Build-Up a Joint Venture Company

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1. Abstract

The main objective of this white paper is to explore trade & technology transfer through establishing Joint Venture Company by careful partner selection to ensure a "good fit", planning and documentation, practical working arrangements with regard to control and maintenance of mutual trust.

2. What is Joint-Venture?

Joint venture has no specific meaning. In broad sense, an arrangement in which two or more businesses agree to combine their resources for some definable undertaking is a joint venture. In broad, joint venture may be categories into two:

- Equity Joint Venture
- Non-Equity Joint Venture

2.1 Equity Joint-Venture

Equity joint venture is the most common type used in practice. In this form, each party has mutual investment, interest, and a direct share of risk. Most of the business concern is organized in an incorporated joint venture. The advantages of incorporated joint venture are:

- Limited liability
- Acts as a separate legal entity
- Easy to transfer management & Ownership
- Tax advantage is achievable
- Easier to raise additional capital

2.2 Non-equity Joint-Venture

Non-equity joint-venture mainly runs in contractual basis, which involves licensing, technical assistance agreement, contract manufacturing and sales agency and distributorship arrangements. The advantages of incorporated joint venture are:

- Fewer regulations and more flexible than equity joint venture
- Easy to develop local as well as international market rapidly.
3. **Why Joint-Venture?**

All the resources, techniques and technologies are not available at the same place. Joint-venture helps to share the useful resources in a cost-effective way. Joint-ventures are formed for a variety of reasons, such as:

- Government acknowledge & insistence.
- The project is too large, financially, for either party to handle alone.
- Neither firm has all of the skills, typically technical nor marketing, to make a success of the business on its own.
- Combining forces of the joint venture partners achieve satisfactory economies of scale in research and development, production or marketing.

4. **Priority Sectors for Joint-venture**

Along with many different sectors, Bangladesh Govt. emphasizes investment in light and Hi-tech industry. The important indicated sectors are:

- Agriculture
- Telecommunication
- Garments & Textile
- Information Technology
- Computer & Electronics
- Mining & Petrochemical
- Pharmaceutical
- Printing & Packaging
- Power Generation

5. **Joint-venture Process**

Formation of successful joint-venture is a long-term strategic plan. Both parties should execute and evaluate their objectives in close cooperation to utilize overall resources. Whole process should have the following activities:

- Selection of counterpart
- Prospective proposal between two parties
- Feasibility & potential market study
- Investment structure of joint venture
- Approval and agreement between two parties
- Apply for official license
- Start-up the business activities
3.1 **Selection of Counterpart**

Selection and negotiation of counterpart is the most important and critical factor in establishing a joint venture company. In order to choose right and potential counterpart, it is important to consider the following criteria:

- Competence of management personnel & management style
- Ownership of company
- Productive manpower availability
- Quality control & productivity of the machineries
- Political & environmental factors
- Capacity to absorb new technology
- Ability to invest and access to new market

3.2 **Joint-Venture Proposal**

A fair and detailed proposal must be prepared with the cooperation of two parties. Proposal should have:

- Joint venture Name
- Scope of the business
- Location of the company
- Projected production volume
- Number of direct & indirect employees
- Source and type of technology intend to use
- Source of raw materials and utilities
- Total investment and sources of funding
- Local and international market exploration of the produced products
- Loss & Profit sharing

3.3 **Feasibility & Potential Market Study**

Business now-a-day becomes market oriented, and it is essential to survey customer needs & testes first. Feasibility study is a method employed to figure out people requirement, thereby ensuring profitability. Feasibility study helps to identify:

- Potential customer
- Market & Market segment
- Break-even point of the business
- Financial requirements in near future

3.4 **Approvals and agreement**

This is a written binding between two parties after compilation of different studies. Important elements of joint venture agreement are:
• Build-up a written article of memorandum
• Well-defined and absence of ambiguity document
• Defined terms and schedules for limited period of time
• Management & Financial equity structure of the venture
• List of management control people proposed by two parties
• Description of experience or expertise which each party brings to the venture

### 3.5 Investment of Joint-Venture

Initial investment must be paid by both parties into the joint venture to complete its organization. Each party subscribes equity amount of the share capital in cash or property & services according to agreement. Additional capital can be raise by issuing shares, loans or third parties. To get loan joint venture should have:

- Article of memorandum
- License from the authority
- Bank account
- Registered paid-up capital
- Fixed assets and investment use as guarantee
- Formal application approved by management

### 3.6 Official approval

After through reviewed by both parties, the final step is to make an official approval from both foreign and local authority. Official approval provides:

- License of certificate from the government of agencies
- Registration with custom and tax authority
- Follow & fulfill laws and regulations
- Open a bank account
- Start & run the business

### 6. Scope of Joint Venture in Bangladesh

Economic growth of Bangladesh continues in high rates since last decades. GNP growth increased from 2.3% to 5.4% in last decade by increasing in investment. Besides Chittagong export processing zone (CEPZ) Govt. introduced Dhaka EPZ at Savar and some others in the way of processing. Govt. introduces different type of intensive and exemption to attract Bangladesh’s live in abroad and international companies to establish joint venture industries in Bangladesh. Private sectors in Bangladesh continuously explore joint venture business locally as well as in abroad. To establish joint venture through technology transfer with long-term strategic plan we must consider the following:

- Incremental technology transfer.
- Modify administrative infrastructure.
7. Conclusion

Joint venture means, different resources are used together. A typical joint venture is that one side has a good idea and other side has good money. Technology transfer is the translation of knowledge across organizations that can be used in a product or a process. The knowledge—often called "know-how." Such knowledge is difficult to articulate and is best transferred via people, not paper. Technology transfer includes any knowledge useful in the creation of new products and processes, and also useful in principles of operation, management, and utilization.

Most of the developed and developing countries utilize this mechanism through manufacturing, trading of products and services. Sharing of technology and ideas, inter firm flow of skilled labor, and the ready availability to expand if needed. No doubt, this is the time to explore, utilize and establish joint venture industry.