CHAPTER - 7

JOINT VENTURES

Introduction

In the pre-independence era joint ventures were neither encouraged by the British rulers nor the (foreign) firms were eager to form. After the independence of India in 1947 joint ventures in India were encouraged by the government and were found to be of interest to foreign firms. The government’s philosophy of self-reliance gave further impetus to joint ventures in India. The main focus of joint ventures formed then was import-substitution.

The government's stress on industries to develop "appropriate technology" for Indian conditions was by and large a failure. Goods manufactured in India were generally costly and of inferior quality. Market based economy became popular almost all over the world leading to the globalization of business. This compelled the Indian government also to liberalize the Indian economy. This led to spurt in formation of joint ventures in India. The significance of joint ventures has not lessened but rather increased in the post-liberalization era. The nature of joint ventures, however, has changed significantly. Now the joint ventures formed in India focus to develop competitiveness of the Indian firms to face global competition more effectively and successfully and integrate the operations of the firms into the global economy.
What are the lessons Indian business managers can learn from the changed scenario concerning joint ventures? What are the mechanisms through which a joint venture partner exercises control on joint venture? Is joint venture more difficult to manage? Why? Why joint ventures are formed at all? What are the advantages and disadvantages attributed to joint ventures? Why joint ventures fail? What are the joint venture partner selection criteria for Indian firms as well as the foreign firms? Why go for foreign collaboration? What are the important aspects concerning foreign collaborations? What is the scope of Indian joint ventures abroad? What lessons Indian managers can learn from successful as well as from unsuccessful joint ventures? These are the questions business managers are concerned about and this chapter aims to discuss the same and provide a set of recommendations for the business managers to profit from joint ventures in the changed scenario of globalization.

Definition

Joint venture as the name itself suggests is a venture jointly collaborated by two or more firms. The Oxford English Reference Dictionary (Pearsall and Trumble, 1995) defines collaborate as to work jointly; or cooperate traitorously with an enemy. Enemy has further been defined as a person or group actively opposing or hostile to another, or to a cause etc.; or an adversary or opponent.

Collaboration may be defined as any arrangement between two or more firms that entails acts of cooperation. This cooperation can take various forms (Hoghton, 1965). It may involve one firm doing something for
another as in a licensing agreement. It may be based on both the firms doing something for each other as in a cross-licensing agreement. It may consist in two or more firms joining forces for a common purpose by financial participation, the formation of joint subsidiaries or working together in joint projects. The central focus of this chapter is on the joint ventures where two or more firms join forces for a common purpose by financial participation for working together in joint projects. The ratio of equity holding by joint venture partners may be equal or unequal and may differ from venture to venture depending upon among other factors bargaining power of each partner with respect to others. It is also possible that a partner control the venture though having lower holding due to its expertise or other factors.

A joint venture may be formed between two or more firms belonging to one country; or between two or more firms belonging to different countries in a project in a country where either of the joint venture partners is based or in a third country. A joint venture between two or more firms, having operations in different countries is referred to as foreign collaboration. As a foreign collaboration involves payment in foreign exchange in terms of management and/or technical know-how fee, royalties, and dividend towards foreign equity, is subject to stringent controls even though foreign collaborations may be encouraged by the government for improving the competitiveness of industries of its country.

Joint Ventures Control

By definition a joint venture has two or more joint venture partners.
They also become the parents of the joint venture. They are attached with joint venture as they contribute towards its formation various tangible and intangible assets and attributes and would like to parent the same with varying degree of control. A study by Schaan revealed that joint venture partners use a much greater variety of mechanisms to influence the management of joint venture than has generally been recognized. These are as follows: formal agreements, staffing and influence techniques.

Formal Agreements

There are a variety of legal documents which invariably accompany the creation of a joint venture. These are nearly always closely connected to the issue of control. The articles of incorporation, by-laws and shareholders’ agreements, which are in a legal sense the cornerstone of any venture, spell out such things as the scope of venture, the composition of board and executive committee, the types of decisions which need to come to the board for approval and the percentage of votes needed to approve various types of decisions. There is often protection built in for the minority shareholder on certain issues. These documents deal directly with control in its most direct form: who can veto what?

In addition to these basic agreements, there is often a series of agreements between the joint venture and the foreign partner. These could cover the supply of component parts, possibly the marketing of the venture’s products in countries beyond that in which it is located and the supply of product design and production process technology.
such deals are struck, management's attention is often focused on royalty fees and transfer price. However, in a more subtle way, each of these agreements confers some degree of control to the foreign partner. If for instance, the venture can obtain its technology from not other source, the foreign parent will effectively control the product design, much of the economics of the production process, and the rate of introduction of product modification. Similarly through the supply of component parts the foreign parent will automatically be involved in question of production scheduling, modification of the product for the local market, and whether or not to build products for inventory. A marketing agreement will obviously give control over export volumes and involve the parent in discussion of pricing, advertising, distribution and product features. The more the parent is involved in such discussion on an ongoing basis, the greater its influence.

Agreement with the local parent are less often for technology and more often for local services such as legal work, accounting and data processing. In addition, all of the venture's output may be sold to the local partner for resale where the local parent explicitly control over day-to-day operations. Although such a contract often places the recipient firmly in a position of dominance, this is not necessarily the case.

**Staffing**

Arrangement regarding a joint venture's staffing are generally not quite as formal as the agreements discussed above. From a control point of view, however, they can be significantly important. There are several
immediate advantages to a parent interested in controlling a venture in having its personnel in the venture. Communication between the venture and the parent company is likely to be improved, simply because employees of the two firms will know each other. More complete information offers the prospect of more complete control. Secondly, such an employee is likely to act in ways which his parent would find acceptable, even when his actions are not being overtly controlled. His values and attitudes will most probably have been shaped by the parent company and will continue to guide him even in the joint venture. However, in shared management ventures such activities prevent the venture from developing its own identity, separate from that of the parents. This may hinder successful operation of the venture.

Influence Techniques

Some parent companies are able to influence significantly the thinking of joint venture executives even in situation in which they have no formal means of control like requiring the venture to use appropriation request forms which they have designed. By specifying the kind of information and amount of details to be provided, these parent can influence the kind of projects submitted by the joint venture and the kind of returns they would strive for. Some parents also use 'strategy reviews' or progress reports with the same intent. Companies who loan staff personnel to the venture to assist with planning and to do some in-house training can also mold the operation of the joint venture.
Why Joint Venture is Difficult to Manage?

The basic cause of the problem of the joint venture management is that joint venture has more than one parent (Killing, 1983). These parents, unlike the shareholders of a widely held public corporation, are visible and powerful and can and often disagree on strategic issues; how fast the joint venture should grow, which products and markets it should encompass, how it should be organized and perhaps even what constitutes good or bad management, should the venture be managed for short-term gain or long term market-share creation, and the degree of control to be exercised by each joint venture partner.

There are two specific areas within a joint venture where the problems of multiple parents can make themselves known. One is at the board level. The board of directors of a joint venture contains representatives from each parent and it is here that differences in priorities, direction and perhaps values may emerge. The result can be confusion, frustration, possible bitterness and resulting slowness to take or implement decisions. Maruti Udyog Ltd is the case in point where the joint venture partners the Government of India and Suzuki Motor Corporation of Japan are at the loggerhead on the means of financing the Rs. 2000 crore expansion-cum-modernization plan which has implications on the degree of control Suzuki may be able to exercise on the joint venture Maruti Udyog Ltd in future.

The other aspect of joint venture operations which differentiates ventures from other forms of organization is their staffing. Many ventures
use both general and functional managers drawn from their parents. The rationale for this arrangement is expected to provide functional expertise but as often happens is used to exercise a check and balance of controlling power of the joint venture partner due to a lack of trust in one's partner.

A joint venture is a type of strategic alliance and could be pro-competitive, non-competitive, competitive, or pre-competitive (Yoshino and Rangan, 1995). All these types pose different types of problems to the joint venture partners to handle. The managers involved in strategic alliances may attend to all the four objectives - (maintaining flexibility, protecting core competencies, enhancing learning, and maximizing value) — recognizing that their relative priority or order of importance tends to vary among the different types of alliances. The relative priority or descending order of importance for managers of precompetitive strategic alliances would be flexibility, core protection, learning, and value adding. For competitive strategic alliances, they would be core protection, learning, value adding, and flexibility. For noncompetitive strategic alliances, they would be learning, value adding, flexibility, and core protection. And for procompetitive strategic alliances, they would be value adding, flexibility, core protection, and learning. These dimensions are not to be worried about in case a firm goes on its own whereas they are significantly important in case of a joint venture. This makes a joint venture more difficult to manage.
Why Joint Venture?

Most firms prefer to exploit the opportunities existing in the environment and tackle the problems posed by threats on their own. As such doing this itself is not easy. Collaborating with others not only obliges a firm to share rewards with others, but subjects itself to restricting own freedom of way of exploiting opportunities or tackling problems posed by threats. Thus joint venture is less preferable. But still so many firms go in for joint ventures. why?

The increased domestic as well as global competition has compelled the firms to keep on introducing new products in market and to do so efficiently acquire necessary skills. This is possible even when a firm goes on its own. But, apart from other things there is a loss of time, which is crucial in business. Hence, it has become imperative for firms to go in for collaborations with other firms and at times even with competitors to stay ahead in the competition.

There are many reasons why firms enter into collaborations. Most of the reasons ultimately can be linked to more and/or better products and increased market. License and know-how agreements are common for firms desiring to add more and/or better products to their product-range. The licensing agreement is resorted to when a firm is prepared to pay for the right to independently manufacture a product or use the process of another and gain through the sales of such products. Know-how agreements are resorted to when high-level technology is involved for manufacture of product and interaction and support of the other firm supplying know-
how is necessary. The major disadvantage of licensing or know-how agreements is that the firm offering rights basically is interested in earning the fees or royalties and is not interested in the growth or improving profitability or improving the competitive position of the firm using such rights.

This disadvantage is reduced significantly in a joint venture agreement. A joint venture is formed when two or more firms combine their strengths and resources and commit themselves to joint venture in the form of taking up equal or unequal equity stake. A new entity may be created or equity stake of a management in a company may be divested in favor of another.

Other most common reasons for entering joint ventures are to gain access to raw materials, finance, managerial experience and expertise, government insistence, and when only by combining forces can the joint venture partners achieve satisfactory economies of scale in research and development, production, or marketing.

An interesting facet of joint venture is that it is not only a discrete unit in itself but is a part of the broader network of its parent firms' goals and objectives. This makes a joint venture often an irrational entity, if considered in isolation from the relationships with its parent firms. Any independent firm would tend to be rational and maximize its profits. A joint venture instead is subject to the profit-maximization objectives of its parent firms influenced by the bargaining power of the joint venture partners among other things. The primary
condition precedent for a joint venture is that for each partner the sum of profits from non-joint-venture operations (if any) and its share of profits from joint venture operations must equal or exceed profits from the alternate profit earning activity. This makes profits from joint venture and non-joint-venture related. This relationship may produce positive or negative spillover effect. A positive spillover occurs when know-how is gained from joint venture activities that can be applied profitably to non-joint-venture operations as well. A negative spillover occurs when joint venture competes with non-joint-venture operations of the parent firm like in case of a geographical market overlap or negative product substitution effect suffered by any parent firm on the products of the firm.

In 1977 the Coca-Cola Co. entered into joint venture operations where the stakes were considerably higher than the profitability of the joint venture (Business Week, 1978). At that time, Coca-Cola formed a $10 million joint venture with the Egyptian government to develop a citrus plantation in the desert between Cairo and Ismaili. This was done with the hope of ending the Egyptian boycott of Coca-Cola products that had been in force since 1967, when that company had awarded a Coca-Cola franchise in Israel. This strategy worked and a few weeks after Coca-Cola put down 25 per cent of its $5 million share in the venture, Anwar Sadat lifted the boycott, allowing Coca-Cola the right to resume bottling in the highly lucrative Egyptian market.

It is also possible that objectives of joint venture are totally independent of that of its parent firms. Such a case is relatively much less
The complexity increases many fold if either or both the joint venture partners of a joint venture are widely networked corporations having multiple joint ventures with different joint venture partners around the world. Consideration of profit-maximization of joint venture partners taking into consideration non-joint-venture operations as well as operations of all the joint ventures having different types of relationships - neutral, positive, and negative is extremely complex and difficult to quantify. But considering the globalization of business and increasing number of cross-border joint venture networks there is no other go but to adapt to and master this calculation.

Advantages and Disadvantages of Joint Venture

Advantages

1. The major advantage of joint venture is that it makes it possible for a business to come into existence at the right time which otherwise may not be possible considering the limited resources and capabilities of the firms. It may be possible for both the joint venture partners to generate sufficient resources and capabilities to go on their own later but by that time the strategic window of opportunities might be closed or the business might have saturated not worth considering to take it up.

2. A joint venture may help a firm diversify into unrelated areas of business with lower degree of risk as a firm can bank upon the expertise and experience of another joint venture partner.
3. A joint venture may offer a product, range of products or technology to manufacture them to a firm lacking them and on the other hand the other joint venture partner can get access to new market.

4. A joint venture may offer growth and higher profitability to both the joint venture partners. There may be additional gains due to synergy.

5. A firm may be able to increase utilization of its underutilized plant capacity, if the joint venture is able to use the existing plant with or without minor modifications. This also help the other joint venture partner to go right into manufacturing instead of going for setting up a plant from scratch. There is a significant gain in terms of saving time.

6. A firm through a joint venture in backward integration chain can gain easy and more reliable access to the raw material of dependable quality. Whereas a firm through a joint venture in forward integration chain can gain a captive market for its products. A joint venture on the other hand may gain too correspondingly.

7. A firm may gain access to ready-made distribution or marketing network of another joint venture partner and feed the new product swiftly and smoothly into the market. The other firm on the other
hand is able to reduce its sales/marketing overheads.

8. Two other major advantages of joint ventures are that managerial and technical staff having experience of operating in given product-range or market may be readily available; and that this also offers an opportunities to managerial and technical staff of both the joint venture partners to learn from each other.

9. A firm controlling a joint venture gets an opportunity and gain experience of managing an organization larger than what its resources permits. The other firm, on the other hand saves the hassles and troubles of managing the venture and devote its time on managing its own affairs and still benefit the gains from the joint venture.

10. A joint venture can help both the joint venture partners improve their respective competitive positions. There may be positive spillover effect of joint venture R&D activity.

11. Through a joint venture abroad a firm may gain certain additional intangible benefits due to its association with the local joint venture partner. In most, including developed ones, countries a foreigner is a foreigner and, hence, attracts some degree of jealousy often resulting into hostility from the local government or local citizens or both. A joint venture with local partner cuts the ice to a significant degree, even if the stake of the foreigner joint venture partner is higher. A local partner can also be valu-
able because of its local knowledge and connections. It may have better understanding of local needs and tastes, familiarity with the laws and regulations, understanding of the most appropriate means of marketing and advertising and capability to handle the local employees.

12. A network of joint ventures in different countries exposes the management of a firm competing other local firms as well as other multinational corporations leading the management to develop international business attitude and outlook as well as develop the managerial capability to run complex networked large organizations. These skills are of immense value in the emerging globalization of business.

13. Due to the local government’s policy and laws for setting up wholly-owned subsidiary may not be permitted at all. A joint venture only may offer the entry to a firm in such country. With the change in the government’s policy and laws it may become possible for a foreign firm to increase its stake. Such firm would be at advantage compared to other foreign firms that enter such country by then.

14. Political prejudices against one joint venture partner may be reduced, if not eliminated, due to the respectability and connections of another joint venture partner.
15. A firm by entering into a joint venture may be able to establish profitable rapport not only with its joint venture partner but also with joint venture partners of other joint ventures of its joint venture partner whether in the same market/country or different markets/countries. This is likely to be crucial strength in the future when globalization would mature and only formidable competitors left would be the globally networked corporations.

Disadvantages

1. No joint venture can be successful without each partner trusting each other. Full trust and no doubt may be counterproductive to the interest of individual partner. It becomes imperative for each joint venture partner to have the relationship with other joint venture partner with varying degree of trust and circumspection so as to make the joint venture successful without jeopardizing own interest. This is difficult. Partners fault on keeping the right balance often and either suffer own interest or damage the joint venture interest. Both make it difficult for joint venture to survive for long. Not only this, interest of individual partner may suffer more in terms loss of competitive advantage.

2. Political equations among countries keep on changing all the time. A foreign collaboration joint venture may suffer if either of the countries of respective joint venture partners suffers relationship with the other on account of change in the political equation. The significance of trade bans has also increased in the
emerging globalization and a joint venture may suffer due to none of its fault.

3. Radical changes in environmental factors in a country especially the governmental and legal can negatively influence the interest of either joint venture partner. This may in turn upset the joint venture if a joint venture partner turns hostile or uncooperative. Also as happened in Uganda, Somalia and in some other countries the foreigners may simply be driven out of the country empty-handed resulting into loss to all assets.

4. Bargaining power of a joint venture partners may suddenly change significantly and a joint venture partner having more power may manipulate the other. This may jeopardize the prospects of joint venture as well that of the other partner.

5. In addition to the terms of the joint venture agreement joint venture partners get committed to keep pace with each other through proportional input financial or otherwise. Excellent or worst performance of joint venture necessitates additional inputs. A joint venture partner may not be prepared or capable for this and may suffer in due course. Otherwise also prospects of joint venture may suffer.

6. A joint venture partner might have simply over-committed and may fail to perform the role it is bound to perform or fail to contribute financial or non-financial inputs which damage the
performance of joint venture and, hence, that of the other joint venture partners.

7. A joint venture partner selected by a firm may be found to be unsuitable later. By the time this fact becomes manifested substantial resources, efforts and time might already have been invested. This would amount to huge loss to a firm.

8. A joint venture may have negative spillover effect on the non-joint-venture operations of any of the joint venture partners. Even when a firm does not suffer such effect but its joint venture partner suffers such effect on its profitability the interest of such joint venture partner would be reduced in the further growth of the joint venture. If R&D or export of joint venture causes sub-maximization of the profit of the other joint venture partner, it would narrow down if not suffocate the R&D or export activity of the joint venture. This may not only be detrimental to the interest of the joint venture but also of the other parent firm.

9. The host government i.e. the government of the country where the joint venture project is set up, may stipulate that investment in joint venture should include investment in export activities, hiring of a substantial number of local workers, or R&D operations. These stipulations may result counter-productive to a firm.
Reasons for Joint Venture Failure

A joint venture may be a failure for the reasons any other non-joint venture business would fail. But there are certain joint venture specific reasons that lead to the failure of joint venture. A joint venture is subject to different sets of environment. These are the relevant environment for each of the joint venture partners in addition to the one relevant to the joint venture itself. Any change in the environment concerning any of the joint venture partners may affect the concerned joint venture partner significantly which in-turn may affect the prospects of the joint venture negatively. In case of a joint venture through foreign collaboration legal and governmental factors play more significant role on the performance of the joint venture. Another major reason is that joint venture lasting a long period faces problems of changes in the objectives of joint venture partners. These may not only be significantly at variance with the objectives of the joint venture but may often be conflicting. Interest of the joint venture partners independently generally supersedes that of the joint venture's, which may lead to insufficient/lack of support by a joint venture partner or even action that may be detrimental to the survival of the joint venture. Often the joint venture fails for no other reason but a crack in the relationship of mutual trust between the joint venture partners. Even if there are reasonable chances of joint venture performing well, it may be abandoned if the joint venture partners lose mutual trust. Often joint venture partners disagree on various strategic issues which end in stalemates leading to the loss of competitiveness of the joint venture leading to failure. Exercising control over the joint venture too often
leads to pull and push between the joint venture partners. If not resolved in time may lead to pull-out by a partner endangering the existence of the joint venture.

Most of these reasons may be ascribed to failure in selection of a right partner. Hence, it becomes important to devote sufficient amount of time and efforts in selecting a right partner. It is also important to learn the other's point of view as a most suitable joint venture partner may not be willing. Mutual willingness is a must in any joint venture.

Joint Venture Partner Selection

Though so important, little research has been done on the joint venture partner selection criteria. These criteria would help a firm selecting as well as getting selected as a joint venture partner. During 1967, Tomolinson (1970) interviewed executives from a non-random sample of 49 British firms, collecting information on a total of 71 joint ventures in India and Pakistan. One objective of the study was to examine the criteria employed by the British firms in selecting joint venture partners.

Tomolinson examined six categories of selection criteria, which are listed below. Of these categories, favorable past association was cited as being the single most important reason for selecting a particular partner. Although less important than past association, the four selection criteria of facilities, resources, partner status, and forced choice were listed as being approximately equal in importance as primary selection criteria. Tomolinson's results suggested that the final selec-
Partner Selection Criteria Categories Measured by Tomlinson

<table>
<thead>
<tr>
<th>Criterion</th>
<th>Definition</th>
</tr>
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<tbody>
<tr>
<td>Forced</td>
<td>Cases in which the choice is effectively forced upon the foreign investor whether because of explicit host government direction or indirectly because the associate pre-empts an exclusive license.</td>
</tr>
<tr>
<td>Facilities</td>
<td>Convenience to the foreign partner of local facilities under the control of the associate. Among these would be a site or plant, marketing or distributive facilities, or a strong market position; cases in which the associate was already in the same line of business as that of the proposed joint venture.</td>
</tr>
<tr>
<td>Resources</td>
<td>Convenience of local sources of managerial and technical personnel, materials, components, or local capital which can be contributed by the associate.</td>
</tr>
<tr>
<td>Status</td>
<td>Status and capability of the associate in dealing with local authorities and public relations. This subset would also include status defined in terms of general financial and business soundness and standing.</td>
</tr>
<tr>
<td>Past</td>
<td>Favorable past association with the associate when the...</td>
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</tbody>
</table>
latter had been an agent, licensee, major customer, or partner in a previous joint venture.

**Identity** Cases in which a partner would be chosen chiefly to obtain local identity, often through association with a potential "sleeping partner."


In addition to examining the relative importance of potential selection criteria, Tomollinson investigated the possibility of identifying a set of variables which might help predict the selection criteria used for particular joint ventures, specifically for joint ventures in India and Pakistan. Eight groups of variables were examined for possible relationships to partner selection criteria, including:

1. Size and profitability of British parent firms
2. The nature of the business involved
3. British parent firms' attitudes towards control
4. Variables describing various features of the background
5. Motivations for forming a joint venture
6. Reasons for selecting a specific partner
7. Structural characteristics of the joint ventures
8. Internal and external evaluation criteria used

Of these variables, Tomollinson found that parent size, nature of the business (categorized as oil, chemicals, engineering, electricals,.
vehicles, metals, or tobacco/food), and stated motivation for forming the joint venture exhibited the strongest relationship to the partner selection criteria that were subsequently employed for particular joint ventures.

Another research conducted by Tomolinson and Thompson (1977) examined Canadian firms' joint venture experiences in Mexico. Drawing from interview data, they listed five traits that Canadian firms should seek in Mexican joint venture partners: financial status, business compatibility, common goals, ability to negotiate with the government, and compatible ethics. In addition, seven traits sought by Mexican firms in foreign partners were identified: financial resources, technology and experience in its application, international visibility and reputation, commitment to the Mexican joint venture, international experience, management depth, and the ability to communicate with Mexicans.

A study based on information collected by Geringer (1988) in personal interviews with 101 executives who had been involved in the operation of more than 300 ventures over the past 40 years focuses on joint venture partner selection criteria. The partner selection criteria categories in the descending order of importance are found as follows:

1. # Has a strong commitment to the joint venture
2. # Top management of both firms is compatible
3. * Permits faster entry into the target market
4. * Can supply technically skilled personnel to joint venture
5. Has knowledge of target market's economy & customs
6. * Has valuable trademark or reputation
7. * Will provide financing/capital to the joint venture
8. Improves access for respondent company's products
9. * Can supply general managers to the joint venture
10. * Possesses needed licenses, patents, know-how, etc.
11. * Has access to marketing or distribution systems
12. * Enhances perceived local/national identity of joint venture
13. Possesses needed manufacturing or R&D facilities
14. * Will enable the joint venture to produce at the lowest cost
15. Can enhance the joint venture's export opportunities
16. # Has similar national or corporate culture
17. # Is similar in size or corporate structure
18. # Had satisfactory prior association with respondent firm
19. Has related products, helps fill joint venture's product line
20. * Helps comply with government requirements/pressure
21. Has access to raw materials or components
22. * Controls favorable location (e.g., for manufacturing)
23. * Has access to post-sales service network
24. * Enhances joint venture's ability to make sales to government
25. # Is close to respondent firm, geographically
26. * Enables joint venture to qualify for subsidies or credits
27. Can provide low cost labor to the joint venture

* = task-related partner selection criteria category
# = partner-related partner selection criteria category
Seringer suggests that effective cooperation will be enhanced if:

- the partners are of similar size
- the partners share similar objectives for the venture
- the partners have compatible operating policies
- there are minimum communication barriers between the firms
- the partners have compatible management teams
- there is a modest level of mutual dependence between partners
- the partners develop a degree of trust and commitment

The scope of the study by Seringer covered joint venture partner selection strategies in the developed countries which provides some useful insight into the joint venture partner selection criteria of the companies in the developed countries. The criteria may be at variance with that of in relation to the selection of a joint venture partner from a developing country like India. However, the same may help managers of Indian firms to stress on important characteristics of their firms that may be found to be of interest to a prospective joint venture partner from the developed country especially the US for getting selected as a joint venture partner.

**Joint Ventures in India**

In India, significance of joint ventures was negligible before independence. Soon after the independence in 1947, the government encouraged Indian industry to go in for joint ventures. The government's philosophy of self-reliance encouraged joint ventures to substitute imports. The
general feeling was, however, that joint ventures were necessary evils. Joint ventures with foreign collaboration were encouraged where the foreign collaborator brought in capital and/or technology. Permission for joint ventures which were likely to compete with and were detrimental to the interest of the Indian industry or in the deemed luxury goods industries were being denied in order to avoid wastage of the scarce capital resources which were required to be deployed for building the national economy. The main focus of the government was to encourage joint ventures in two sectors. One, capital industry, which in turn would provide impetus to industrialization in India and two, industries that would strengthen the agriculture sector as achieving self-sufficiency in food production was of prime importance for reducing and eventually eliminating deaths of Indian citizens due to starvation.

India achieved self-sufficiency in food production by 1970. More capital was now available for investment in other industries.

Governmental restrictions lessened and especially due to, during and after Asiad-82, the mega sports event organized for the first time in India, joint ventures in the so-called luxury goods industries like black & white as well as colour TV, electronics, automobiles were encouraged. The liberalization in 1991 further caused a sharp increase in the number and the amount of foreign investment of the foreign collaborations in India. The cumulative foreign direct investment (FDI) approvals in India since 1991 till March 1996 has been Rs.679.686 billion. Actual FDI investment since 1991 till 1995 has been Rs.121.536 billion. The highest FDI approved since 1991 to March 1996 has been in the telecommunications sector followed by the fuels sector. The largest amount
of cumulative FDI approved for the period 1991 to 1995 originated from the US.

While presenting the regular budget for the year 1996-97 the Union Finance Minister P Chindambaram recognized that in order to achieve competitiveness, Indian industry must be given easy access to improved technology. He increased the limit of lump sum royalty payment from Rs.1 crore to $2 million (equivalent to about Rs.7 crore) subject to limit of 5 per cent on domestic sales and 8 per cent on export sales for automatic approval for technology import by the RBI. This is likely to provide further impetus to foreign collaboration in India. Detail statistics on the foreign collaborations/investments are given in Table 1, Table 2, and Table 3 in the Exhibit - II. It is evident that there has been manifold increase in the amount of foreign collaboration approvals since liberalization.

During the last decade and half joint ventures with foreign collaborations have made most profound impact on the Indian automobile industry, especially in the passenger car and two-wheelers segments.

The history of Maruti Udyog Ltd dates back to the incomplete dream of Sanjay Gandhi, son of the then Prime Minister Indira Gandhi and younger brother of Rajiv Gandhi, who too became the Prime Minister later, who died in an accident at young age. His dream to make small 'people's car' remained an incomplete dream. There was no one in the family to run his venture with the same zeal. In the form of an unstated tribute to the memory of Sanjay Gandhi by concertizing his dream to success, the gov-
Government of India in foreign collaboration with Suzuki Motors Corporation, Japan took-over the firm of Sanjay Gandhi. Suzuki contributed the product, a world-class technologically superior, low cost, small car and the government of India contributed the land for the factory and more importantly access to a large untapped low cost/high quality car market. The low excise duty on cars of below 1000 cc capacity benefited Maruti Udyog Ltd significantly further increasing its lead of competitiveness on the other two major car manufacturers — Hindustan Motors Ltd and Premier Automobiles Ltd.

Suzuki increased its equity stake in Maruti Udyog Ltd joint venture project costing Rs.1300 crore to 24 per cent and after liberalization to 50 per cent. The employees etc. hold insignificant 0.26 per cent equity whereas the government of India holds the remaining 49.74 per cent equity. The Rs.2,000 crore Expansion-Cum-Modernization (ECM) program, which envisages enhancing the capacity by another 1,00,000 vehicles has been quite delayed since the ECM was agreed to in principle by both the Government of India (GOI) and the SMC nominee at MUL's board meeting in September, 1995. Both the joint venture partners are at the loggerhead on the detail project report (DPR). While the GOI wants to finance the project through debt and internal accruals, Suzuki wants to use both these routes as well as equity through an expansion of the existing paid-up capital. GOI is against this as this would involved diluting its equity stake from its present holding of 49.74 per cent. SMC, however, is keen to see this happen as MUL would then slip out of government control.
Hindustan Motors Ltd and Premier Automobiles Ltd did go in for foreign collaborations and came out with new models of passenger cars 'Contessa' and 'NE 118' respectively but could come nowhere closer to compete with Maruti Udyog Ltd. Having taken a beating in the market place for about a decade, now Hindustan Motors Ltd has foreign collaboration with the General Motors of the US holding 50 per cent equity in a joint venture project costing Rs.300 crore to launch 'Opel Astra' and another foreign collaboration with Mitsubishi Motor, Japan holding 10 per cent equity in a joint venture project costing Rs.600 crore to launch 'Lancer'. Premier Automobiles Ltd also has foreign collaboration with the Peugeot of France holding 30 per cent equity in a joint venture project costing Rs.600 crore to launch 'Peugeot 309' and in a technical collaboration with Fiat Auto of Italy to launch 'Uno'.

DCM Toyota Ltd., a joint venture between the DCM group and Toyota Motors of Japan, was a failure in the LCV segment of the Indian automobile industry. To salvage the operation DCM Toyota Ltd. decided to diversify into passenger car segment. The high value of yen made it unfeasible for the Toyota to introduce Toyota range of passenger cars in India. Thus, the joint venture inducted a new joint venture partner Daewoo Motor Corporation of the South Korea in the project costing Rs.3,500 crore. The name of the company was also changed to DCM Daewoo Motors Ltd. Daewoo Corporation has an equity stake of 51 per cent, DCM 34 per cent and the balance 15 per cent is with Toyota and the public. The existing equity base of the company is Rs.91 crore. The company launched 'Cielo' competing with the premium model 'Esteem' of Maruti Udyog Ltd.
Telco, the leader in HCV segment of Indian automobile market also diversified into utility vehicle segment and launched 'Tata Estate' and 'Sierra' successfully. The company further diversified into the passenger car segment by entering into foreign collaboration with Daimler Benz of Germany holding 51 per cent equity in a joint venture project Mercedes Benz (India) Ltd. costing Rs. 350 crore to launch 'Mercedes E 220 and D 250' in the upper end of the passenger car segment of the Indian automobile market. Daimler Benz AG has designed a minicar which the company may loan in emerging car markets like India. The Indian small car market has been booming ever since Maruti launched its 800 cc car. This has led to DCM Daewoo Motors Limited to announce that they too would launch a newly developed 800 cc car in India soon. While the 'A-class' will definitely cost much more than the Maruti 800 cc, it could create a new segment in the fast segmenting Indian car market.

Sipani Automobiles Ltd., a small passenger car manufacturer who had failed to make any significant impact in the passenger car segment of the Indian automobile market with its cars launched earlier, in a desperate attempt entered into a foreign collaboration with Rover Motors of the UK holding 16 per cent equity in a joint venture to launch 'Montana'. The company is yet to make any significant impact in the market.

Honda Motor Co. has signed a joint venture agreement with Shriram Industrial Enterprises Ltd. (SIEL) to manufacture various versions of the Honda Civic, with engine sizes ranging from 1,300 to 1,500 cc. The joint venture will be known as Honda SIEL Cars India Ltd. (HSIEL) and the promoters expect to start assembling cars by the summer of 1997.
Honda will have 60 per cent of the equity and SIEL 40 per cent.

The agreement marks the first foray by a Japanese auto major into the Indian market after delicensing. South Korean, American and European auto majors have so far led the rush. The Japanese have held back, for which the skyrocketing value of the yen was thought to be the main reason. Since a car put together in India will have a high import content for several years after the start of manufacturing, it will be priced out of the market. That was the ostensible reason why DCM choose Daewoo, rather than, Toyota, for its car project. Honda's entry might mean that Japanese automobile manufactures have now adjusted to the higher value of the yen.

HSIEL proposes to assemble 10,000 cars in the first year operation, reaching 30,000 by the third year. The initial capacity will be for 30,000 units, which could be expanded to 60,000 units. The cars will start off with a local content of 40 per cent; it will reach 70 per cent by the end of the seventh year. The initial investment will be about Rs. 180 crore, and the total planned over seven years Rs. 850 crore. The car itself is expected to be priced under Rs. 6 lac at current costs.

The choice of SIEL is not particularly surprising. Honda already has a joint venture with the Siddharth Shriam group in the form of the portable genset manufacturer Shriram Honda. The foreign collaborator may have been impressed by the joint venture's performance. After years of mediocre performance, Shriram Honda’s gross profit rose 88 per cent last year to Rs. 17 crore on sales of Rs. 103 crore. In addition, Siddharth
Shriram was not too adamant on management control as he did not have experience manufacturing cars.

Mahindra & Mahindra Ltd, the leader in utility vehicle segment, attracted by the prospects of passenger car market decided to diversify into related passenger car segment. Mahindra & Mahindra Ltd entered into foreign collaboration with the Ford Motors of the US, holding 50 per cent equity in a joint venture project costing Rs.2,500 crore to launch 'Escort' and 'Fiesta'. M&M will begin manufacture of the Ford Escort/Fiesta in May 1996 at its existing plant. A new plant (as part of a joint venture) is expected to be commissioned by 1998.

The two-wheeler segment of automobile industry in India also witnessed spurt in joint ventures through foreign collaborations. LML Ltd., a joint venture in foreign collaboration with Piggagio of Italy, suffered initial set back due to resistance of the Indian consumers. The scooters were of good quality but costly and took some time to get established in the market. The company made significant progress and made a dent in the leading position of the market leader Bajaj Auto Ltd. Bajaj Auto Ltd on the other hand diversified into related motor-cycle segment through foreign collaboration with Kawasaki of Japan to launch costly but fuel efficient and technologically superior 'Bajaj Kawasaki', motor-cycle which not only competed successfully the then established leader 'Raj-doot' of Escorts group but wrested the leadership position from the another new entrant Hero Honda Motors Ltd., a joint venture between Hero group and Honda Motors of Japan which had launched successfully fuel efficient and technologically superior motor-cycle 'Hero Honda.'
Encouraged by the turnaround and strong established position in the scooter segment of the Indian automobile market and realization of its own competitiveness which could threaten the market leader Bajaj Auto Ltd, LML Ltd. planned expansion of its production capacity from 2,00,000 scooters to 6,00,000 scooters and to introduce more new models in the foreign collaboration with Piggagio. This had a chain effect. It helped crystallization of Hero Honda Motors' plan to diversify into the scooter segment to exploit the untapped potential as well as open another front of competition with the arch competitor Bajaj Auto Ltd, the reigning leader in the scooter segment. Escorts group which lost the leadership position in the motor-cycle segment to Hero Honda and Bajaj Kawasaki inspite of its going in for foreign collaboration with Yamaha Motors of Japan launching 'Yamaha RX 100', in a delayed response decided to diversify into scooter segment. Another scooter manufacturer Kinetic Honda Motors Ltd., a joint venture in foreign collaboration between Kinetic group and Honda Motors of Japan, had launched 'Kinetic Honda' gearless, auto-start, light weight scooter which became an instant success with the young and women two-wheeler users. The rhythm of growth momentum, however, faltered later on due to its high cost and low fuel efficiency.

Maharashtra Scooters, a joint venture between Bajaj Auto Ltd holding 24 per cent equity and Western Maharashtra Development Corporation, a wholly owned subsidiary of the government of Maharashtra was also formed. The company assembles completely knocked down kits of three brands of Bajaj Auto Ltd. It gets components from the suppliers of Bajaj Auto Ltd at the same cost Bajaj Auto Ltd is paying. The scooters are supplied back to Bajaj Auto Ltd which sells them through its well estab-
lished distribution network of dealers. The company, hence, benefits from the economies of large scale operation of Bajaj Auto Ltd and Bajaj Auto Ltd benefits from the extra production capacity.

Escorts group has successful joint ventures for auto components with Goetze, a German company, and for construction equipment with JC Bamford, a British company. But the Escorts group is trapped into a complicated joint ventures relationship. The joint venture with German company Goetze, Goetze India Ltd., which makes piston rings, was recently acquired by Turner & Newell, a British company. Escorts Ltd. also makes pistons with technology sourced from Mahle, a German company. It will make sense to merge Escorts’ auto components division with Goetze India Ltd. because of product and marketing synergies, but this cannot happen because Turner & Newell and Mahle are bitter rivals in the world market. To complicate things further, Turner & Newell (which makes both pistons and piston rings) has a tie-up with India Pistons, which competes with Escorts in the domestic market. Further there are two companies - the joint venture Escorts-JCB Ltd and the newly formed subsidiary Escorts Construction Equipment Ltd. - both making construction equipment.

Right now Escorts’ top priority is to sort out a final settlement with New Holland, previously called Ford New Holland (FNH), a Fiat subsidiary formed by the merger of Ford’s agricultural machinery division with Fiat’s. The joint venture with Ford dates back to 1969. It had a number of technical collaboration agreements to manufacture different types of tractors, but all these agreements expired in 1986. Escorts Tractors
Ltd. (ETL) of the Escorts group makes 40 and 50 HP tractors which comprise the higher end of the Indian tractor market. FNH had a 40 per cent stake in ETL, but that declined to the current level of 16.31 per cent when FNH chose not to subscribe to a public issue in 1991.

The current imbroglio arose when the Escorts group wanted to rationalize the tractor business. There were two options for New Holland: a higher stake or selling out to Escorts Ltd. Although FNH did ask for a 51 per cent stake, the Nandas, the Indian joint venture partner, ultimately chose not to accede to this demand. They were willing to offer them a stake higher than 16 per cent, though not 51 per cent since tractor business is Escorts' core business. Also the foreign collaborator had little to offer in terms of technology or exports in return for a higher stake. Medium-sized tractors, ranging from 30 to 40 HP, account for 50 per cent of the Indian market and New Holland had little to offer in this segment. European markets are dominated by large-sized tractors above 75 HP. New Holland is now trying to develop a 35 HP tractor for the Indian market.

However, Escorts will eventually lose access to the Ford brand name. ETL has a trademark user agreement with Ford Canada which gives ETL the right to use the Ford brand name till New Holland exists and continues to be an equity partner or until December 2000, whichever is earlier. Since the Ford brand name cannot be used beyond 2000 the latest events bring forward an eventuality which the company will have to face in any case. Escorts has by now developed its own technological capabilities, but will have to build up the Escort brand name. Losing the Ford brand-
name will prove to be expensive. The Ford brand name is much more valuable than the Escorts brandname and is regarded as perhaps the best tractor in the country. Due to the low level of literacy, the Indian farmers has the tendency to believe that Ford is an imported tractor.

While Escorts will be going by itself in the tractor business, the strategies in its motorcycle business is quite different. Escorts makes two types of motorcycles, the 175 cc Rajdoot and the Yamaha RX 100. The motorcycle business was recently transferred to a subsidiary company, Escorts Automotive Ltd. This will in turn, be split into two 50:50 joint ventures. One is with Yamaha, which supplies technology for the RX-100. While Escorts had approached Yamaha in the late 1980s, the latter was not interested. Escorts never got a positive response from the joint venture partner till last year because they were more involved in China. They have now changed their minds. They now feel that India is more stable and offers great opportunities for sourcing. Early next year, Yamaha will launch a 135 cc four-stroke motorcycle. Four-stroke vehicles are more fuel efficient than two-stroke vehicles.

The other joint venture, which has not yet been firmed up, will use the Rajdoot factory and produce the entire range of two-wheelers including motorcycles, mopeds and scooters. Escorts wants to get into the scooter market, which accounts for the largest part of the two-wheeler segment. Escorts plans to do this with a four-stroke engine scooter.

The joint ventures through foreign collaborations have radically changed the equation of the competitiveness of the existing as well new competi-
tors in the Indian automobile industry. More joint ventures through foreign collaborations are still expected to get materialize as other multinational auto majors like BMW, Nissan, Volvo and Renault are planning to enter the Indian market in the future. This is bound to further change the nature of competition in the Indian automobile market.

Nippondenso India Ltd., (NDIL) was promoted as a joint venture between Arun Bharat Rams SRF group and Nippondenso known as SRF-Nippondenso. The company produced a wide range of auto-electrical items including starters, alternators, magnetos, ventilators, radiation coils and wiper motors. High import intensity of production proved to be the major weakness as closed to 70 per cent of raw material and components used in production was imported. Like other Indo-Japanese joint ventures of the same period the company was hit by the appreciation of the yen after 1985. The severe import compression of 1991-92 proved to be the last straw. By March 1993 the company had accumulated losses of Rs.14.60 crore.

The company’s precarious position was a big worry for Maruti Udyog Limited which depended on it for some critical components. The company could not raised case necessary to infuse life into the company. Ultimately the company expanded its equity from Rs.9.8 crore, to Rs.15.8 crore through a right issue in which the original promoted renounced their shares in favor of Nippondenso and other new partners the Japanese Sumitomo and Maruti. Nippondenso - which increased stake to 37.2 per cent and Sumitomo paid Rs.18 per share while Maruti paid Rs.12. SRF which diluted its holding to 26 per cent, has since sold of its entire
stake. The infusion of equity capital has helped the company improve its bottom line by reducing interest cost. The company is likely to wipe off its accumulated losses this year.

Increase in the sales volume of Maruti cars (major customer), Kawasaki Bajaj, Escorts Yamaha and Hero Honda's range of two-wheelers led to substantial boost in NIDL's business. Future growth is also likely to remain buoyant. The company has been able to reduce prices and improve deliveries. The company has still not been able to make a breakthrough in the export market unlike most other autocomponent companies. Rapid indigenisation of product can have a favorable impact on the company's operations in future.

**Tata Timken** was incorporated in 1987 as a joint venture between Tata Steel and Timken Corp., of the US, with both parties holding 40 percent equity. As per the technology license agreement, Timken Co. has received Rs. 50 mn as technology know-how fee, and will receive royalty at 5 percent on all domestic sales and 10 percent on all exports for 6 years - the Indian company can sell Timken Company's product in neighboring countries. The company manufactures antifriction bearings, mainly tapered roller bearings, for which it has state-of-the art equipment - CNC machines, preprogrammed gauging systems, etc.

**Timex Watches Limited (TWL)** is a joint venture between Timex Group, the largest watch manufacturer in the US, and Titan Industries Ltd. (Titan), a Tata group company, which is also engaged in the manufacture of watches. TWL targets the younger generation with focus on informal sporty
watches. Timex caters to the unfulfilled demand of good quality watches in the lower price segment of the market (below Rs.700). This segment was formally catered to by the mechanical watches and the gray market which the company has penetrated through its launches of new, stylish, cheap models. The company has also adopted an aggressive marketing strategy and has over 52 exclusive showrooms and over 35,000 outlets which are shared with Titan. With Titan reducing prices of its lower end watches and Timex introducing watches in the formal segment, there is a slight overlap in the product range of the two group companies.

The product synergy between Titan and Timex products (price and feature wise) coupled with a common sales and distribution infrastructure will ensure the widest market coverage at the lowest cost.

Timex of the US plans to set up a 100 per cent Indian subsidiary with an outlay of US$3 mn. This is likely to complicate the joint venture partners relationship in TWIL.

Set up in 1989, Hindustan Powerplus (HPP) is a joint venture between the CK Birla Group and Caterpillar Inc, of the US, both owning 37.7 per cent equity. It manufactures Caterpillar diesel engines of 160-750 kva range under the brand name INTAC - the products find application in electric power generation, earthmoving, locomotive and industrial prime movers. After poor results in 1993, Caterpillar took over management of the company. Subsequently, the company came out with a rights issue, reduced import content to 50 per cent (critical items like the fuel injection system are still imported), and doubled production. While performance is
improving, the company still has accumulated losses of Rs.205 mn.

HPP plans to produce 1200 diesel engines this year, and 5000 by next year - a third of the 15,000 engine Indian market. It plans to introduce 3 models from Caterpillar 3500 series engines. With capacities up to 1900 kva, far above the 1000 kva that local competition has. HPP also plans to increase its share of exports, and become an accepted component supplier for Caterpillar globally.

Thermax Babcock and Wilcox Ltd is a joint venture between Thermax Ltd, Pune, a company active in the field of energy and environment, holding 60 per cent of the joint venture's equity and Babcock and Wilcox of the US, the world leader in the manufacture of boilers, holding the remaining 40 per cent equity. The Babcock and Wilcox power generation group, which is a part of the US based McDermott International, has set up Babcock and Wilcox joint venture cooperative, comprising three Babcock and Wilcox joint ventures in India, China, Indonesia and two in the Middle East. The cooperative has been formed with an aim to give an edge to Thermax Babcock and Wilcox in the export market. Chiefs of the joint venture companies in the cooperative are to meet once in two months to select a joint venture as a sourcing point for their global bidding. This is an interesting development where an Indian firm would become related to not only its joint venture partner but also other joint venture partners of its foreign collaborator.

Usha Beltron Limited was incorporated in 1986 as a joint venture between Usha Martin Industries Ltd., Bihar State Electronics Development Corp.,
AEG Kabel, Germany and DEG, Germany to manufacture jelly filled telecom cables (JFTC). The company has one of the lowest cost of production in the industry.

The company has equity in Usha Martin Telekom Ltd. - a joint venture between Usha Martin group and Telekom Malaysia and cellular services in Calcutta. Besides, the company has been awarded license for paging services. Setting up of an optic fiber cable plant and software development for telecommunication is also in the corporate plan.

Modern Insulators Ltd. (MIL), the Rs.550 - crore Modern group's only venture outside the textile industry was a stretcher case in the early 1990s. MIL was a joint sector project with Rajasthan Investment Corporation in technical collaboration with Siemens, Germany, to manufacture high and extra-high voltage alumina porcelain insulators. An import substitute item, these solid core insulators are used in generation, transmission and distribution of power. With an initial investment of Rs.33 crore, the project started commercial production in 1988. However, till 1994 it continued making losses and was unable to even provide for depreciation.

For the six months ended September 1994, the company achieved 60 per cent capacity utilization and on a turnover of Rs.14.74 crore, which was 55 percent higher than in the corresponding period in the previous year, it made a gross profit of Rs.2.10 crore up 700 per cent. Ever since the company started its production, it has been in the red. The company's bane was the high rate of rejection upto 50 per cent, where
the insulators waste had to be dumped at zero value, not only adding to huge losses but as a result of which capacity utilization was low further aggravating the financial condition of MIL.

Various engineering skills were employed over the years, but the performance was no better. A demineralisation plant was installed to solve the water problem and humidification plan was also set up to overcome the problem of climatic conditions. Yet, the rate of rejection did not come down. Finally, an Italian ceramicist with experience in insulator manufacturing was MIL's savior. He modified the insulator designs shaping, drying and fixed cycles which resulted in the percentage of rejections coming down gradually. MIL's plant capacity utilization, which till 1991-92 was 25 per cent, improved in the following year to 43 per cent.

Incorporated in March 1990 as a public limited company, Videocon Narmada Electronics Ltd. (VNEL), is a joint-venture between Gujarat Narmada Valley Fertilisers Company Ltd. and Videocon International Ltd. The company is engaged in the production of 100 per cent import substitute products such as glass shells and parts for color TV picture tubes, cathode ray tube display/video display unit monitors, B/W TV picture tubes and monochrome monitors. VNEL is the only company manufacturing this product in the industry.

Thomson Consumer Electronics (India) Pvt Ltd is a joint venture between the world's fourth largest $16 billion consumer electronics giant, Thomson group of France holding 51 per cent stake and Obul Reddy group
of Madras holding 41 per cent stake in equity of Rs.10 crore. Thomson has been strategically utilizing the assembly facilities of the ailing Dynavision Ltd, promoted by Obul Reddy and the state-owned TIDCO. This has helped the joint venture to gain a market share of three per cent by selling 60,000 sets in its first year in the Indian market. The joint venture aims to sell about one lac CTVs in 1996 and register a turnover of Rs.110 crore. It is in the process of putting up an additional line imported from the Thomson plant in Thailand. Thompson is the number one brand in the US with a 24 per cent market share and has to its credit innovations like Digital Satellite System, which obviates the need for cable networks.

Hindustan Packaging Co. Ltd. (HPCL) was set up 15 years ago as a joint venture between National Dairy Development Board (NDDB) holding majority equity share-holding and Tatra Laval group of Sweden. Tatra Laval had settled for minority equity share-holding as one of the few exceptions as in India FERA had limited the maximum equity holding by a foreign firm to 40 per cent. HPCL has carved out a major segment in the domestic market as supplier of Tetrapak packaging to beverage companies like Godrej and Parle's, as well as producers of edible oil and milk products. After liberalization it was allowed under FERA for a foreign firm to increase its equity share-holding up to 51 per cent. Like many foreign collaborators Tatra Laval also wanted to increase its stake to 51 per cent. Tatra Pak claimed to be the brand behind 20,000 successful brands and also the world's largest liquid food processing and packaging compa-
ny. Having controlling stake would get it freedom to exploit the business opportunities in India to its fullest extent. This viewpoint, however, was not shared by NDDB. NDDB is the pioneer in the milk production cooperative movement and has the largest network of milk production and supply in India. Control over HPCL is crucial to NDDB too as packaging constitutes an important factor in the business of milk and milk products. NDDB denied Tatra Laval the majority stake.

Similar refusal to allow the foreign collaborator to increase its stake to majority also had happened in case of NOCIL and Hero Honda Motors India Ltd. In case of NOCIL the Arvind Mafatlal group bought over the equity stake of the foreign collaborator Royal Dutch Shell by paying about Rs.108 crore in time limit as provided in the joint venture agreement with the foreign collaborator and parted amicably. In the case of Hero Honda, the foreign collaborator took it gracefully the refusal of the Indian joint venture partner Hero group of Munjals and let the joint venture continue its business as usual. This did not happen in the case of HPCL.

Due to its failure in increasing its stake to majority Tatra Laval is setting up a new company for manufacture of laminated paper, a packaging material, in the south of Baroda near to HPCL plant. The company is most likely to become the direct competitor of HPCL in the market. This is likely to affect negatively the prospects of HPCL. Not only this, the Tatra Laval has not even responded to the NDDB’s appeal to terminate its participation in the joint venture HPCL. This is likely to complicate the matter for the joint venture as though Tatra Laval would be in
compel: it ion with HPCL, would have its nominee director on the board of HPCL. This experience highlights the need for any joint venture to keep in its joint venture agreement a clause for buying out the minority stake holder in case such joint venture partner takes up any activity which could be harmful to the joint venture.

Ion Exchange (India) Ltd. (IEIL) was originally formed as a subsidiary of Permutit company of the UK in 1964 for the supply of water treatment plants. The foreign holding was reduced in stages and since 1985, the shares are mainly with Indians. Another joint venture Dearborn IEI India Pvt. Ltd. started operations in 1995 in the field of water chemicals.

It has also entered into a collaboration agreements with M/s. Elga Ltd. of the UK and US Filter/Permulet Inc. of the US in the field of water treatment. The new product range based on these collaborations will be introduced during 1996.

Of all the new ventures that Hoechst is planning, the most important is the 50:50 joint venture with Reliance at Hazira for making 30,000 tons per annum of technical polyester fiber for tyres and conveyor belts. The joint venture partners have not yet decided on who will have the management control, but Hoechst considers that it is more important to have the same target and management thinking. While Hoechst will provide the technology. Reliance will supply the raw materials. The project's first phase will have an outlay of about $100 mn (Rs.300 crore), with a subsequent expansion in capacities and products. By the turn of the century the full technical fiber business is expected to contribute about DM400
mn (Rs.800 crore) to turnover. The multinational is also considering a joint venture with Reliance for making the acetic acid chain of products where Hoechst has a major market share worldwide as well as a venture to manufacture engineering plastics.

Meanwhile, another group company, Herberts, a market leader for paints in Europe, has already signed a memorandum of understanding with Jenson & Nicholson for a joint venture to make automotive repair paints. Hoechst is also looking at entering the powder coated paints market. The investment requirement is small and as paints is a competitive market and has low margins, Hoechst will continue to rely considerably on licensing its products to third parties.

Hoechst recently received permission to set up Dyestar India, a fully-owned subsidiary of the worldwide joint venture between Hoechst and Bayer, for dyestuffs. The company will initially be a trading company which will take over the export and the local marketing of dyes manufactured by group company Colour Chem. Colour Chem was earlier a production company started marketing only in 1989. During 1994-95, Colour Chem's sales grew by almost 20 per cent to Rs.261 crore, although net profit grew a mere 7 per cent. Meanwhile, the price of its share has nearly halved to about Rs.2,700 from Rs.5,000 last year. Market analysts attribute it to the uncertainty following the setting up of Dyestar India.

Mafatlal Industries Limited's (MIL's) 50-50 joint venture with Burlingtons, USA for setting up a Rs.100 mn 10 mn m/annum denim plant at Navsari is under implementation and would commence commercial production
in 1996. Capacity at this plant is expected to be expanded to 30 mn m/annum over the next 3 years. MIL is also implementing a joint venture with Schiesser of Germany to manufacture 6 mn hosiery pieces (under garments) per annum.

Incorporated in 1987, Gujarat Gas Company Ltd. (GGCL) was promoted by the Mafatlal Fine Spinning & Manufacturing Company Limited (MFS&MCL) and Gujarat Industrial Investment Corporation Limited, to execute the Ankleshwar and Bharuch natural gas distribution project. In 1991, Arvind Mafatlal's Mafatlal Industries Ltd. acquired the equity of MFS&MCL in the company. GGCL currently supplies piped natural gas to industrial, commercial and residential consumers in and around the towns of Ankleshwar, Bharuch and Surat in Gujarat. The company has signed a 50:50 joint venture with Bharat Petroleum to set up import terminals/new ports for LPG imports and another with UGI Meters, of the UK, to manufacture gas meters at Pune.

In the Rs.35 billion Indian liquor market Jagatjit Industries Limited (JIL) is one of the larger players; behind market leaders UB group and Shaw Wallace. The company is entering into two joint ventures with international player to strengthen presence in the fast growing premium segments of the liquor market. The joint venture with Hiram Walker has recently launched "Teacher's Scotch Whiskey" in the Indian market. A joint venture with Brown-Forman of the US for the liquor business is awaiting government clearance. This joint venture is also planning to establish buying houses for export of fancy items. Kedia Distilleries Limited will also market premium scotch whiskeys "Jhon Player’s Spe-
cial" and "King of Scots" through a joint venture with Douglas Laing Limited of the UK.

Dabur India Ltd. (DIL) a 100 year old Ayurvedic product company, manufactures over 450 products with the top 23 contributing around 90 per cent of sales. DIL has entered into a joint venture with a Canadian company for manufacture of the anti-cancer drug in Canada. As a part of its strategy to establish a strong presence in the overseas market, Dabur India Ltd., has set up a joint venture in South Africa with a consortium of local partners to market and manufacture its pharmaceutical products there. The natural health care range which the joint venture proposes to market there include hair ols and chavyanprash.

The company has also entered into a 50:50 joint venture with Bongrain SA of France to produce cheese in India. The capital investment required for this project is Rs.10 crore. Dabar's decision to diversify into cheese has been motivated by the fact that there is a growing market for the product and it is popular among the upper and middle class in the urban areas. Moreover, under the WTO guidelines, European and American dairy farmers will not be able to enjoy the subsidies they did till now. This will make the Indian dairy industry more competitive and open up major overseas markets for Indian dairy products. India has one of the lowest cost of milk production. Bongrain has a worldwide turnover of $2 billion with cheese constituting 65 per cent of its sales.

Dabur also has a tie-up with Osem of Israel to manufacture snack food, mayonnaise, speciality biscuits and extruded food, where Dabur owns a 60
per cent stake in the joint venture. It holds a minority 49 per cent stake in its chewing gum joint venture with Agrolimen of Spain.

In an unrelated diversification, Dabur India Ltd. plans to enter into a joint venture with the UK-based Lightship group to operate and market lightships in India. Lightships, which are commonly called blimps as well as airships, are designed specifically for advertising and aerial observation purposes. These airships, which fly in the air are commonly used as a media platform abroad for advertising and promotion by several companies including Coca Cola, Krafts General Food, Mcdonald, and Reebok.

These airships present a new business opportunity for Dabur. With all companies increasing their advertising budgets and looking at ways to develop innovative advertising, airships provide them with high-visibility and distinctive medium of advertising. This medium will largely be used by companies belonging to the consumer goods sector. So far, Dabur's activities have essentially centered around its core businesses of pharmaceuticals, food processing and cosmetics.

Sanofi Pharma, a member of the 40 billion dollar Elf group, the French industrial conglomerate, and the Ahmedabad-based Torrent Pharmaceuticals, the flagship company of the Rs.1000 crore Torrent group, have forged a strategic alliance to float a joint venture for developing, manufacturing and marketing formulations. The joint venture to be known as 'Sanofi Torrent India' would have an initial paid-up capital of Rs.5 crore, with both partners contributing equally to it.
Tata Information Systems Ltd. (TISL) is a joint venture between the Tata group and IBM of the US. The Tata group is a respectable, leading, and established giant industrial group in India, and IBM is a respectable, leading, and established giant MNC of the US, pioneer in the computers and IT solutions. Tata group willingly accepted a minority stake in TISL in order to rope in IBM so that the joint venture would become a formidable force in the Indian IT industry. TISL, dealing in computers and IT solutions grew by an astonishing 86 per cent and jumped three places to get to number seven position in India. Its remarkable showing in the Indian marketplace in just two years of operations indicates its potential to be in the top five next year. The company will shortly unveil IBM's hitech Internet software, which will enable users to graphically access the information highway. TISL will also releases the gamut of IBM software servers - the Internet connection server, the communications server, the transaction servers, the System View Server, the directory and security server, the database server and the Lotus Notes server.

Wipro Limited has entered into a joint venture Wipro Acer Ltd. in 1995. Wipro Corporation, holding 55 per cent equity, is a Rs.1,400 crore plus group and Acer Computer International Singapore, holding 45 per cent, is a part of Acer Incorporated. Acer Incorporated, the Taiwanese computer giant with a gross revenue of $5.8 billion, ranks amongst the top seven PC brand names worldwide. With PC shipment of four million units, it is among the top four manufacturers in the world. It is the only company outside of the US and Japan to make it to the top ten in the PC industry. International Data Corporation (IDC) has forecast that it will be
among the top two PC companies by the year 2000. Computer industry is becoming a commodity market, quantity makes a difference. It is a sheer economies of scale. Acer plans to launch $500 PC in India in September. Acer will only provide the key technology and the PC will be locally assembled.

The Rs.1700 crore turnover public sector State Trading Corporation (STC) is setting up a software joint venture company with the Bombay-based Datamatics Limited. This is a part of the STC move to diversify its activities from trading to other businesses. The corporation in 1995-96 targeted setting up seven joint venture in the field of textiles, leather, chemicals, and mushroom. By the end of 1995 STC set up two joint ventures in aquaculture with Bluegold Maritech and Richfield Acqua Tech Limited. The projects are being set up in Hyderabad and Vishakapatanam, respectively. The decision to enter other businesses other than just trading was taken as part of a detailed strategy to achieve a Rs.5000 crore turnover by 1999-2000.

Lloyds Housing Finance Ltd (LHFL) has signed a memorandum of understand (MoU) with Hong Kong based Brooke Hillier Parker (BHP) to float a joint venture in India to extend property related services primarily to non-resident Indians (NRIs) and multinational companies including development consultancy, research, valuation, marketing and management. The venture - Lloyds Brooke Hillier Parker Property Services - will bring BHP's vast expertise and explore the potential of booming real-estate industry in the country.
RMC Readymix (India) Pvt Ltd, is the joint venture between the World's largest manufacturer of ready mix concrete, the UK-based RMC Group Plc and Rajen Raheja group's Hathway Investments Ltd as 50:50 partners. The equity capital of the company will be Rs.18 crore and the initial investment in the project will be around Rs.100 crore. The company's first unit to manufacture ready mix concrete is being set up at Taloja, near Mumbai and has plans to set up close to 100 such units in the next three to five years at various locations in the country. Ready mix concrete would revolutionize the way construction work is carried out through a significant improvement in the quality and speed of building.

The $200 billion Mitsubishi Corporation of Japan, holding a top position in the Fortune 500 list, has 11 joint ventures in consumer electronics, food, steel, telecom, engineering and automobile industries in India holding 1.5 to 50 per cent equity stake accounting for a turnover of $1 billion (Rs.3,500 crore). It has now set up a wholly owned subsidiary in the place of a representative office in India and has identified priority sectors like petrochemicals, automobiles and automobile components, agriculture, mining products, electronics, chemicals, fertilizers, telecommunications, power, oil and gas. This indicate the growing importance of the Indian market in the global business.

Indian Joint Ventures Abroad

Indian entrepreneurs have set up joint ventures in about 62 countries. More than 70 per cent of the joint ventures are concentrated in the US, the UK, Malaysia, Srilanka, Singapore, Thailand, the UAE, Nigeria,
Nepal, Indonesia, Kenya, Uzbekistan, Zambia, Mauritius, Hong Kong, Russia, Netherlands, Belgium, Germany, Switzerland (Jain, 1995). Joint venture abroad covers a fairly wide spectrum in manufacturing, projects and services fields. Fields in which Indian entrepreneurs have set up joint ventures abroad and acquired a certain degree of capability to compete in international technology market are light engineering, textile and allied products, chemicals and pharmaceuticals, food products, leather, rubber products, iron and steel, commercial vehicles, oil seeds, crushing and palm oil refining, glass and glass products, pulp, paper and cement products. Apart from these hotels and restaurants, trading and marketing, consultancy project, servicing, engineering and construction are expertise by enterprises in joint venture abroad. With a view of Free Trade policy Government of India have issued guidelines for investment in joint ventures and wholly owned subsidiaries abroad. World Bank has also issued guidelines on the treatment of foreign investment.

A new concept of export of projects and consultancy service has been developed. Export of projects and services from India fall into three categories mainly civil engineering construction projects, industrial turnkey projects and consultancy service projects. The new markets where Indian project exporters have increased their presence are exposed to keen competition from the developed countries and newly industrialized countries stand testimony to the growing strength of India project exporters. World Bank has also issued guidelines for preparation of feasibility report and detailed project report for joint venture project abroad.
Performance of Indian Joint Ventures Abroad

Indian Joint Ventures and wholly owned subsidiaries abroad have been recognized as an important instrument for promoting exports, trade expansion and economic co-operation. Joint ventures abroad enable India to enhance foreign exchange earnings by ways of dividends, other entitlements and additional exports. These projects also serve as an outlet for Indian entrepreneurs to internationalize and in the process, expose themselves to the latest technological developments and management practices. Such ventures therefore serve as conduit for the transfer of new technology into the country.

Approvals for joint ventures/wholly owned subsidiaries established abroad are given on the basis of guidelines and laid down by the Government. As on 31st Dec. 1993, there were 430 joint ventures. Out of these joint ventures, 167 were in operation and 263 were at different stages of implementation.

Conclusions and Recommendations

Traditionally Indian firms entered into joint ventures for producing and marketing the products of its joint venture partners. Later more joint ventures were formed for effecting import substitution. This focus were not only narrow but a reason for difficulties being faced and to be faced by many Indian joint ventures. The liberalization and globalization and also the GATT agreement is lowering down the protection walls
to the Indian economy. Now the focus of the Indian firms entering joint ventures should be much broader which takes into consideration the R&D, development, manufacture, market new products. These joint ventures should also offer learning opportunities which could develop their competencies and maximize their own competitiveness in catering not only the Indian market but the global market. If at all it becomes a necessity they should be able to even beat their collaborators in the future if the question of survival emerges. This is not possible if they desire to encash only their relationship with powerful collaborators \( \text{viz-a-viz} \) their other weaker local competitors. The only real competition a firm faces is with that with the world at large.

When ever a joint venture is formed the joint venture partners appear to be the friends in arms against their common foes. This is not untrue. The hidden truth, however, is that the joint venture partners though act for achieving common objective of the joint venture, have their own objectives to achieve which often are at variance with the objective of the joint venture. Unfortunately this variance often manifest only at a later stage and may damage the interest of either or both the joint venture partners. Any manager desiring to use joint venture a means to further the interest of his firm may gain substantially if he does so after referring the dictionary meaning of the term collaborate. This is not to suggest that joint venture should not be resorted to. The aim is to disclose only an important dimension of the joint venture partners relationship which appears to be so often overlooked or underestimated in joint venture formation.
According to Dr. Christopher Carr (Paramanand, 1996), senior fellow in strategic management, Manchester Business School, trust is the key for any alliance between two joint venture partners. A firm should concentrate on selecting the best partners and then developing a respected capability within that partnership. He basically differs with Prof CK Prahalad and Mr. Gary Hamel on the question how to handle a corporation. According to him Prof CK Prahalad and Mr. Gary Hamel lay too much stress on systems to protect their assets and this leads to a cautious approach to a relationship between the joint venture partners. If this indeed is the case, the researcher suggests that Indian firms may while following the approach as credited to Prof CK Prahalad and Mr. Gary Hamel may select joint venture partners who believe and practice what Dr. Christopher Carr advocates.

There is a shift of power from the producer to the consumer in the world and more dramatically in India today. Where the consumer is vested with the power to choose and exercise options, Indian firms may join the global giants, notably from the US and other developed countries, as well as emerging giants, notably from South Korea, Singapore, Hongkong, and Taiwan in order to exploit growing markets or to create new markets with an objective to attain world-class excellence in core skills and competencies and provide the greatest value to consumer/customer. A company driven by consumer/customer satisfaction is a successful company today and will be in the future. A firm entering a joint venture may take into consideration all other relevant aspects like permission of the necessary authorities, taxation implications, permission for repa-
triation of profits, royalties, know-how or technology transfer fees etc.

In India many multinational brands have failed spanning across product categories such as soft drinks, cigarettes, breakfast cereals, apparel, footwear, liquor, eyecare products and televisions. MNCs can have access to statistics and data processing expertise but not to the real pulse of the Indian markets the sense of which the Indian companies have painfully developed over a period of decades. This is a major strength of Indian firms which they should not fail to encash while negotiating a joint venture deal to their advantage.

Indian firms can substantially gain tangible benefits by entering into joint ventures in the less developed countries in terms of market expansion and maximizing profits. They can also gain significant intangible benefits by entering into joint ventures in the developed worlds. This intangible benefits include awareness of global perspective, quality consciousness, knowledge of latest management practices, contacts with leading MNCs, insight into weaknesses of MNCs or foreign firms which could be exploited not only by the joint venture but also by the Indian firms to compete other competitors and MNCs in India as well as abroad. Many firms in the south east Asian countries are emerging to be strong global players competing with the well established firms of developed countries. Setting up joint ventures with such firms also may be possible on discounted terms as compared to that of going in for a joint venture with well established reputed firms (which might even be on its way to decline) capable of bargaining out premium terms based on its mere reputation.
Any firm considering joint venture may take a holistic view based on not only the issues related to the joint venture but that of its prospective joint venture partner. A firm may identify the profit-maximization equation of its prospective joint venture partner in relation to the profit-maximization equation of not only the joint venture but that of its own as well as their relationships. If the profit-maximization of the joint venture is totally independent, the focus should then be on the prospects of joint venture only. However, if positive spillover effect relationship exists between the joint venture activity and the non-joint-venture operations of the prospective joint venture partner, a firm may bargain better terms to gain maximum possible share of such profits. If there is likelihood of the negative spillover effect relationship (which may be known or unknown to the other party), firm commitment attached with penalty clause from the other party may be built in the joint venture agreement. These aspect may be considered especially with reference to the R&D and export activity of the joint venture. No manager may sign any joint venture agreement without providing for an exit clause which is likely to be the least harmful to his firm. Specific consideration may be given to alternate dispute resolution mechanism should the joint venture partners turn hostile to each other or their actions are found to be harmful to the interest of the joint venture.

Tarun Das, Director General of Confederation of Indian Industry (CII) was alleged to be critical about MNCs entering in India through joint ventures. According to his views MNCs leverage an Indian partner to get in [a joint venture], and then move to acquire 51 per cent equity. Set
up a 100 per cent wholly-owned subsidiary despite a joint venture. Supply second-hand plant and machinery declared obsolete in their country. They have short term focus for quick profits and adopt sales approach to India as distinct from manufacturing. They use expatriate managers and CEOs rather than competitive Indian management. This issue raised a controversy in India and many alleged that the CII was anti-liberalization. If not, atleast against multinationals and the foreign investment in India.

Clarifying the position of the CII on multinational and foreign investment, CII's president Rajiv Kaul asserted that the controversial paper drafted by Director General Tarun Das on MNC strategy essentially puts forward suggestion to strengthen the flow of foreign investment and joint ventures between MNC and Indian partners in the long term. Many member of CII wanted the Government to clarify the areas and equity percentage that MNC would be allowed to hold in a joint venture. They disapproved of the government's case by case approach in matters of clearance of foreign investment proposal which they thought led to an anomalous situations. It is being said that GE which has 40 per cent stake in white good sector joint venture now wants majority stake in the company. This follows Whirlpool's acquisition of Kelvinator. If Whirlpool can control a white goods company, Why can't GE control the GE-Godrej venture is said to be the line of the US multinational.

The researcher is of the opinion that the insufficient transparency in the government's dealings in approving the foreign collaborations in India is not without its ill-effects, however, adopting a completely

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transparent policy regarding foreign direct investment may prove to be more harmful to the Indian industry. The MNCs would be able to use such policy more profitably and with their ruthless efficiency would be able to dislodge Indian business in short time. Some time is needed for the Indian industries to learn new things form the MNCs and become competitive enough to take on the MNCs which are likely to come in large numbers with the complete liberalization of the Indian economy.

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