

## **THE FUTURE OF JOINT VENTURES: LITERATURE REVIEW**

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### **—Abstract —**

Joint venture is a strategic decision. Therefore, it needs effective strategies and alternatives in order to reach its aimed objectives. This paper aims to investigate the future of Joint Ventures (**JVs**) and its importance to organization sustainability, as well as the factors affecting its success. Due to the heavy competition and dramatic changing in the environment nowadays, gaining a sustainable competitive advantage is very crucial for organizations to remain successful. That's why strategic management and good analysis must be done before formulating the most suitable strategy, and the simplest most common way to do this is SWOT analysis. The role of strategic management in enhancing JVs performance will also be discussed. In order to achieve the aim of this paper a review of literature is covered, some conclusions and recommendations are also provided.

**Key words:** Joint Ventures (**JVs**), Strategic management, Co-operative strategy, Sustainability, Competitive advantage, SWOT analysis.

**JEL Classification:** L24, G34, L21, L10, Q56, P13

### **1. INTRODUCTION**

Talking about future, it's necessary to talk about strategic management. Strategic management and strategic planning are increasingly important. Due to dramatic changes in the environment and the aggressive competition nowadays, all organizations are searching for every possible way to remain sustainable. One role

of strategic management is to scan the environment, formulate the most suitable strategy and alternatives for an organization to adapt with the environmental changes and guarantee its success on the long run. Strengths, Weaknesses, Opportunities, and Threats which forms (SWOT) analysis and (TOWS) matrix are considered to be the best tools to do this.

Joint venture (JV) is one of the co-operative strategies - a type of growth strategies - a firm can follow in order to enhance its growth and retrenchment, to gain competitive advantage, and to ensure its sustainability.

### **1.1. Research Problem**

As many organizations consider JVs as a way for solving many of their critical problems. The research problem could be summarized in the need for investigating the future of JVs and understanding to what extent strategic management affects the success of JVs or in other words how it could help JVs to overcome their obstacles and boosts their benefits and success.

### **1.2. Research objectives**

The main objective of this research is to investigate the future of JVs. Exploring the limitations to JVs and whether strategic management could play a role in overcoming these limitations and enhancing JVs performance.

This could be achieved through the following sub-objectives:

- Discussing the concept of Strategic management and JVs.
- Exploring literature review of JVs and strategic management to reach the research gap.

## **2. HISTORICAL BACKGROUND**

The objective of this section is to explore and discuss the main concepts upon which the research paper is developed.

### **2.1. Strategic management**

#### **Definition**

*Strategic management* can be defined as the art and science of formulating, implementing, and evaluating cross-functional decisions that enable an organization to achieve its objectives. The term strategic management is used

synonymously with the term strategic planning. It includes environmental scanning both external and internal. (David, Thirteenth Edition)

## **Origin**

The strategic management discipline originated in the 1950s and 1960s. This discipline originated from earlier thinking of strategy. Alfred Chandler, Philip Selznick, Igor Ansoff, and Peter Drucker were the most contributors of strategic management. (Omari Albert, 2011)

## **Purpose**

The purpose of strategic management is to take advantage of and create new opportunities for tomorrow (David, Thirteenth Edition). This could be achieved through emphasizing the monitoring and evaluating of external opportunities and threats in light of a corporation's strengths and weaknesses to gain a competitive advantage.

## **2.2. Joint ventures**

### **Definition**

There is no one strict definition of a Joint Venture (**JV**). It can be defined as “an agreement between two or more legally independent companies, which pool their capabilities and resources together to a shared business. It becomes an international JV in case that at least one foreign partner is involved.” (Moxuan, 2011)

### **Benefits**

By forming a JV, companies can gain many benefits in different fields other than transferring raw materials and components such as:

*Marketing:* companies can gain market information and resources not easily identified by outsiders, such as knowledge of competition and industry condition.

*Technology:* those participating in a JV can use technological skills that are not generally available. *Financial:* companies can obtain external capital.

*Managerial:* JV participants can use specific managerial and entrepreneurial capabilities and skills. (Schillaci, 1987)

### **Pitfalls**

Although JV represents one source of potential growth for a company. Lack of trust between partners, scarce information, different management, cultural styles,

control conflicts, and changes in the business or strategic objectives of partners are some of its pitfalls. (Schillaci, 1987)

**Why JV?** JV is a strategy that helps organizations to succeed in today’s increasingly competitive economy. The firm that acts alone cannot easily integrate all the resources, technology, and skills needed to handle complex opportunities and rapidly changing circumstances. Even large companies nowadays use JVs to fill gaps in their capacity.

### 3. LITERATURE REVIEW

This section aims to examine and discuss previous studies that investigated the research variables. The literature review can be divided as follows:

#### 3.1. Joint ventures (JVs) around the world

**Table 1**

Author(s), year	Objectives	Methodology	Findings
Currall, (2004)	The article examined the evolution of trust, control, and learning in a joint venture relationship.	A co-evolutionary approach was used. A framework was developed.	The findings indicated that: Trust shapes partner interactions. In turn, these which shapes the nature of controls. Learning from and about the partner also shapes control process and risk taking and plays a critical role in establishing firm bargaining power.
Tony W Tong, (2010)	The study investigated the conditions under which JVs reduce or enhance competition by testing the effects of different types of JVs on industry profitability.	Empirical study.	The findings indicated that: The competition enhancing, or competition-attenuating, effects of JVs are context dependent.
Qiangbing Chen, (2010)	The paper examined the impact of cultural differences on the	Pooled ordinary least square was used in the model	The findings indicated that: Cultural distance in different

	ownership structure of international JVs in China.	estimation.	dimensions does not play an equal role in affecting foreign equity shares.  Also, there is significant evidence that the allocation of ownership between foreign and domestic investors in JVs is influenced by the investor's relative importance in supplying different types of resources.
Merve Bener, (2010)	The paper investigated the determinants of IJV performance such as: the level of trust between the partners and the effects of cultural differences.	Self-administered questionnaire approach and conceptual framework.	The findings indicated that: There is a positive relationship between performance expectations and dominant control of the IJV.  It also indicated that there is a negative relationship between performance expectations and national culture differences.
Gocmen, (2011)	The study highlighted risk and return effects of JVs and tested if diversification and risk-sharing were valid motivations for the creation of JVs.	Market model. Companies engaged in JVs over the period of 1981 – 2002 were examined.	The findings indicated that: The full-diversification strategies yield higher abnormal returns on the announcement day than those of non-diversifying strategies. This also true when only one parent diversifies and the second parent doesn't, diversifying parent earns higher abnormal return on the announcement day.
Samson Ekanayake, (2011)	The paper examined the factors that may contribute to inter-partner trust in the context of JVs.	A review of literature was discussed.	The findings indicated that: Inter-partner trust in a JV was determined by five propositions which were the partners' private history of prior cooperation, network-embeddedness, reputation, reciprocal investments in specific assets, and time horizon of the JV.

It could be concluded from the literature review that most organizations should be heading to JVs because of the mutual benefits partners could gain .In addition, there are many obstacles facing JVs and preventing their success especially international JVs. Most common obstacles are cultural differences and the political environment.

### 3.2. Strategic management

**Table 2**

<b>Author(s), year</b>	<b>Objectives</b>	<b>Methodology</b>	<b>Findings</b>
Cesnovar, (2006)	The study aimed to: 1-Determine the influence of systematic use of strategic management on business outcomes. 2-Establish the characteristics of using strategic management in order to improve the company competitiveness.	Empirical study, Descriptive statistics, Interviews, surveys, T-test, Comparative method and discriminant analysis were employed.	The findings indicated the following: 1-Systematic users of strategic management achieved better business outcomes than others used informal ways of management. 2-Neglecting some of strategic management activities in the preparation and assessment phase may cost the company its competitive position on the global market. 3- In complex internal and external environments, a competitive position could be achieved only through the creative adjustment of methods used by the companies.

<p>Hassan, et.al , (2011)</p>	<p>The study investigated some important barriers to implementation of strategic management in the public sector in Iran.</p>	<p>Empirical study. Conceptual Model. Data were gathered by structured questionnaire.</p>	<p>The findings indicated that:                  The critical factors on implementation of strategic planning in Iranian public sector are :</p> <ul style="list-style-type: none"> <li>•Unclear mission statement and vision development.</li> <li>•Inability to specify performance measures and monitoring environment continuously.</li> <li>•Lack of managerial commitment to strategic planning and low level of knowledge and skills</li> <li>•Inappropriate organizational structure and high turnover of managers.</li> <li>•Political influence.</li> <li>•Inappropriate allocation of resources.</li> </ul>
<p>Vincent Bagire, (2011)</p>	<p>The paper explored studies to argue that the late and slow adoption of strategic management perspectives could explain the low business development.</p>	<p>A review of literature.</p>	<p>The findings indicated that:</p> <ul style="list-style-type: none"> <li>• Strategy tools could enhance sustainable business development in Africa. The late adoption of Strategic management explains the level of business, the poor management, and the superiority of the multinationals.</li> <li>• Strategic management tools provide an inherent possibility for breaking into the global economic order from which sustainable growth and technological development are tenable.</li> </ul>

<p>Elie Chrysostome ,( 2013)</p>	<p>The study aimed to shed light on particular type of learning which strategic learning is.</p>	<p>A knowledge creation oriented model which explains how learning can help to develop strategic competencies in international JVs was constructed.</p>	<p>The findings indicated that: The learning dynamic is characterized by the fact that the willingness to co-operate and learn from the partner co-exists with various divergences that are unfortunately sources of conflicts. Some of those conflicts originated from socio-cultural differences or from the differences in the goals pursued by partners.</p>
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Most previous studies related to strategic management examined its role in enhancing organization's performance in the private sector. Only few studies focused on the role of strategic management in enhancing JVs performance and dealing with the obstacles facing them. Also, there were very limited or unknown studies that discussed JVs in the public sector.

#### **4. SUMMARY AND CONCLUSIONS**

JVs are facing a lot of problems and limitations that hinder their success. More efforts should be done to solve these problems. The aim of this paper is achieved by spotting the light on these problems and on the ability of strategic management to help in solving these problems. Previous studies didn't examine the role of strategic management, especially the SWOT analysis and TOWS matrix in helping JVs to adapt to rapid changes (e.g. political or legal changes).

After investigating prior studies related to JVs around the world, it could be concluded that JVs in public sector will face many problems such as: political changes, cultural differences, and lack of knowledge. However the future of JVs would be in the public sector more than the private sector, as many public organizations especially in the developing countries have a lot of unexploited resources and JVs could make good use of these resources. Finally, the future of JVs could be very promising only if we appreciated their benefits and avoided their risks. Strategic management could be the right path to reach this future.

## 5. RECOMMENDATIONS

- The obstacles facing JVs could be overcome by analyzing the situation thoroughly and developing the best fitting strategy that exploits all of the available resources.
- JVs should also adopt “the learning organization theory” in which organizations use knowledge intensively and defensively to remain adaptive and successful.
- Alternative strategies also should be generated to enable JVs to adapt with probable changes smoothly without losing their competitive advantages to remain sustainable. This could be done by adopting strategic management techniques and using the SWOT and TOWS matrix situational analysis.

## 6. FUTURE RESEARCH

- More researches should be done to examine the role of TOWS matrix as well as the importance of generating alternative strategies and how it helps in boosting the performance and the success of organizations.
- In addition, investigating the application of JVs in the public sector especially in developing countries like Egypt would be an interesting idea for future research.

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