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# BUSINESS DEVELOPMENT OPPORTUNITIES THROUGH PURSUIT OF JOINT-VENTURE INITIATIVES IN CONSTRUCTION

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## ABSTRACT

A joint venture involves two or more businesses pooling their resources and expertise to achieve a particular goal, eg the construction of a large building. The risks and rewards are also shared. Businesses of any size can use joint ventures to strengthen long-term business/marketing relationships, or to collaborate on short-term projects, but entering into a joint venture is a major decision. The benefits of a joint venture include: the costs and risks of the project are spread, improved access to financial resources, economies of scale and advantages of size, access to new technologies and customers, pre-empting competition and creation of stronger competitive units.

Joint venturing can be a beneficial way to gain additional work and experience and expand a firm's market penetration. But it should only be approached with full appreciation of the risks involved, and full knowledge of the prospective joint venture partners.

Joint ventures offer a number of business development opportunities for construction firms. This exploratory and theoretical paper will examine how the pursuit and execution of joint venture opportunities may enhance the business development and marketing activities of firms, lead to more business opportunities, improve networks and relationships and create/enhance distinct and sustainable brands for JV partners.

**Keywords**: business development, joint ventures, marketing, construction projects

## 1. INTRODUCTION

Joint ventures are a business development and marketing opportunity for all parties involved. Contractors, clients (whether government or private developers) and consultants, will develop new and specific skills associated with joint venture work. Joint ventures offer the opportunity to develop and enhance in-depth relationships with partners, which may open up further and repeat work. JV projects will help to expand a party's business network, which will have advantages for future prospects. As a marketing tool, the experience gained, and reputation for being involved in successful joint venture projects, will add to a firms portfolio of product/service offerings.

The aim of this paper is to examine the opportunities for construction firms in carrying out joint ventures and to identify the benefits to JV partners from a marketing perspective. It will contend that experience in joint venture projects provides business development and marketing advantages and is a tool for gaining repeat business, opening up new relationships and enhancing the reputation of firms in the marketplace.

## 2. JOINT VENTURES IN CONSTRUCTION – BUSINESS OPPORTUNITIES FOR ALL STAKEHOLDERS

Joint ventures are examples of the strategic alliances which are often established between or among business enterprises (Ofori, 2005). In his paper entitled 'If technology transfer is out of date, why is it still critical to developing countries', Ofori (2005) quoted the definition of Joint Venture as offered by Chow (1985: 4): any agreement or arrangement which enables two or more parties to jointly execute some commercial enterprise.

Kobayashi et al. (2009) defined construction joint venture as a tactical arrangement where two or more firms agree to co-operate and bring together their resources and expertise to carry out a construction project, the key objective being to make profit. The arrangement can take different forms but can be categorized into three broad categories i.e. integrated joint venture, non-integrated joint venture and combination of these two (refer Kobayashi et al., 2009 for details).

Unlike wholly owned subsidiary over which parental authority is clear, international joint venture is a separate legal entity representing partial holdings of two or more legally and economically independent organizations for which the headquarters of at least one is located outside the host country (Shenkar and Zeira, 1987 in Mazlan and Torrance, 2005). It is one of a number of alternative forms of activity a multinational corporation might choose for doing business abroad. Joint venture is the most common form of multinational company business activity in developing countries, a distinct legal entity of which partners can be all local, all foreign or a combination (Mazlan and Torrance, 2005). The definitions of joint venture are often made with reference to the nature of cooperation. SI units are to be used. Justify all formulas to the left margin of the page. Use Arabic Numerals.

*Why JV?*

The developing economies have been cited in many studies (Kobayashi et.al, 2009, Mazlan & Torrance, 2005, Ogunlana, 2005, Ofori, 2005, Nor Rozaini & Torrance, 2007, etc.) to be the area with increasing demand for construction. The economies, especially those in the Asia Pacific Region, have been investing a large part of their increased wealth, earned from oil and gas, commodities and manufacturing industries in building up their socioeconomic infrastructures and industries (Kobayashi et al., 2009). They added that demand for construction in the region is characterized by large scale and/or highly specialized construction projects, due to the kind and magnitude of services required, most local firms would not be capable of providing such services.

These studies indicate the trend that joint venture is an emerging alternatives for developing economies to address the pertinent issue by joining forces and resources, be it financial, technology or skills. Joint ventures between construction enterprises and their foreign or local counterparts have been formed to undertake projects in developing countries for mutual benefit of both parties. It is established for a number of reasons.

Among the key reasons include that costs and risks of a project are spread, better access for financial and other resources, access to special expertise or new technologies, pre-empting competition and creation of stronger competitive units. Also to increase the potential of securing a bid that each firm would not stand a chance individually; mostly in the case of international joint venture. In addition, it may be necessary in order to fulfill host governments' policy on technology transfer (Kobayashi et.al, 2009).

In some countries, especially developing countries, foreign-local joint ventures have been made mandatory as a matter of government policy. It is to enable local enterprises to participate in the economy. The formation of such joint ventures is meant to enable the partners to benefit from incentives given by host-country government in order to promote such entities. The reasons also include enabling the firms to find it commercially beneficial to collaborate, to explore and undertake projects in the host country together. Each party has a distinct contribution to make to the collaboration, hence both parties benefit from what the other can offer. Pooling complimentary resources due to the size of projects, either too large or too complex for either firm to undertaken on its own has also been cited as one of the many reasons for the strategic partnership (Ofori, 2005).

Mazlan and Torrance, (2005) reported the important goals need to be achieved in Joint Venture, ie; complete on time and within budget, maximizing profit, return on investment, satisfactory profit, quality of work, technology transfer, effective management, team work and build partnership. In addition, Joint ventures are very important and necessary to strengthen the industrial and business networking in the economy of the country in facing the challenges of the world economic globalization. If it is a successful alternative for enterprises to fulfill construction demands, it will certainly promise a very bright future for them to be involved in local and international projects.

## 3. THE BUSINESS BENEFITS OF JOINT VENTURES IN CONSTRUCTION

Hamimah (2005) in her study on critical success factors for construction joint venture projects in Malaysia identified and ranked seven factors as critical to the success of joint venture projects in the country. The factors are inter-partner trust, mutual understanding, criteria for partner selection, agreement to contract, compatibility of objectives and avoidance of conflict.

Inter-partner trust is perceived as one of the highest critical factor and a trustful relationship evolves gradually over time through repeated successful interaction and has to be carefully nurtured through varies forms of hard and soft commitments. Mutual understanding between parties is important as a basis for sharing and cooperating. Careful selection of partners to work in an alliance will assist the prospect of mutual bonding. It should not be merely on the basis of technical competence alone but also on an assessment of their ability to form good relationships with others form different organizational and national cultures.

Both JV partners should agree that the agreement of contract terms is very critical towards the success implementation of joint venture projects. A good agreement can avoid a great deal of trouble and conflict in future JV operations which need to be drafted in clear terms and conditions that can be easily understood by all partners. An acceptable level of compatibility in partner objectives can avoid unnecessary future conflicts and is a bonus if the partners are to work together despite differences in management styles and philosophies, access to resources and organizational cultures.

*Benefits to the JV parties; clients, contractors, consultants etc.*

In his study on technology transfer, Ofori (2001, in Ofori, 2005) found that joint ventures have been beneficial to local firms, and had been effective as vehicles for transferring technology. He suggested that government of developing countries should consider providing incentives for joint ventures to be used as effective technology transfer vehicles.

*The joint venture should continuously learn. The partners should use the projects they undertake to enhance their technological, managerial, and socio-cultural capabilities. Forming a successful joint venture will enable the international firm to exercise 'global localisation' (Abdul-Rashid, 1998), in which it retains the national and corporate culture and* *features which have made it strong, while fully utilizing knowledge of local regulations, policies and construction practices, and demonstrating sensitivity to local mores and tastes.*

Ofori (2005)

## 4. JV AS A BUSINESS DEVELOPMENT AND MARKETING TOOL IN CONSTRUCTION?

Business development and marketing processes, tools and techniques are well established across all sectors of industry and commerce. The application of the philosophy and practices of marketing is still considered to be at an embryonic stage of development in construction (Macnamara 2003). The greatest barriers to the adoption of marketing principles, according to Richardson (1996), have been resistance to organizational cultural change, misconceptions and a reluctance to accept the changes in the Industry.

The construction sector has gone through significant changes in the past couple of decades. Government and private sector developers have become more demanding and sophisticated in their procurement. Large scale privatization has lead to fierce competition with a need for construction organizations to look for ways of differentiating themselves from their competitors, building lasting and trusting relationships with their entire supply chain, getting to know their clients intimately and developing new services (Preece, Moodley & Smith 2003).

The buyers of construction services, both public and private, have changed their attitudes to the performance of construction. They want fast, efficient, high-quality and reliable construction with better value for money. Construction has been expected to be more collaborative and responsive with a long-term client service driven approach (Preece, Moodley & Smith 2003). Smyth (2000) asserts that it is time for a focus on "trust and commitment," to be built into the services provided.

Unlike consumer industries, business development and marketing across the construction industry tends to be business-to-business and concerned with professional services. There is a high premium placed on networking and building strong business relationships with stakeholders. Business development and marketing professionals in the Industry are engaged in identifying suitable opportunities to bid for work. Prequalification processes offer the opportunity for firms to promote their particular expertise, experience and skills. The customers and clients in construction are more rational in their "buying behavior", are more technically oriented and rely on their consultants and advisors such as architects, engineers and cost consultants. Hence the need for firms to develop extensive networks and an in-depth understanding of the needs and wants of their clients

Corporate brand reputation is a reflection of the history, experience and image of a firm in the eyes of the business stakeholders, Industry and public. A firm needs to develop branded services in the marketplace that are recognized and valued by target clients/customers, and which differentiate the firm from its competitors (Preece 2001).

Joint ventures offer opportunities to construction businesses to develop relationships with other contractors, consultants and clients in the public and private sectors, both domestically and internationally. These relationships could lead to further JV or more conventional project opportunities in the future. The experience of working in joint ventures should develop highly marketable skills and a specific brand offering to the marketplace.

A construction firm needs to develop a specific marketing strategy for more opportunities for JV work, identifying suitable opportunities, JV partners at home and overseas.

## 5. CONCLUSIONS

This paper has examined the market opportunities in joint ventures in construction. It has identified the business benefits to all joint venture partners and how these may be translated into marketing openings.

The contention is that joint ventures may be used as a marketing tool in construction and that the experience and specific skills developed through working in JV's, will assist those businesses involved in getting further breaks to work on JV projects in the future. JV projects open up new networks of contacts, develop strong relationships and help a construction firm to offer the JV brand in addition to more traditional services to the market.

There are a number of challenges to ensuring the success of joint ventures from a marketing perspective.

- Ensuring consistency of performance by all participants
- Maintaining good working relationships between JV partners
- Making sure people are provided suitable training
- Giving due consideration to cultural differences where partners and stakeholders are from different countries.
- Government policies with regard to international participation on projects.

There are a number of potential areas for further work, particularly in identifying the demand for joint ventures in construction the developed and developing world.

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