Joint ventures are one of the preferred international market entry modes for many firms but they suffer high failure rate. Construct a review of literature on how to manage international joint venture successfully

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Introduction:

Joint venture is observed to be one of the most preferred, adoptive, and practicing approach and technique to enter in any market. According to KPMG (2011), joint venture involves the elements of Foreign Direct Investment (FDI), in which two or more companies and business entities merge their operations, abilities, resources and efforts to establish a new entity. As compared to the past few decades, more and more companies across the world are observed to get involved in joint venture, which is aimed to enter and penetrate in any new market and region (Adnan H et al, 2011). The primary reason of it to be the fact that Joint Venture minimizes the chances of market failure, allow firms to put their efforts, resources and time together towards the achievement and attainment of mutual benefits. However, since it is a contract between two or more companies, the possession of joint venture entity is based on the agreed shares (Meirovich, 2010).

This essay tends to focus on the other side of the picture through examining the high failure rate of Joint Venture. Throughout the literature and previously conducted studies, failure of joint venture has been discussed widely. Therefore, this essay firstly tends to discuss and examine the reason of joint venture failure and then propose some of the effective techniques that can lead towards the success of it.

Literature Review:

While reviewing the literature, it is observed that large portion of the researches are covered with the reasons and factors that lead and can lead any joint venture towards the failure. Beamish and Lupton (2009) concluded from the research that joint venture is established by two companies that have different goals and objectives, therefore the conflicts of objectives lead any joint venture towards the contradictory approaches. DWT (2011) supported the above criticism by further adding that in joint venture the control of management is always weak. The primary reason is defined to be the fact that both firms try avoiding dealing with pressure and it leaves the joint venture operations less effective and result oriented (Steensma et al, 2008).

At the other end, Dhanaraj, Lyles & Lai (2007) argued that within the public sector organizations, the primary focus has always been to enhance shareholders' wealth and similar is the fact with joint venture. Consequently, when it comes to take any 3 initiatives, the conflicts usually lead both companies to attend court and resolve the issues. According to (Meirovich, 2010) the conflicting interest in objectives, responsibilities and contribution are some of the key reasons that drive the joint ventures towards the failure. Similar research claims that in global business environment, one in every five joint ventures fails within the first five years of joint operations. Similarly, Masoud Al Awar, the chief executive of Tasweek reported that;

'sometimes companies are cash rich, investors think they will make two dollars for every dollar they put in and when their financial expectations are not met, the joint venture breaks' (Gulf News, 2012).

In addition, to the above Steensma et al (2008) conducted independent research and deduced from the findings that joint venture drives towards the failure when both entities are failed to understand each other at the initial stages. Wang and AbdulRahman (2010) at the other end defined that insufficient planning and less effective strategies are some of the key reasons of joint venture failure. According to KPMG (2011) planning in joint venture is not limited to market research and strategy development, but it also include the approaches and techniques that can aid both companies to avoid mutual risks, share responsibilities and resolution of conflicts. Moreover, Adnan et al (2011) deduced from the research that globalization has diversified the internal environment, as a result, when two companies work together towards the mutual benefits, the organizational diversification creates numerous conflicts which also include contradiction within the management.

Keck (2012) defined that current business environment is significantly influenced by the financial and economical contexts; as a result managing the finances is one of the most typical issues. Therefore, when it comes to the allocation of capitalization, joint venture usually requires both entities to invest as per the agreement. However, in real life, there is always more cost required to operate the functions smoothly. As a result, when more capital is required, the conflicts begin and lead the entire situation towards the break up.

Besides, above reasons and factors, Dhanaraj, Lyles & Lai (2007) defined that lack of leadership also play a key role in failing any joint venture. Similarly, Ozorhon et al (2010) expressed the lack of commitments from both ends and Steensma et al 4 (2008) ideological and cultural conflicts are the primary reason of joint venture failure.

Considering the fact of higher joint venture failure rate, numerous studies and researches have been conducted in recent years. The primary focus of all the studies had been to examine the key factors that lead the joint ventures towards failure and propose the best approaches that can help in long term sustainability. Frédéric and Pierre-Xavier (2006) conducted the research on Brazilian and French joint ventures and focused on the ABC-BULL. The research explored that conflicts in cultural values influenced the joint venture and ultimately resulted in failure. It was therefore proposed that organizations that intend to establish a joint venture, must study the cultural values, examine the key differences and develop a plan that can help both firms to cope up with the cultural challenges. At the other end, Meirovich (2010) conducted the similar research and deduced from the findings that cultural differences do not only influence the operational activities, but also the strategic decision making. Therefore, when strategic decision making is weak, no effectiveness from any operation can be expected.

DWT (2011) proposed that in order to ensure the effectiveness and long term sustainability of any joint venture, practitioners are required to focus on human resource management, performance as well as practices that are already conducted by host countries. At the other end Meschi and Riccio (2008) suggested that training & development competencies, adoption of adequate technological expertise, knowledge management as well as quality performance measures are required to be designed, developed and implemented according to the host country environment. Similarly, Wang and Abdul-Rahman (2010) explored that smooth and flawless cooperation between partners, equity sharing, and management, resources planning and sharing and adequate governance can allow any joint venture to enjoy success as well as long term sustainability. Vaidya (2009) supported the above findings by adding that in order to ensure the effectiveness and success of any joint venture, leadership is one of the key success factors.

A part from the above Ozorhon et al (2010) deduced from the independent research that political context in every region is getting more difficult. As a result, the company that tends to penetrate in any new region is likely to experience unexpected 5 political issues and this leads towards the failure. It is therefore proposed that organizations must be aware of the political as well as economical contexts of host countries. In addition, Beamish and Lupton (2009) conducted the similar research and suggested that bargaining power must be defined before entering into joint venture contract. The primary reason is defined to be the fact that joint venture is always established by two parent companies. Consequently, it creates a kind of conflict to lead the newly developed entity, which more often creates serious conflicts and results in failure. It is therefore suggested that bargaining powers should be determined to ensure that both companies have clear ideas of what they are expected to perform.

Adnan et al, (2011) conducted the research to determine the success criteria for international joint ventures (IJVs). This research proposed that selection of partner is one of the most important and key influencing areas that lead any joint venture, either towards success of failure. According to Adnan et al, (2011) appropriate selection of strategic partner benefits joint venture in terms of technology adoption, resource management, responsibility allocation, utilization of workforce as well as adequate leadership. The combination of these factors ultimately leads any joint venture towards the success. At the other end, Keck (2012) proposed that interpartner trust, dedication and mutual understanding also keep the joint venture alive. Researchers further defined that when two or more entities have trust on each other and deliver of what they are expected to do by other entity, difficult times and critical issues can be dealt smoothly. In order to do so, Frédéric and Pierre-Xavier (2006) emphasized on the importance of initial agreement that must include clear responsibilities.

In addition to the above, Meirovich (2010) primarily focused on the management control and organizational direction as a key factors to ensure the success of any joint venture. The research proposed that since two companies enter into a contract and establish a new entity, it is important for both sides to monitor each others' performance from time to time. In order to do so, different evaluating, monitoring and controlling programs, strategies and initiatives can be developed. DWT (2011) supported the above theoretical stance by adding that the controlling and monitoring approaches do not only allow both partners to examine each others' performance, but also to evaluate their own performance and effectiveness. Meschi and Riccio 6 (2008) is also observed to be stressed on the same factor and defined that monitoring does not allow the joint ventures to stay on track but also lead it towards the growth stage.

Hsieh, Rodrigues and Child (2010) at the other end proposed that lack of an exit strategy also influences the success of joint venture. It is argued that joint venture is a formal contract which can be temporary to infinite duration. However, when it comes to an end, the unclear strategy usually leads towards the legal cases. Additionally, Ozorhon et al (2010) suggested that adequate and appropriate risk management strategies which are to be adequate and within the best interest of both partners, is also one of the key success factors in any joint venture.

Similarly, proposed the communication management and knowledge management also allow both partners to understand each other and respond accordingly. It is also defined to be a key technique to strengthen the relationship between both partners and ensure the success and long term sustainability of joint venture. Moreover, Vaidya (2009) proposed that experienced corporate team members also helps the joint ventures to stay away from fatal triangle, in which one partner chooses an external party to associate with joint venture and other partner is not willing to do so.

Conclusion:

From the above essay, it is observed that joint ventures (JVs) is one of the most effective approach for companies to enter and penetrate into a new and potential regions. However, lack of defined objectives, staying away from the responsibilities, inadequate leadership, differences in cultural dimensions as well as inadequate proportion of capital, resources, and efforts usually lead towards the failure.

In order to ensure that joint ventures do not fail and can be managed efficiently, different theorists and authors have observed to be proposing different techniques and approaches. Some are observed to be focusing on understanding the cultural environment, economic and financial context, however some stressed on the effectiveness of monitoring, leadership, control, mutual agreements, trust and so on.

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