STRATEGIES AND OBSTRUCTIONS OF JOINT-VENTURE IN THE MALAYSIAN CONSTRUCTION INDUSTRY

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ABSTRACT

Joint venture has become an important sector in the Malaysia construction industry. It provides a sound basis for achieving a win–win situation and implementing synergistic teamwork where most of the large-scale construction projects in Malaysia have tended to be delivered using joint ventures (JVs) of global and local construction organizations. Thus, firms increasingly intend to spend more effort in studying proper strategies of managing risks in their joint venture businesses but the difference in management systems, technological practice, and cultural background among the partners within joint ventures due to their complex structures involving more than two entities having different and competing objectives and strategies brings difficulties to the function of joint venture. This research aims to determine the strategies in joint venture between local and foreign companies in construction projects and the obstruction faced. In conclusion, getting suitable partners and obtaining sufficient information are found to be crucial in implementing joint venture strategies while the obstructions faced in joint venture are clarity in objectives, communication and coordination, governmental policies and determinant of ownership. Therefore, these factors can be referred as to form up joint venture in the future.

Keywords: joint venture, construction industry, Malaysia

1. INTRODUCTION

Joint ventures (JVs) have become popular because of their importance as a strategic alternative in global competition. As construction industry is one of the major areas absorbing overseas investment, and the proportion of investment is rapidly increasing (Luo 2001). To provide sufficient opportunities and participations for domestic construction firms to learn during the nation building process, most developing countries see alliances as one of the best instruments to achieve this since construction industry cannot use the conventional forms of market penetration such as agents, distributors and licensees, the alliance in the form of joint venture is the most popular form of entry because of the perceived benefits it brings to the host country through transfer of technology, job creation and capital inflow (Sornarajah, 1992).

Since the early 1990s, construction joint ventures have developed and are evolving rapidly in Malaysia in both multinational construction firms and local government in order to achieve their individual objectives. There are already established joint ventures between local contractors and also between local and foreign contractors. Malaysia's booming economy over the last ten years has spawned massive developments thus, creating, a conducive investment environment (Hamimah Adnan and Roy Morledge 2003*)*. Over the years it managed to attract a good deal of well-known multinational companies from all over the world to venture in Malaysia. This included work for public and private clients comprising infrastructure, civil engineering works, and mixed development, residential and non-residential.

Joint ventures are unique and arguably the most complex type of arrangement among the different forms of inter-organizational relations. International construction projects involve multinational participants from different political, legal, economic, and cultural backgrounds (Chan EHW, Tse RYC 2003).

2. TYPES OF JOINT VENTURE

Joint venture can take in three possible legal forms.

2.1 Incorporation

Incorporation referred to those joint ventures which intended to operate on a more permanent basis which is a body corporate designed to be a legal entity distinct from the parties themselves. Opinion 18 of the United States Accounting Principles Board described this type of joint venture as "corporate joint ventures" (Chow Kok Fong 1985).

Corporate joint venture is treated as limited company which theoretically enables parties who involve achieving fair amount of insulation from the risks to a project. Incorporation unlike a partnership will have a distinct legal entity with separate interests from its members. So it is thus able, under its own name, to sue and be sued and enter into contracts with third parties.

2.2 Partnership

According to Bennett and Jayes (2001), partnering is a set of strategic actions that deliver marked improvements in construction performance. It is driven by a clear understanding of mutual objectives and cooperative decision making by multiple firms all focused on using feedback to continuously improve their joint performance (Wei Tong Chen and Tung-Tsan Chen 2007).

The establishment of a partnership provided the joint venture partners with an independent vehicle capable of trading under its own name. Losses sustained by the joint venture operated through partnership can be set off against the profits of the parents companies for tax purposes.

The main advantage in partnerships is tax driven in that each partner is assessed separately on his share of the profits or losses especially when the joint venture parties entering a new territory. A decision may then be made to constitute the joint venture as corporation when the parties start to get use to the business environment and operations begin to turn profitable.

2.3 Consortium

Consortium is an association of two or more individuals, companies, organisations or governments (or any combination of these entities) with the objective if participating in a common activity or pooling their resources for achieving a common goal. It is typically formed on a "one off" basis which is governed by a contractual agreement (Chow Kok Fong 1985).

It may be seem like partnership legally but the parties involved usually wish to present the impression that they are not dealing with the third party under a separate formal entity. It set up in order to secure the commitment of the parties making up the joint venture in undertaking projects as some of them set up joint venture to reduce the level of commitment to the project.

It is also utilised as a form to avoid the use of a separate entity for joint venture work where tax factors operate inverted to the entities which are treated as formal associations. The position of each party to others must be clearly defined in contractual agreement to formulate joint venture. It will have to include a detailed responsibilities and position of each parties and the specification of the authority.

Consortium unlike partners in a partnership, who does not mean to act as an agent of all of the parties under common law unless the circumstances intend for it. Parties in consortium normally will not held to jointly liable to the third parties for the acts of other joint venture participants.

3. REASONS FOR JOINT VENTURE

Parkhe (1993) identified four major areas of research on international joint ventures are the motives for venture formation, partner selection, governance and control and joint venture performance and stability. While Naoum (2003) gives an overview of the concepts of partnering and summaries the common features of partnering definitions as follows: mutually agreed goals, inter-organizational trust, a mechanism for problem resolution, and continuous improvement related to benchmarking process. All these features can be observed by objective behaviour in some extent.

In practice, joint ventures are not the easiest forms of organisation entities to manage and operate, largely on account of the fact that the parties have to accept frequently a new set of working relationship while proving difficult to define in a manner satisfactory to all parties involved (Chow Kok Fong 1985).

3.1 Pooling Resources for Cooperative Advantage

Joint ventures may be formed between partner firms in pooling resources to pursue a common interest or symbiotic cooperative advantage. Resources can be used to improve partnering relationship competitiveness and construction capability, given effective management (Construction Industry Institute (CII) 1991).Nevertheless, mutual interaction should be emphasized to enhance resource sharing (Devlin G, Bleackley M. 1988).

It is also important to clarify the maximum use of shared resources. Complementary resources from different parties can not only be used to strengthen the competitiveness and construction capability of partnering relationships but can also provide major criteria for assessing partnership success (Cheng EWL, Li H and Love PED 2000).

By sharing financial resources that otherwise are not available to each individual partner, two smaller companies in an industry can form a joint venture to achieve economies of scale similar to those that are enjoyed by their larger competitors.

3.2 Risk Sharing

It is also one of the frequent observed motives for forming international joint ventures. In a world full of risk and uncertainty, most of the countries are likely to sacrifice some efficiency in resource allocation for less risk (United Nations 1989).

The success of construction companies carrying out projects in international markets significantly depends on how the risks that stem from the host country conditions are managed as well as the project-specific risk factors (Shaokai Lu and Hong Yan 2007). Successful risks management which used to assess the magnitude of risks and implementation of response strategies will lead to acceptable revenue can be achieved.

Turner and Simister (2001) point out that joint venture is more appropriate to projects with high uncertainty of the product and process because the client and contractors can then share both project risk and uncertainty through an alliance. It can then infer that the complexity of project procurement is positively related to use of joint venture. The uncertainty of a project is not only caused by restrictions in cost, time and quality, but may also relate to the function of a project.

Business environment in a host country which is highly uncertain or unfriendly to foreign firms, a joint venture with a local firm may allow a multinational company to share political risks and to defuse xenophobic local reactions, a strategic action to amend the "liability of foreignness" (Aimin Yan and Yadong Luo 2001).

Development of trust and commitment in JV relationships is yet another important project management skill that is more recently being recognised (Bresnen. M and Marshall. N 2001). Therefore, joint venture is presumably afford to be less risk adverse and expected to accept more risk and earn a higher rate of return than enterprises of a single owner.

3.3 Gaining Access to Overseas Market

It has been a classic reason for firms to form joint ventures. This is true for both multinational and the local partner firm. The advantage of a joint venture is that a foreign firm can gain access to the local market through piggyback on a local partner. On the other hand, in many cases it is also an aim of the local partner to gain access in the international market.

Without fully understanding the consumer behaviour, distribution network and marketing strategies and practices that are effective in a specific country, a foreign wholly owned subsidiary has many ways to fail. Japan is the obvious example. Its distinctive marketing and distribution practices encourage foreign companies to set up partnerships with Japanese companies as the most practical means of selling into the market (Aimin Yan and Yadong Luo 2001).

3.4 Effect Economies of Scale and Scope

Substantial economies of scale could be made if countries in a given region share a single large plant in a particular industry instead of independently developing their own small and inefficient plants. The use of common infrastructure such as storage, transport facilities, power plant, boilers and grain facilities could also lead to important economies of scope. Due to their greater ability to finance large projects, marketing their products regionally and derive benefits beyond the confines of the host country (United Nation 1989).

Its ability to regionally marketing not only lead to substantial economies of scale and scope yet it also facilitate regional marketing whether through trade and exchange from a single regional plant or with separate plants in the various countries participating in the joint venture. Joint venture takes a better position than other enterprises to take advantage of such economies.

3.5 Knowledge Transfer

Since the parties are working as a team and share common goals, they should share resources such as knowledge, information, and technology. Resource exchange relies on the involved parties maintaining absolute trust by not disclosing confidential material to unauthorized parties and by not using such material for internal competitive purposes. Parties are reminded to restrict the leakage of confidential data (Stephen and Nigel 1999).

Appropriate resources should be those that can be used to accomplish the common project goals. Knowledge to be transferred between partners in an international joint venture can be characterized from different angles (Aimin Yan and Yadong Luo 2001).
On the other hand, local investors may be more interested in obtaining latest technology and innovations or international business experience from their foreign counterparts. Such cycle in learning is heavily based on the partners' resource complementarity which tends to reduce over time as result of learning.

Joint venture not only change how knowledge flow within and across linked organisations but they also affect how individual organisations conduct business. It forges new knowledge transfer pathways across both technologically and traditionally linked positions (Aimin Yan and Yadong Luo 2001).

4. RESEARCH METHODOLOGY

In order to achieve the objectives of the research, questionnaires are distributed to those contractors who undergo overseas projects through joint venture. 50 set of questionnaire is post to all the respondents which are listed in the list of contractors with overseas projects from the CIDB Directory 2006-2007. Of the 50 set questionnaires distributed, 15 respondents completed and returned the questionnaire.

5. RESEARCH FINDINGS

5.1 Strategies Applied by Local Contractors in JV

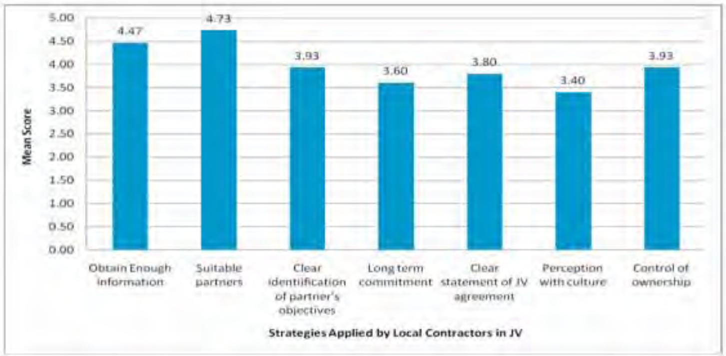

Figure 1: Strategies Applied by Local Contractors in JV

As shown in **Figure1,** the strategy most adopted is selection of suitable partners in joint venture. It is then followed by obtaining sufficient information for the alliance before it is formed. Clear identification of partner's objectives and control of ownership have same mean score of 3.93. It is proved again that the cultural effect won't affect much in the success of joint venture as it score the lowest score for the choice of compatible perceptions with partner's culture. Therefore, in deciding a success of joint venture, it is essential to select know well or familiar partners to complement each other in implementing projects for a successful joint venture.

5.2 Factors affecting JV management

As can be seen in **Figure 2**, strategic and financial controls are the most important strategies in joint ventures management. As financial plays the role in the investment assessment and capital budgeting for the proposed joint venture while the strategic will manage the development model of an organisation. Cultural is not a big problem in managing overseas project as long as there is well managed strategic and financial control.

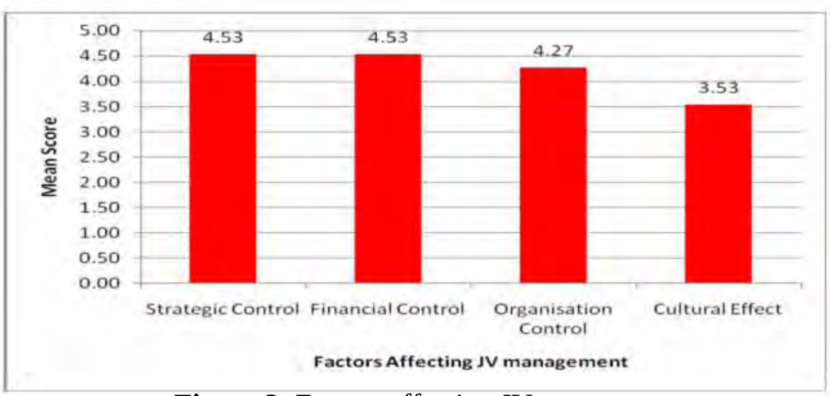

Figure 2: Factors affecting JV management

5.3 Joint venture setup

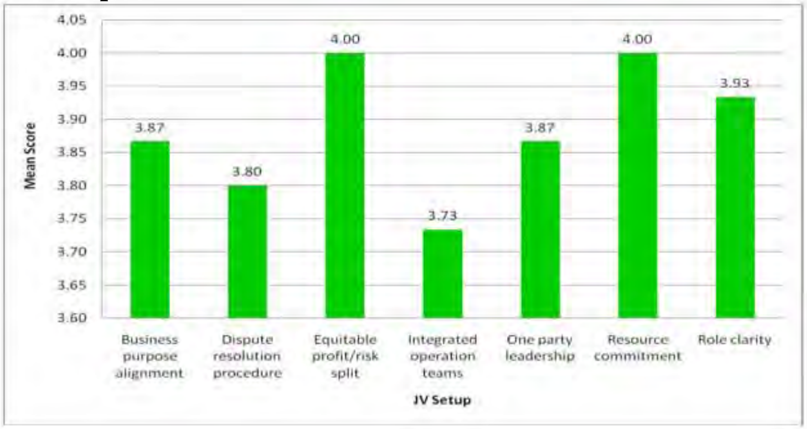

Figure 3: Joint venture setup

Joint venture is a business that involves both partners so there must be some reasons for it s setup. The results from the analysis as shown in **Figure 3** show that joint venture is set up for equitable profit, risk split and resource commitment with a score of 4.00. This is the most common reason as studied from the literature. All the factors listed are normally distributed between mean score of 3.73 to 3.93. It can be found that integrated operation teams are not really important as works can be distributed with different experts in the organisation with the commitment from every parties involved.

5.4 Obstructions in JV

There are always some obstructions in managing anything, so for joint venture. **Figure 4** show that most of the respondents implied that clarity in objectives is their major obstruction. Result shows that majority of the joint venture established with multiple objectives or even different objectives for both the parties involved in joint venture. Therefore, compatibility of interest and objectives among partners is important or else it will become the largest obstacle in forming joint venture.

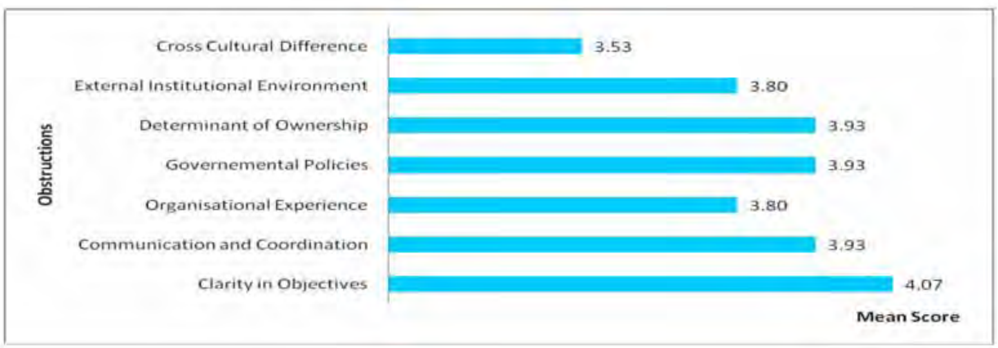

Figure 4: Obstructions in JV

Communication and coordination, determinant of ownership and governmental policies tail behind after the first obstructions. Construction usually will take a long duration with a lot of stages which required timely communications of information and integrated efforts of different experts so appropriate coordination and communication will be an added value for joint venture. On the other hand, determinant of ownership which involved joint ownership structure with certain level of risk exposure has to be structured to control uncertainties and risks. Besides, governmental policies on rules and regulations gives direct impact on establishment of joint venture structure. Although cultural difference is one of the obstructions in joint venture but from the findings, it is not as severe as been discussed.

5.5 Risks in JV

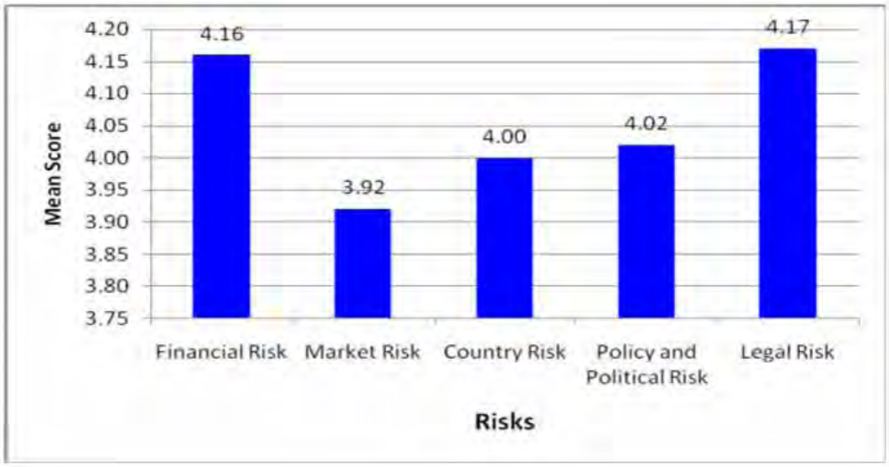

Figure 5: Risks in JV

Figure 5 shows that the main risk in joint venture is legal risks which involve the procurement system in joint venture procedure. It is quite a difficult area as rule and regulations differ from place to place. It might took time to understand a country's regulation and legal system before invest or cooperate with the country as to reduce uncertainties and some hidden problems. Financial risks keep up after legal risks. Money plays the role and can work up everything. Fluctuation and material prices will be the biggest worries for construction industry as it affect the running cost of a development. Market risk is the lowest risk among of all as most of the joint venture projects are large scale and it has been studied and planned for several time so most of the development work on to fulfil the market demand.

5.6 Weaknesses to be diminished through formation of JV

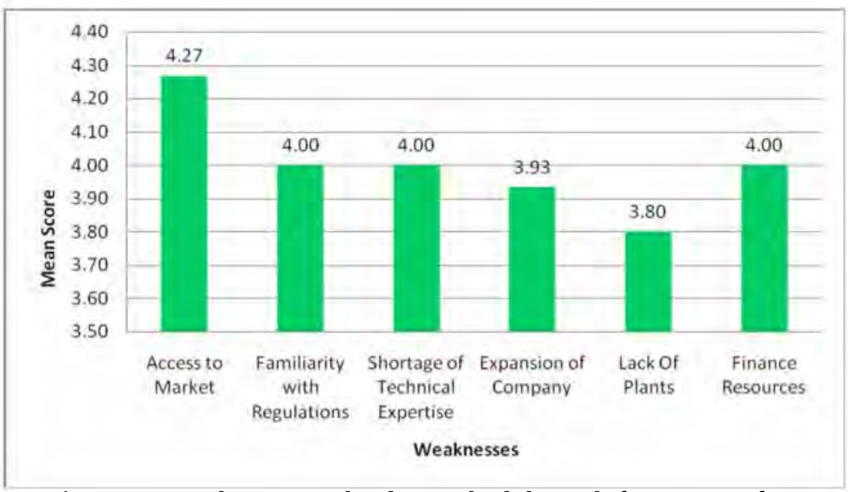

Figure 6: Weaknesses to be diminished through formation of JV

In response to the last question for the research as can be seen in **Figure 6**, a majority of the respondents revealed that they would improved to access to more local markets in various parts of the world. This is also a strategy to expand their organisation and build up reputation. Accordingly is to have greater familiarity with the local regulations involved, reduced the shortages of specific technical expertise and increase source of finance. With an increment of financial sources and technical expertise, it can reduce the dependence towards their partners and make works go faster and achieved better quality. Lastly the weaknesses to be diminished are problems of lack of plant addressed as some places might did not have the plant or technology required.

6 . DISCUSSIONS

From the analysis, it is found that the success strategies of joint venture in Malaysia construction industry is led by the selection of suitable partners in joint venture and it is established with the main purpose to split their risk, generate profit and resource commitment. Strategic and financial controls are the most important factor in joint venture management

Multiple objectives in JV are the largest obstructions so it is important to clarify the objectives to make it compatible to the interest of both parties toward the joint venture. The most risky risk is the legal risk and financial risks. The weaknesses that most likely to be diminished through forming of joint venture is to improved the access to local markets in various parts of the world.

7. CONCLUSION

In conclusion, this research had successfully fulfilled the research objectives set. Hopefully this research can be a reference to all readers especially contractors, developers, planners and professionals in construction industry who are interested to participate in joint venture in the future. This research can be a reference or indicator to them.

Construction industry is full of challenge and uncertainties. Large scale constructions projects are usually deliver using joint ventures of global and local construction organisations. The main reason why individual, often very large, construction companies do so is to offer a customer focused service package that meets that customer's needs. Supporting reasons include bridging knowledge and expertise gaps, sharing risk and exploring opportunities to add value to the JV organisations through collaboration.

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