ABSTRACT

India is witnessing a revolution both in the context of liberalization and globalization of its economy and transacting business through Joint Ventures set up with foreign partners across various industry sectors. As the economy is moving upwards many foreign companies are eying for entry in Indian market to take its inherent advantage and joint ventures are one of the effective ways of entry in a foreign market like India. Joint ventures are like double edged sword which can lead to successful survival of partners or can result in bitter experiences. This paper critically appraises the potentiality of joint venture as a strategy for companies to enter international markets and the reasons of failures of these ventures.

Key Words: Joint Venture, Technology Transfer, Strategic Alliances, Intellectual Capital

Joint venture is a contractual agreement joining together two or more parties for the purpose of executing a particular business undertaking. All parties agree to share in the profits and losses of the enterprise. The venture can be for one specific project only, or a continuing business relationship. The parties agree to create a new entity by both contributing equity and they then share in the revenues, expenses, and control of the enterprise. As in the words of famous Hollywood director, producer and actor Danny DeVito, “There are two dilemmas that rattle the human skull: How do you hang on to someone who won’t stay? And how do you get rid of some who won’t go? In many ways these words mirror the discomfort between partners in a clutch of Indian Joint ventures. Some allies want to pack up and leave, others are in a mood to dump their partner and few have succeeded in one of the two. At the same time, obviously unfazed by the bitter experiences of bedfellows who could not quite hit it off and the
perilous nature of such collaborations themselves, a spate of joint ventures has been announced by foreign companies driven by their own conveniences.

Three most common types of joint venture companies may be described as follows:

(a) Two parties, who/which may be individuals or companies, one of them non-resident or both residents, incorporate a company in India. Business of one party is transferred to the company and as consideration for such transfer; shares are issued by the company and subscribed by that party. The other party subscribes for the shares in cash.

(b) Alternately, the above two parties subscribe to the shares of the joint venture company in agreed proportion, in cash, and start a new business.

(c) Promoter shareholder of an existing Indian company and a third party, who/which may be individual/company, one of them non-resident or both residents, collaborate to jointly carry on the business of that company and its shares are taken by the said third party through payment in cash.

**REASONS BEHIND JOINT VENTURE**

<table>
<thead>
<tr>
<th>Factors</th>
<th>Reasons</th>
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<tbody>
<tr>
<td>Technology</td>
<td>The foreign partner can bring in high class technology while the Indian partner has a good understanding of the local market. Telecom and automobiles are examples where this is most visible.</td>
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<tr>
<td>Geography</td>
<td>This could be a case where a foreign player has a presence in many key markets and India is necessary to complete the story. Insurance here is a relevant example where players like Prudential and Standard Life are large global players. For the Indian partner, it is a big opportunity to participate in this story.</td>
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<td>Regulation</td>
<td>This is normally a case when a highly regulated sector opens up. Insurance which for a long time was closed to foreign investment, today allows up to a 26 per cent equity participation. This has seen a flow of foreign companies with players like Bajaj and ICICI being the Indian partners.</td>
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<td>Sharing of risk</td>
<td>This includes sectors like heavy engineering that require large amounts of capital and capital apart from technological expertise. Here both the partners look for a scenario where risks can be equally shared.</td>
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<td>Intellectual</td>
<td>Here a sector like the legal business could deserve as an example. Though there is no clear law on the entry of foreign law firms, the intellectual advantage at both ends is hard to ignore.</td>
</tr>
</tbody>
</table>
| Other Important reasons | o Access to innovative ideas and technology.  
                             o Horizontal joint ventures for market dominance. |
Vertical joint ventures for channel control.

Hybrid joint ventures for risk spreading.

Cost cutting; synergies; defensiveness.

Growth for world class leadership-global reach.

Government and political factors; exchange rates.

Move quickly and inexpensively.

Flexibility; leverage; differential labour costs.

Bigger asset base to leverage borrowing.

Financial gain and personal power.

Basic Assumptions of International Joint Ventures

1. International Joint Venture is the fastest and easiest ways to innovate.
2. JVs are likely to fall short of their initial goals.
3. International JVs are difficult to do.
4. Key talent will be hard to retain.
5. Creating synergies is a major challenge.
6. Molding cultures is a major challenge.
7. Soft and hard due diligence are necessary but not sufficient conditions.
8. Pre-planning can help increase chances for success.

Statistics show that:

- 75% of international joint ventures deal fails.
- Only 15% achieve financial success.
- 50% destroyed shareholder value.
- 17% created shareholder value.

Economic Times, New Delhi, 24 September. 2005, p-10
THREE STAGE MODEL OF THE JOINT VENTURE PROCESS

1. Pre-Combination
2. Combination
3. Solidification and Advancement

Stage 1 - Pre-Combination: Partner Search and Selection

A. Identifying the reasons for the JV.
B. Forming a JV team and its leader.
C. Searching for a potential partner.
D. Selecting the partner.
E. Planning for the process of the JV.
F. Planning to learn from the process.

Stage 2 - Combination - Integration of the Partners

A. Deciding on needed/desired integration level.
B. Selecting the Integration and New Business Managers.
C. Designing and Implementing teams.
D. Creating the new structure and strategies.
E. Managing the change process.

Stage 3 - Solidification and Advancement - The New Entity

A. Solidifying leadership and staffing.
B. Assessing the new business strategies and structures.
C. Assessing the new culture.
D. Assessing the new HR practices and policies.
E. Assessing the vision, mission, values, and development of the new entity.
F. Assessing the concerns of the stakeholders.
G. Revising the above as needed.
H. Learning from the process and transferring.

Table 1 Recent Joint Ventures

<table>
<thead>
<tr>
<th>Partners</th>
<th>Consideration</th>
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<tbody>
<tr>
<td>Tata Motors - Fiat</td>
<td>The joint venture will manufacture cars from the Tata Motors and Fiat stables. Details with respect to capital infusion and technology transfer are still awaited.</td>
</tr>
<tr>
<td>Mahindra- Renault</td>
<td>A significant joint venture because it is the first time that an Indian partner will hold a majority stake in a car joint venture. The project will manufacture the Logan.</td>
</tr>
</tbody>
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<table>
<thead>
<tr>
<th>Company A - Company B</th>
<th>Description</th>
</tr>
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<tbody>
<tr>
<td>Mahindra - Nissan</td>
<td>This three way joint venture will have M&amp;M as the single largest shareholder. The joint venture will manufacture future Logan variants.</td>
</tr>
<tr>
<td>Bharti - Wal Mart</td>
<td>The group is currently in tie up with Wal Mart for whole host of retail formats in the country.</td>
</tr>
<tr>
<td>Kalyani Group- Singapore</td>
<td>The joint venture will design, engineer and manufacture high quality Technologies Kinetics and critical systems for the Indian defence market.</td>
</tr>
<tr>
<td>Pantaloon Retail - Alpha Group</td>
<td>The due will set up duty free shops at Indira Gandhi National Airport.</td>
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FAILURES IN JOINT VENTURES

Three recent high profile joint ventures that seem to have all the trappings of bitter marriage are Britannia Industries, in which the Wadia Group and Groupee Danone of France are equal partners: Hutchison Essar, the partnership between the Hong Kong headquartered conglomerate and the Ruias and HDFC-Chubb, an insurance joint venture in which the partners appear to have different strategic visions. Nusli Wadia Chairman of Britannia and Danone are at loggerheads over the Indian partner's apparent refusal to part with financial information as well as disputes on royalty arising from the usage of established brands like 'Tiger' and 'Little Hearts'.

The Hutch Essar joint venture, in which the foreign partner holds 67 per cent and Ruias the rest, has transformed into a legal slugfest, with the Mumbai operations of BPL mobile (a company Essar acquired on its own) in the eye of a storm. Those involved in the joint venture, which is spread over 16 circles and with a subscriber base in excess of 20 million, acknowledge "it's going to be a long drawn battle and none of the partners is willing to relent".

In the HDFC Chubb case, Chubb wants to go about the insurance business in a fairly conservative manner while HDFC is keen on being amongst the top three in the game. This leads to a clash between ideologies and culture.

At a time when the Indian economy is ticking swimmingly on the back of rollicking consumption led growth, the stakes are getting higher in high growth consumer and services led sector like foods, telecom and insurance. Partners may be now seeing the benefits of going it alone and picking at trivial disputes might be one way to rock the boat and hope that somebody eventually falls of it. Right from the Godrej-Proctor & Gamble joint venture that came apart in 1996 to the more recent Tata Birla partner ship in Idea cellular. Indian promoters have walked a thin line between control and losing it. Over the past decade Godrej was involved in significant joint ventures one with GE for home appliances and the other P&G for soaps. Both Joint ventures did not last. The partners realised they are better off alone, from Godrej perspective they had the experience of working with an MNC and for MNC it was about the need to have the presence in Indian market.

Global Journal of Business Management
Table-2: Joint Ventures that Fell Apart

<table>
<thead>
<tr>
<th>Joint venture</th>
<th>Details of Equity</th>
<th>Reason of Breaking Up</th>
</tr>
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<tbody>
<tr>
<td>PAL - Peugeot</td>
<td>PAL and Peugeot held 32 per cent each with the rest being held by financial institutions and public.</td>
<td>Violation of non-compete clause by the Indian Partner. It subsequently became a legal issue. The company finally shut its operations in 1997.</td>
</tr>
<tr>
<td>Idea Cellular</td>
<td>The AV Birla group held just over 50 per cent while the Tatas has a little over 48 per cent.</td>
<td>The Birla contention was that the Tatas were providing wireless services in the same circles on their own through Tata Tele-services. Eventually, The Birla bought over the Tata's holding.</td>
</tr>
<tr>
<td>Ford - Mahindra</td>
<td>This was 50:50 joint venture.</td>
<td>Mahindra was not very keen on hiking its investment in the joint venture. It was keen on shifting its focus to the SUV category. Finally Ford bought out the Indian partner's holding.</td>
</tr>
<tr>
<td>Tata - Daimler Benz</td>
<td>Tata motors held 49 per cent holding the balance 51 per cent.</td>
<td>Telco was keen on shifting its focus to the Indica and they finally sold their holding to the foreign partner.</td>
</tr>
<tr>
<td>TVS - Suzuki</td>
<td>Both the partners had a 26 per cent stake each. The rest was hold by financial institutions and the public.</td>
<td>Differences amongst the partners.</td>
</tr>
<tr>
<td>Kotak - Goldman Sachs</td>
<td>Goldman held a 25 per cent stake in the two Kotak Companies Kotak Mahindra Capital Company and Kotak Securities.</td>
<td>Goldman wanted to be on it's own in India and was keen on becoming a big player in M&amp;A space and research. The holding was sold to two Kotak Companies.</td>
</tr>
<tr>
<td>Godrej - Soaps- P&amp;G</td>
<td>This was a 50:50 joint venture.</td>
<td>P&amp;G wanted to be on its own and so did Godrej, at the end the joint venture was dissolved.</td>
</tr>
<tr>
<td>Godrej - GE Appliances</td>
<td>This was a 50:50 joint venture.</td>
<td>The off take of a category like refrigerators was not that high and at the end of it GE decided to sell its holding to the Godrej group.</td>
</tr>
<tr>
<td>LML - Piaggio</td>
<td>Both the partners has 23.6 per cent stake and the rest institutions and the public.</td>
<td>This joint venture had a bitter spat and Piaggio sold its holding to LML. Piaggio has floated a separate company to manufacture three wheelers.</td>
</tr>
</tbody>
</table>
REASONS FOR FAILURES OF JOINT VENTURES

• Change of strategy: For a foreign player, it is possible that India ceases to be a priority market. This happened in the case of Bell Canada when the company decided that Asia as a market was not strategic. Following this decision, it sold its stake in Tata Cellular to the Indian partners.

• Regulatory changes: Often, this is beyond the control of partners. This could work against the joint venture when either the limit on foreign direct investment has not been hiked in time or if it has been reduced. Insurance has been a sector where the 26 per cent FDI limit for sometime now has not gone down too well with foreign partners.

• The Joint Venture doing well: If the joint venture is on a very good wicket, one of its partners becomes very keen on increasing its holding which is not acceptable to the other partner. Suddenly a scenario like a 50:50 joint venture becomes hard to manage.

• The partners decide to go it alone: Sometimes having a partner can hamper growth prospects. In the case of Tata Indicom, the Tatas decided to sell their holding to the other partner, Avaya Inc. It worked well for both the partners who felt that they would be better off on their own.

• Lack of transparency: It is very important that the ground rules are laid down well in advance. If information is withheld, it can lead to considerable levels of mistrust among partners. This can have very serious consequences. The recent case of Hutchison Essar is one where the lack of transparency has been one of the key reasons for the current state of affairs.

• Other Important reasons:
  1. Expectations are unrealistic.
  2. Hastily constructed strategy, poor planning and unskilled execution.
  3. Failure/inability to unify behind a single macro message.
  4. Talent is lost or mismanaged.
  5. Power and politics are the driving forces, rather than productive objectives.
  6. JV requires an impossible degree of synergy.
  7. Culture (company and country) clashes between the 2 entities go unchecked.
  8. Transition management fails.
  9. The underestimation of transition costs.
  10. Defensive motivation.
  11. Focus of executives is distracted from the core business.

LESSONS FROM FAILURES

It is not as if all joint ventures are destined for disaster, if they are well thought out for the long-term, they can prove to be win-win equation for both sides. Joint venture not only
reduces the risk of non-performance through sharing of competencies but is also a very vibrant entry strategy in any new market whether domestic or foreign. In this reference the case may be quoted that of B K Modi, who has had his share of learning via joint ventures and over the years struck partnerships with global majors like Xerox, Alcatel, Motorola and Olivetti, only to bid goodbye to them some years down the line. Today Modi group’s cellular arm Spice Communications has had partners like Australia’s Telstra and Distacom in the past. The latest affiliate is Telekom Malaysia which has picked 49% in Spice Communications.

The emergence of intense global competition, the high cost of R&D, and the need for complementary specialized inputs and skills have forced firms to alter their business strategies and to revise the scope and organization of their value-added activities. Their strategic goal is to create organizational flexibility in such "value-chain" activities as R&D, manufacturing, and distribution channels. Several firms have secured this flexibility by participating in a number of joint ventures. Accordingly, developing organizational flexibility has resulted in the rapid growth of joint ventures.

CONCLUSION

Global competitive pressures, the large and rising costs of R&D, and the faster rates of product obsolescence have increasingly induced large firms to form cross-border alliances. Indeed, a number of individual firms participate concurrently in a large number of international technology consortia in an effort to secure complementary technologies, to reduce the innovation time span, and to share risks in advanced technology development. Interfirm alliances are not a new phenomenon: joint ventures have a long history in industrial organization. What is new, of course, is their relative significance as an organizational form in which the emphasis is on flexibility, on the alliance members’ ability to generate innovation-led growth, and on the group synergy that alliances foster among members and that enables firms to combat intense international competition resulting from the globalization of the world economy and from technological advances. Moreover, government attitude towards and expectations about the role of inter firm cooperation in promoting innovations or in sustaining or improving competitive advantage have changed radically. In the past, governments used to believe that inter firm cooperation was harmful to the economy because of its anti-competitive effects. As a result, the practice of inter firm cooperative agreements was discouraged directly or indirectly. The government stance today is radically different: most business alliances are now seen as beneficial to the economy and are being promoted by various policy initiatives.

REFERENCES

Joint Ventures as Key Entry Strategy in International Markets: A Critical ...  


