. When entering a new market, it is common to partner with a local company, which is familiar with the micro and macroenvironment of the foreign country.

4. Flexibility. When forming a joint venture, the ownership of each collaborating enterprise is kept. Thus, a joint venture entities can easily continue its original business operations after the dismantlement unlike in the case of an acquisition or merger.

Managing the Challenges of JV

There are a number of challenges that may arise and should be addressed throughout the life span of a joint enterprise.

The first challenge is establishing a governance body. Each partner has its own ideas, needs and priorities. Therefore, weak control can trigger delays, political difficulties and the deal termination, ultimately. The solution might be a clear outline of the objective and governance structure, where the roles and responsibilities are defined. This, in turn, creates a framework for conflict resolution and decision making.

Managing the economic interdependencies between the JV and its corporate parents is another common challenge faced by most joint ventures. Economic interdependence means a relationship between individuals, groups or businesses where there is dependency on each other for the supply of necessary goods and services. Many business alliances are founded so that the parent entities provide material resources, human and financial capital continually to avoid duplication of costs. Although a broad extent of economic interdependencies is discussed during the negotiation phase, it is

important to quantify them and agree on fair compensation rules for the contributions made by the parents.

The last one is the response of the customers and competitors. The announcement of a newly formed JV might cause distractions. which will create a chance for the competitors to win over the market share aggressively. To minimize this disruption, a customer retention program and an explicit explanation of the new product or service features should be practiced until a JV is dismantled.

Conclusion

A joint venture is an effective alternative to a merger or acquisition, especially when there is operational or market uncertainty. Whether an enterprise is willing to diversify control and risk, combine expertise, enter a foreign market, minimize the cost or simply access new resources, a JV serves as a vehicle to complete the project. However, the companies that consider embarking on a JV should be aware of the challenges and limitations inherent in this endeavor. A clear purpose, thoughtful structure and careful planning will increase the chances of success.

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