Joint venture
(*from* Small Business Encylopedia)

A joint venture is a business enterprise under-taken by two or more persons or organizations to share the expense and (hopefully) profit of a particular business project. "Joint ventures are not business organizations in the sense of proprietorships, partner-ships or corporations," noted Charles P. Lickson in A Legal Guide for Small Business. "They are agreements between parties or firms for a particular purpose or venture. Their formation may be very informal, such as a handshake and an agreement for two firms to share a booth at a trade show. Other arrangements can be extremely complex, such as the consortium of major U.S. electronics firms to develop new microchips.... A joint venture is, in effect, a form of partnership that is limited to a particular purpose." Joint ventures have grown in popularity in recent years, despite the relatively high failure rate of such efforts for one reason or another. Creative small business owners have been able to use this business strategy to good advantage over the years, although the practice remains one primarily associated with larger corporations.

Most joint ventures are formed for the ultimate purpose of saving money. This is as true of small neighborhood stores that agree to advertise jointly in the weekly paper as it is of international oil companies that agree to work together for purposes of oil and gas exploration or extraction. Joint ventures are attractive because they enable companies to share both risks and costs.

Types of joint ventures.

Equity-based joint ventures benefit foreign and/or local private interests, groups of interests, or members of the general public. Under non-equity joint ventures (also known as cooperative agreements), meanwhile, the parties seek technical service arrangements, franchise and brand use agreements, management contracts, rental agreements, or one-time contracts, e.g., for construction projects. Participants do not always furnish capital as part of their joint venture commitments. There are, for example, non-equity arrangements in which some companies are more in need of technical services or technological expertise than they are capital. They may want to modernize operations or start new production operations. Thus, they limit partners' participation to technical assistance. Such arrangements often include some funding as well, albeit limited.

Legal Structure of Joint Ventures

As Lickson observed in A Legal Guide for Small Business, joint ventures are governed entirely by the legal agreement that brought them into existence. "Unless the joint venture is formalized by creation of a corporation or partnership, it never ripens into a taxpaying, legal entity on its own. Instead, the joint venture functions through the legal status of the venture participants, known as co-venturers or venture partners," Lickson wrote. "Since the joint venture is not a legal entity on its own, it does not hire people, enter into contracts, or have its own tax liabilities. These matters are handled through the co-venturers. Corporate law, partnership law, and the law of sole proprietorship do not govern joint ventures; contract law governs joint ventures." And as Marc J. Lane noted in the Legal Handbook for Small Business, "since the venture ends at the conclusion of a specific project, issues of continuity of life and free transferability become moot."

Why Joint Ventures Fail

Small business owners should not engage in joint ventures without adequate planning and strategy. They cannot afford to, since the ultimate goal of joint ventures is the same as it is for any type of business operation: to make a profit. Experience dictates that both parties in a joint venture should know exactly what they wish to derive from their partnership. There must be an agreement before the partnership becomes a reality. There must also be a firm commitment on the part of each member to the project and to one another. One of the leading causes for the failure of joint ventures is that some participants do not reveal their true business agendas, or mislead their partners about their ability to uphold their agreed-upon responsibilities.

Many small business consultants counsel clients to approach joint ventures cautiously. They acknowledge that such partnerships can be most valuable in nourishing a company's growth and stability, but also point out that smaller businesses usually have far less margin for error than do multinational corporations, or even mid-sized companies. Some experts recommend that business owners considering a joint venture with another establishment (or establishments) launch a small joint venture first. Such small projects allow companies to test the relationship without committing large amounts of money. This is especially true when companies with different structures, corporate cultures, and strategic plans work together. Such differences are difficult to overcome and frequently lead to failure. That is why a "courtship" is beneficial to joint venture participants.

Other factors that can have a debilitating impact on joint ventures include marketplace developments, lagging technology, partner's inability (rather than reluctance or refusal) to honor their contractual obligations, and regulatory uncertainties. Another problem with joint ventures concerns the issue of management. The managers of one company may be more adept and/or decisive with their decision making than their counterparts at the other company. This can lead to friction and a lack of cooperation. Projects are doomed to failure if there is not a well-defined decision making process in place that is predicated on mutually recognized goals and strategies.

Benefits of Joint Ventures

Among the most significant benefits derived from joint ventures is that partners save money and reduce their risks through capital and resource sharing. Joint ventures also give smaller companies the chance to work with larger ones to develop, manufacture, and market new products. They also give companies of all sizes the opportunity to increase sales, gain access to wider markets, and enhance technological capabilities through research and development (R&D) underwritten by more than one party. Until relatively recently, U.S. companies were often reluctant to engage in research and development partnerships, and government agencies tried not to become involved in business development. However, with the emergence of countries that feature technologically advanced industries (such as electronics or computer microchips) supported extensively by government funding, American companies have become more willing to participate in joint ventures in these areas. In addition, both federal and state agencies have become more generous with their financial support in these areas. Government's increased involvement in the private business environment has created more opportunities for companies to engage in domestic and international joint ventures.

Reasons for forming a joint venture

Internal reasons

Build on company's strengths
Spreading costs and risks
Improving access to financial resources
Economies of scale and advantages of size
Access to new technologies and customers
Access to innovative managerial practices

Competitive goals

Influencing structural evolution of the industry
Pre-empting competition
Defensive response to blurring industry boundaries
Creation of stronger competitive units
Speed to market
Improved agility

Strategic goals

Synergies
Transfer of technology/skills
Diversification

http://www.answers.com/topic/joint-venture