International Joint Ventures

Kathryn Borysewicz posted Jun 25, 2018 1:12 PM

When an international company and a small company engage in a joint venture, there are benefits for both parties involved. Local partners can bring knowledge of the domestic market; familiarity with government bureaucracies and regulations; understanding of local labor markets; and possibly existing manufacturing facilities (Miller et all., 1997). On the other hand, foreign partners can offer advanced process and product technologies, management know how, and access to export markets (Miller et all., 1997).  The international company’s negotiating interests will generally include wanting to maintain control of the deal, since they are the larger company, while using the smaller domestic company to help them be accepted into the market and provide easy access to information. The developing country’s negotiating interests are focused on ensuring that letting this international company into the market brings positive effects for their economy and does not take away from all the resources that other domestic companies need.

Some of the biggest problems that arise during negotiations are valuation problems, transparency, and division of management responsibilities (Miller et all., 1997). Valuation problems are common because it is hard to assign a value to what each party is bringing the joint venture. The international company has capital but the domestic country provides resources necessary for business operations. Transparency is an issue because getting accurate data upon which to base valuations and other decisions can be very difficult in some countries, especially where accounting standards are quite different from international standards (Miller et all., 1997). It is important that the roles of management are clearly discussed and agreed upon during negotiations, because it is very common for there to be attempts by parent company’s micromanagement which interferes with the success of the venture.

Miller, R., Glenn, Z., Jaspersen, F., &Karmokolias, Y. (1997, March). International Joint Ventures in Developing Countries. Retrieved June 25, 2018, from <https://www.imf.org/external/pubs/ft/fandd/1997/03/pdf/miller.pdf>

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Large international companies and small companies have different interests and objectives when entering into a joint venture.  Large international companies can be looking to enter a new market to expand its business.  The new market allows the company to grow.  The smaller company could also provide cross cultural skills and knowledge to the larger company (Leddy, 2014).  This could help the company grow in experience and knowledge.

The smaller company could be looking for access to the world.  The joint venture could also be looking for a larger capital structure or economies of scale (Leddy, 2014).  Larger companies could provide smaller companies economies of scale which can decrease costs and help the business expand.  The large company can also provide more knowledge and abilities to help the smaller company (Leddy, 2014).  The larger company could offer services the smaller company cannot which could help the smaller company.

Conflicts can arise during negotiations.  Joint ventures can be very fragile and can be harmed by disagreements over corporate culture and differing opinions in operational decisions (Nagel, 2017).  The joint venture could suffer from a lack of balance (Nagel, 2017).  Too much or too little oversight could cause the venture to lose its way or lack guidance on where to go.

Good legal counsel is important for joint ventures (Nagel, 2017).  Legal counsel can guide the companies and help end disputes before they destroy the agreement.  Legal counsel can also help the venture navigate complex tax issues and other legal issues that the company could face in a foreign country (Nagel, 2017).

References

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Nagel, D. (December 25, 2017). The pros and cons of international joint ventures. Retrieval from<http://www.globaltrademag.com/global-trade-daily/pros-cons-international-joint-ventures>