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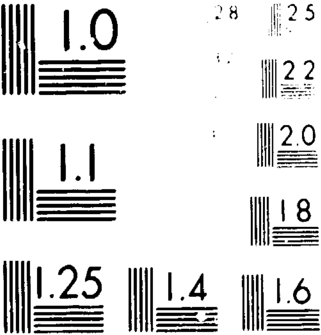
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THE JOINT VENTURE - A VIABLE SOLUTION IN THE BRAZILIAN BUSINESS ENVIRONMENT *

by

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CONTENTS

WHAT IS A JOINT VENTURE (JV)?

A joint venture in the modern business sense can best be described (albeit, somewhat as an over simplification) as a "sharing of a risk undertaken by two or more partners". It is an expression of a common or sharing of a common interest by the parties having certain characteristics and aspects which are key elements to the success (or failure) of the joint venture association,

Relationships between partners

In my opinion, these are the important relationships which must exist between parties contemplating a JV association:

- compatibility (of partners);
- common objectives and priorities;
- mutual respect and trust;
- understanding of each other's limitations.

There may be other aspects relating to partnership qualities required in a JV. However, these listed above are the basic relationships which apply to all JVs and they are so basic that a lack of consideration for one or more of these aspects can jeopardize the successful outcome of a JV sooner or later - sometimes much sooner than later.

The Oxford Dictionary defines compatibility as "the capability of co-existing or being true at the same time". Compatibility of partners has a wider meaning in the context of a JV. There <u>must</u> be an overriding interest on all sides to make the JV successful for the benefit of all parties and not to create more advantages for any one of the parties than can reasonably be expected. The business adage of "being a good deal for both sides" applies equally well for JVs as in general business transactions.

This relationship of compatibility means in practice that the aims, basic objectives and priorities of the parties to the JV are fully understood, agreed on, decisions thereon communicated adequately, and that a complete consensus of opinion exists among the parties that the plans approved for the implementation of the JV are acceptable and workable for all concerned.

To achieve this uniformity of thinking and approach, a lot of explicit dialogue has to take place and a lot of clear thinking (and talking) has to be done by all parties. The setting of business priorities, targets for rates of growth and development, defining the parameters of the limiting factors of the business and all such other fundamentals of operating a business enterprise should be spelled out in very clear and precise terms, and, preferably, be fully documented for the subsequent preparation of the blue-prints for operating the business.

After clearing the hurdles of these basic aspects of the highest degree of compatibility among the parties and with the mutual clarification of the common objectives and priorities, the aspect of mutual respect and trust falls neatly into place. If each of the parties puts himself in the situation of the other(s) and looks at the JV from the point of view of the other(s) then the element of mutual respect becomes readily apparent, The element of mutual trust is indeed fundamental. Normally, one does not go into a deal with anyone with any serious reservations on the trustworthiness of one's partners. Trust develops between parties in the course of frequent contacts, rounds of negotiations, discussions on business deals, in personal conduct and in business (and private) ethics. In general terms, the Brazilian entrepreneur has the same standard of business ethics and principles as his North American or European counterpart, no more no less, so there should be no need to set different standards of trustworthiness because of nationality or environmental background. The JV is doomed to failure or, at best, to creep along at a dismal rate of success when there is not sufficient trust among the parties.

No single partner brings all the elements of success to a JV. Each partner makes his own direct contribution to the success of the business deal. Similarly, each partner has his own limitations which have to be recognized, accepted and allowed for in the association and decision making processes of the partners, Whether these limitations are caused by emotional behaviour, slow reaction where fast decisions are needed, lack of material capacities or whatever, they must be taken into account from the outset and allowed for in the build-up of the arrangements for the JV. Perfection is almost impossible to find in any single partner; and, anyway, perfection is almost always too expensive.

<u>How to develop the JV successfully</u>

The JV can be developed successfully in a number of ways. There is no surefire method of developing a good JV. However, there are certain ground rules which if followed intelligently and assiduously can narrow the risk of failure, What are these main rules?
I contend they are:

- Know pretty well (and in some depth) what you are aiming for in the first stage (say, 5 years) of a JV association as to growth, potential market position, technology transfer and "people" development. If anyone tells you that 5 years are not an adequate planning time frame, then he is out of touch with Brazilian realities - the Brazilian scene changes so quickly in its present stage of industrial development that good plans can only be developed in detail with a reasonable degree of confidence for the medium term. Of course, a long range objective should be defined and kept in view but short and medium range plans are the key factors for development in the first stage.

-- Make sure that the other partners understand what their contributions are to the successful implementation of these plans. The objective is that each of the partners makes a contribution to the JV and therefore, the major role of each partner should be clearly spelled out and understood by the partner concerned.

- Engage competent professional advisors (lawyers, accountants, consultants) to start you off on the right foot. The time to contract good professional advice is at the beginning of the JV - not when you are in troble. The cost of such advice might be considered high at the initial stages of a JV association but, believe me, it may turn out to be low.

- Build in a good contingency factor into your plans; doing business in Brazil is not easy, as anyone familiar with its legislation and business conditions can tell you. So be practical, and build into your plans a reasonable factor, either for the time and/or financial aspects of your implementation schedule. You might be surprised and find yourself ahead of schedule but chances are you won't, so recognise it and provide for a reasonable contingency factor in your planning stages.

In this way, the measurement of the results of the first stages of the JV and the partners' expectations and attitudes to the JV will be based on realistic levels of estimated attainment.

JVs with national of foreign partners

The JV can be entirely composed of national partners or consist of only foreign partners or a combination of both national and foreign partners.

JVs among national partners are becoming more frequent in the ever increasing competitive environment. The rapid growth of the Brazilian industrial scene in the last two decades has made these companies become more aware of the rigours of a competitive society. Gone are the days when a company could make major mistakes and not suffer consequences serious enough to threaten its existence.

The expansion of local manufacture and the introduction of import substitution policies has made the local entrepreneur quite willing to enter into a JV with another Brazilian partner. These associations are often quite informal in their relationships and because of their wide flexibility of approach to decision making these companies can take quick advantage of the fast changing conditions in their business sector. Brazilian business conditions can change radically over a relatively short period and those companies which are alert to the possibilities of change and act accordingly normaly reap the early benefits. The necessary ingredients mentioned for relationships to JV's are also applicable to these parties. Sometimes governmental agency (state or federal) involvement can be part of the JV where it is in the national interests to strengthen local industry.

My belief is that we shall see over the rest of this century a substantial number of JVs between national companies and even take-overs. The economies of scale to be enjoyed in larger undertakings, the competitive climate, the gradual disappearance of the family-run business substituted by professional managers,will all play a role in bringing about large business units which in turn imply JVs or take-overs of existing businesses.

The attitudes necessary for foreign partners in a JV association in Brazil are exactly the same as the attitudes for Brazilian partners, perhaps more so, as they are guests in the country.

JVs among foreign partners only, without national participation, do exist in Brazil and can be quite successful. These associations have developed mainly out of investment of technology considerations and have their origins outside Brazil. The partners of these JVs have their own rules and internal code of behaviour. The ones I know, are, without exception, well-run companies and scrupulously fair in their business dealings inside Brazil and as such can be rated as good enterprises, and therefore, are welcomed by the authorities.

The JV association between national and foreign partners appears to be the most suitable form of foreign investment in the present Brazilian economic climate, and also for the foreseeable future. Government standards for preferred types of foreign investments show that the JV is number one among these. The standards include:

- Advanced technology which can be permanently transferred to the JV at a <u>moderate</u> cost;
- A contribution in equity capital, in cash or in machinery;
- Job opportunities created by the investment;
- Export potential (of major significance in the present economic model);
- Import-subsitution (major yardstick);
- Regional investments in special areas outside the main cities.

The presence of these factors in the JV will certainly help the association to obtain government backing and approval.

The national partner will have to become familiar with the "rules of the game" followed by his foreign partner. These "rules" are numerous and most of them are fully undestood by the local group and are taken into consideration without too much difficulty. One of the few rules that creates some annoyance (and bad feeling at times) to the Brazilian partner(s) is the lack of understanding by the foreign partner of the Brazilian enterpreneurial spirit.

Brazil is one of the relatively few major western countries still left with an entrepreneurial society (which, alas, might well be weakened by threatened new taxation directives on capital gains and inheritances) and therefore the need for rapid decisions on major matters is often required. The overseas group however requires director's and executive group decisions to approve Brazilian plans of action and by the very nature of their organizations these groups requ re time to analyse, discuss and approve such plans - to the frustation of their Brazilian partners. Friction may also arise when the national group advocates a course of action based on its intimate knowledge of the local scene, which action cannot be fully understood by the foreign partner who therefore may be reluctant to follow suit. This type of situation is where the trust built into the association is going to prove itself - or otherwise.

The growth of new foreign investments through the JV route receives all types of governmental support at both federal and state levels. As a general consideration, the government believes "that the role of foreign investment is seen as complementary to rather than competitive with national capital and that it should normally take the form of JVs leading to an effective transfer of technology".

Ex-president Geisel summed up his approach to foreign companies as follows: They are "subject to pre-established rules and criteria and as long as they remain compatible with the highest national interests, foreign companies, even those of a transnational character, have their place in Brazil's indus rial model, and the government recognises their outstanding role as vehicles for bringing in foreign capital, transferring technological capacity and incorporating management capacity into Brazil's business sector as well as expanding and diversifying the country's range of exports".

The JV association either between national companies on their own or as a combination of national and foreign capital can be a perfectly viable solution in the current Brazilian business environment provided that these basic points re fully understood and acted upon by the parties involved.