

# Chapter 54

## Critical Success Factors of Joint Ventures in the Construction Industry: Literature Review

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### 54.1 Introduction

According to Talman, in his study undertaken in Swaziland, made an important observation, where, JVs make for a thought-provoking paradox as the popularity of joint ventures is as high as the percentage failure of its operation (Talman 2009). Similarly, Govindan supported this previous argument by highlighting the fact that international construction firms have extensively used JVs as a vehicle to enter new construction markets, yet, the failure rate of such ventures has been quite alarming (Govindan 1995).

Indeed, risks are innate in JV construction projects and include the agreement of the contract, partner selection, potential financial distress, improper project feasibility study, project delay, inadequate forecast about market demand, loss due to bureaucracy for late approvals and design changes have been identified worldwide (Kwok et al. 2006; Shen et al. 2001). Thus, the main objective of this study is to identify the main critical success factors that contribute to the successful delivery of JV construction projects. Observing these key success factors will influence the increasing success of the JV construction projects performance. Hence, the researcher has decided to first highlight important aspects of JV concept and progressively identify the possible critical success factors of JVs.

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## 54.2 Critical Success Factors of Joint Ventures

Before enumerating and explaining all the relevant critical success factors (CSF) encountered in joint venture construction projects, it is important to first gain knowledge of what a critical success factor entails. In fact, Adnan and Morledge (2003) define critical success factor as those few key areas of activity in which favourable results are unequivocally essential for a particular manager to influence his or her own objectives.

In other words, critical success factors (CSF), are those factors in which success is required in order for the major participants in a project to have the maximum chance of reaching the goals. Adnan, Chong, & Morledge, further highlight that success criteria are the dependent variables by which the successful result of the project will be judged. In other words, it is about how to realize the predefined project goals in JVs (Adnan et al. 2011).

Furthermore, Famakin and Ogunsemi (2012), in their study, carried out in Nigeria, identified key performance indicators or critical success factors as compilations of data measures used to evaluate the performance of a construction operation and thus, the methods management used to evaluate employee performance of a particular task (Famakin and Ogunsemi 2012). Thus, success criteria should be centered on the performance achieved through the numerous management strategies of joint venture (JVs) and these critical success factors can be classified as follows.

Therefore, it can be concluded that from the main ten sources above on Table 54.1 including journals, theses, books and government reports, critical success factors such as: comprehensive and fair written agreement, mutual understanding, inter-partner trust, co-operation between the members, commitment of the partners, the ease of communication between the partners, management control, partner experience seem to appear repeatedly across Table 54.1.

### 54.2.1 *Comprehensive and Fair Written Agreement*

To resolve those challenges enumerated in the previous section, some steps have been identified Kale et al. (2013) as well as Hong and Chan (2014), which can eventually make joint ventures successful, and these are:

- Do not accept joint venture agreements too quickly;
- Get to know a partner by initially doing smaller and limited project together;
- Companies with similar cultures and relatively equal financial resources work best together; keeping this in mind when looking for an appropriate partner;
- The joint enterprise must fit the corporate strategy of both parent firms;
- There should be proper legal agreement between both firms;
- Keeping the mission of joint enterprise small and well defined; ensures that it does not compete with partners;

**Table 54.1** Critical success factors for JVs

Authors	Critical success factors of joint ventures
Kale et al. (2013)	Comprehensive and fair written agreement
Hong and Chan (2014)	Comprehensive and fair written agreement. Mutual understanding, Inter-partner trust, Commitment of the partners, and The ease of communication between the partners
Construction industry development board	Comprehensive and fair written agreement
Adnan and Morledge (2003)	Comprehensive and fair written agreement, Mutual understanding, Inter-partner trust, Co-operation between the members, Commitment of the partners, The ease of communication between the partners, Management control, and Partner experience
Hyun and Ahn (2013)	Comprehensive and fair written agreement, Mutual understanding, and Inter-partner trust
Manitshana (2012)	Mutual understanding, and The ease of communication between the partners
Govindan (1995)	Inter-partner trust, Co-operation between the members, Commitment of the partners, and Management control
Talman (2009)	Inter-partner trust, and Management control
Lambe et al. (2011)	Commitment of the partners, and Partner experience
Aimin and Barbara (2001)	Management control

*Source* Literature review

- Give the joint enterprise autonomy to function on its own and set up mechanisms to monitor its results, which should be a separate entity from both partners; and
- Limit the time frame of joint enterprise and review its progress frequently.

Nevertheless, it is a recipe for possible disaster if a JV is not constituted by means of a comprehensive and fair written agreement between the members, which sets out their obligations, rights, risks and rewards (document 1013 2004). Authors Adnan and Morledge put forward the idea that a good JV agreement is an essential success factor and can avoid a great deal of trouble and conflict in future joint venture operations.

Referring to the success of joint ventures, Hyun and Ahn (2013) say that the success of joint ventures and alliances in general, can be evaluated by their stability and the duration of cooperation between partner, yet the end of the joint venture does not essentially signal its failure, but may simply indicate that the objectives of the joint venture have been achieved.

The joint venture participants join through a form of agreement to contribute with resources in the form of skills, experience, financing or physical resources. CIDB document 1013 (2004) states that a good joint venture agreement should contain the following:

- Should clearly and comprehensively set out the contributions to be made by each member towards all the activities of the joint venture in securing and executing the contract and should assign monetary values to each such contribution;
- Should record the percentage participation by each member in all aspects of the fortunes of the joint venture, including risks, rewards, losses and liabilities;
- Should provide for meaningful input by all members to the policy-making and management activities of the joint venture;
- Should provide for the establishment of a management body for the joint venture;
- Should provide measures to limit, as far as possible, losses to the joint venture by the default of a member;
- Should promote consensus between the members whilst ensuring that the activities of the joint venture will not be excessively delayed by failure to achieve it;
- Should provide for rapid, economical and easy interim dispute resolution and for effective final dispute resolution, if required; and
- Should be sufficiently flexible to allow for joint ventures, which vary in nature, objectives, inputs by members, management systems, etc.

### ***54.2.2 Mutual Understanding***

According to Adnan and Morledge (2003) and Manitshana (2012), mutual understanding may contribute to the success of joint venture construction projects. In fact, it is extremely important that friendly personal contact is regularly maintained between the leaders of the cooperating organizations (Adnan and Morledge 2003). The careful selection of people who are to work in an alliance will also assist the prospects of mutual bonding of partners. This previous thought is further supported by Hyun and Ahn (2013) in their study undertaken in Korean firms where, successful joint venture performance should embrace partner selection criteria in order to improve trust and mostly mutual understanding.

In fact, partners should be selected not merely on the basis of technical competence but also on an assessment of their ability to form good relationships with

people from other organizational and national cultures (Adnan and Morledge 2003). The previous point is supported by Hong and Chan (2014) where mutual understanding is indirectly linked to cultural homogeneity which plays a part to the success of joint ventures (JVs).

### ***54.2.3 Inter-partner Trust***

A high degree of trust and co-operation between the members for a successful operation of a joint venture is important (document 1013 2004). Inter-partner trust is often considered to be a very important ingredient of managing relationships (Adnan and Morledge 2003; Hyun and Ahn 2013; Hong and Chan 2014; Govindan 1995). In other words, mutual trust is indispensable to overcome the restrictions of the contractual agreement (Govindan 1995). However, within organizations, trust contributes to more effective implementation of strategy, greater managerial coordination and more effective work teams (Adnan and Morledge 2003).

Moreover, it is argued that the role of trust is presented as a component of social control where three types of trust are identified, namely: contractual trust, capability trust as well as goodwill trust. The authors explain that, contractual trust, which is the lowest most basic level of trust, relates to the expectancy that the other party will fulfill its contractual duties. However, capability trust is related to the expectation that the other party will be experienced enough and able to fulfil promises adequately (Talman 2009). Moreover, goodwill trust, which is the highest level of trust, relates to the expectation that the other party will implement in the concern of the relationship (the JV), even though it is not directly in the interest of the other party (Talman 2009).

### ***54.2.4 Co-operation Between Members***

Cooperation plays an important factor as problems solving reflects the degree to which the parties share responsibility both for dealing with problems and maintaining their relationship (Adnan and Morledge 2003). Yet, the review of the effect of cooperation/conflict on joint venture performance has been a prevalent topic for many researchers, according to (Govindan 1995). In fact, the power of one partner can interfere with the goal attainment of another partner and thus conflict is possible only when the interfering party has some power. Therefore, it follows from this argument that, more resources one partner contributes is comparative to the other partner, the more power the partner would have to effect the achievement of the other party's goals (Govindan 1995). The partners must have a willingness to cooperate and share information and resources to enable essential coordination of activity. Therefore, cooperation behaviour between the parent companies help to reduce potentially burdensome monitoring and safeguards costs within the joint

venture. However, changes in the environment, of strategies, and bargaining power over the life of the venture can affect cooperation dramatically (Adnan and Morledge 2003).

#### ***54.2.5 Commitment of Partners***

Adnan and Morledge (2003) as well as Hong and Chan (2014) put forward the idea that commitment reflects the actions of some key decision makers regarding continuation of the relationship, acceptance of the joint goals and the values of the partnership, as well as the willingness to invest resources in the relationship. Moreover, it is believed that a number of researchers argue that relational factors which include trust and commitment contribute to joint venture success (Lambe et al. 2011).

In making this comment, it is opined that, in order for the joint venture to succeed, all the partners to the joint venture agreement should have full commitment to the joint venture as well as to each other, as, without commitment the performance of the joint venture will inescapably suffer (Govindan 1995). Commitment is important as it provides a long-term basis, resources and capabilities to the specific needs of the joint venture for its success (Adnan and Morledge 2003).

#### ***54.2.6 Ease of Communication Between Partners***

Undoubtedly, for any business to be run appropriately the communication/information aspect plays a major role. Adnan and Morledge (2003), as well as Hong and Chan (2014) emphasized this point by highlighting the fact that the ease of communication between the partners is another potential problem which should be considered when evaluating a potential partner's suitability. In fact, without proper communication, problems can occur as a result of differences between national or ethnic cultures, including language, as well as differing corporate cultures (Adnan and Morledge 2003; Manitshana 2012).

#### ***54.2.7 Management Control***

Furthermore, management control is a critical factor to the success of joint ventures. According to Adnan and Morledge (2003) and Govindan (1995), it refers to the influence major stakeholder groups have on the organization's decisions and activities which can easily be achieved in joint ventures by reporting to both majority shareholders. In the same way, Aimin, and Barbara, argue that, generally,

management control refers to the process by which an organization influences its subunits to achieve its objectives (Aimin and Barbara 2001). More specifically, management control is defined as all the strategies managers use to ensure that the conducts and decisions of people in the organization are in line with the organization's goals and policies and includes the formal control mechanisms of outcome (outcome control and behaviour control); behaviour control, and social control (capability trust, partner selection and goodwill trust). It is believed that, management control is fundamental to successful joint venture performance, as the parent firms in a joint venture (JV) may have opposing interests (Talman 2009).

Thus, insufficient control over a joint venture (JV) can limit the ability of the parent to synchronize its activities, efficiently and utilizing its resources as well as effectively implementing its strategy (Talman 2009). Therefore, joint ventures are created for business purposes; to generate profits for the participating parties and the profits from such ventures will then be apportioned in relationship to the different input of the parties concerned. Therefore, the profitability attribute will also positively influence the joint venture's capital structure, financing costs and leverage (Adnan and Morledge 2003).

#### ***54.2.8 Partner Experience***

But above all those factors explained previously, partner experience has to be considered. It has been indicated that firms with multinational experience are considered more likely to have the ability to manage and monitor appropriately to the joint venture. Therefore, greater experience, understanding, competence and confidence in managing inputs will result in a more detailed and accurate perceptions of risks (Adnan and Morledge 2003).

As a result, good background experience would enable these partners to provide better local culture, politics and market conditions all at a lower cost than would be incurred by the investor to obtain equivalent information. In addition, Lambe, Spekman, and Hunt, argued that, partners' competence contributes to the alliance success because such a competence has an indirect result on alliance success by confidently influencing the acquisition of complementary resources (Lambe et al. 2011).

All those critical success factors will facilitate the combination of economic resources, skills and knowledge which will be beneficial to the South African construction industry. As a result to the identification of those successful factors, the following selection criteria for selecting the right partner for the joint venture partner should be observed. On the whole, according to Aimin, and Barbara, the success of a joint venture evidently depends on the synergy created by the individual contributions of the partners whereby a good joint venture management lies not only in the implementation of the project, but also incorrect partner selection (Aimin and Barbara 2001).

### **54.3 Research Methodology**

In the present paper, the theory regarding JVs and their general critical success factors (CSF) of joint ventures in the construction industry are assessed and identified. Journals, theses, books and government reports which included authors such as Kwok et al. (2006), Kale et al. (2013) as well as Shen et al. (2001) were reviewed. The researcher conducted a systematic thematic analysis.

A thematic analysis is a systematic approach to the analysis of qualitative data that involves identifying themes or patterns of cultural meaning, coding and classifying data, typically textual, according to themes; and interpreting the resulting thematic structures by looking for commonalities, relationships, overarching patterns, theoretical constructs, or explanatory principles (Boyatzis 2008; SAGE Research Methods 2013). Thus, the researcher reviewed the data, took notes of success factors of JVs in construction projects and sorted them into specific categories or points with the objective to identifying the key issues that are encountered by JV partners when entering JV agreement.

### **54.4 Findings**

Despite the fact that joint ventures face some challenges in the course of its operation, some critical success factors are made available for the success of JVs. Results from the existing journals, theses, books and government reports revealed that factors such as: comprehensive and fair written agreements, co-operation between the members, and the ease of communication between the partners appear to be the most important factors to be implemented. Yet, factors related to management control and commitment of the partners also play a major role for the success of JV projects. Moreover, mutual understanding, inter-partner trust and partner experience appear to be the least to be considered as success factors for JV performance.

### **54.5 Conclusion**

The objective of this study was to identify the critical success factors underlying the JV process. The literature review produced a list of those success factors where the most important success factors which could potentially influence the performance of JVs were found to be comprehensive and fair written agreements, co-operation between the members, and the ease of communication between the partners.

Even though, the main purpose of JV operations remains the spreading of risk inherent in large projects as well as the pooling of resources in a way that permits the execution of projects, it becomes crucial for the partners involved to be aware of



the possible success factors and thus try to find by any means a way to implement those success factors in order to resolve issues related to the poor performance of JVs.

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