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A study of various factors contributing for formation of international joint venture (IJV) in India

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Abstract
International Joint Ventures (IJV) are a prominent mode to enter and exploit a new market and has attracted several researchers to explore various phases and actions undertaken in IJV. The purpose of this paper is to explore a comprehensive overview of issues that are involved in forming of International Joint Ventures (IJV) like resource, capital, market, technology, Government Policies and other strategic reasons like supplier-buyer relations, While IJV research has proliferated over the past two decades, there is a dominance of empirical studies and little theory generation has taken place. These papers assesses the multitude of factors contributing for IJV and study the interactions among the factors for IJV formation.

Keywords: IJV, international joint venture, purpose of IJV, market, technology, policy

Introduction
Joint Venture is one of the preferred international market entry strategy, the other entry modes being Exports, Licensing, Franchising and Direct Foreign Investment. The joint ventures as a field of research focus started gaining thrust when more companies started forming International Joint Ventures (IJV) formed across the world and more particularly in India. Researchers in Strategic Management study it as Diversification Strategy and International Business looks at the subject as an Entry Strategy and this has led to looking at various areas and dynamics which lead to the formation of strategic alliances more particularly Joint Ventures (JV) in multiple perspective. IJV are formed when one/many foreign firms collaborate with one/many domestic firms in the identified market. The complexity of IJV is much higher than JV owing to the difference in culture of the firms that collaborate in an IJV.
IJV allows foreign firms to minimise their risk and investment in emerging market as well as leverage the domestic firm’s knowledge and unique competencies to meet the regulatory, cultural & institutional challenges and Market understanding. International joint ventures are popular institutional forms chosen by less developed countries to attract foreign direct investment, technology transfer, skill enhancement of employees and knowledge. Through the partnership with the foreign venture it will help in knowledge transfer in terms of technology, know how, it also creates employment opportunities in the local country and enhances the inflow of foreign currencies.
Extant literature has been undertaken for in-depth analysis and discussion of the diverse factor in forming an IJV from different theoretical perspectives. On examination of the literature, it is evident that the literature could be divided into four different phases based on the phase of IJV lifecycle – pre-formation, formation, process and termination.
This paper looks at formation phase of IJV in Indian context.

Literature review
Dhir, S. and Mital, A. (2013b) [5].” This study examines the mediating effect of partner selection criteria, absorptive capacity and bargaining power for the relationship between Cross-Border Joint Venture (CBJV) motives, CBJV perceived value criteria and CBJV value creation. We argue that CBJV firms with asymmetric motives and perceived value criteria will have task related partner selection criteria, higher absorptive capacity and higher bargaining power which results in greater value creation for CBJV.

Based on a sample of 201 Indian CBJV with G7 nations during the period 2000-2010, we find that partner selection criteria, absorptive capacity and bargaining power partially mediates the relationship between CBJV motives, CBJV perceived value criteria and CBJV value creation. We discuss implications and directions for future research.

Parameswar N, Dhir S, Ongsakul V (2018).” International joint ventures (IJV) are a prominent mode to enter and exploit a new market and have attracted several researchers to explore various phases and actions undertaken in IJV. Few studies in the literature discuss the effect of IJV experience on parent firms interaction post termination of their IJV. This study attempts to explore the effect of purpose of IJV for domestic and foreign firms – resource seeking, capital seeking, market seeking and strategic asset seeking on the choice of interaction post IJV termination as supplier-buyer, complement or competitor. Empirical analysis is conducted on data of 180 terminated two-partner IJVs headquartered in India during 2000–2016 time period using multinomial logistics regression (MLR). Results suggest that both the domestic firm’s and the foreign firm’s purpose of IJV influences the choice of interaction post IJV termination.

Research gap

Most of research work on IJV has been done considering factors like Culture, Infrastructure, Government Policy, Markets, HR factors etc. This study looks at the factors contributing from the Indian perspective. Many of the studies have so for remained confined to specific problems pertaining to the IJV formation from the foreign companies point of view. But limited study has been done on the factors from the Indian companies point of view of JV formation with foreign companies.

Keeping in view all the above mentioned factors, a study of various factors contributing for formation of international joint venture (IJV) is conducted from the context of Indian companies.

Objective

- To identify the various factors for the IJV formation by the Indian Companies.
- To assess the type of India companies which are forming IJV

Factors for JV formation

1. Government Policy

During the opening up of Telecom market in India, many of the companies in India did not have the required experience in Telecom. The Services were provided by Department of Telecom at that point of time. This made it necessary for Indian companies to partner with foreign companies which had experience in telecom services. The Government allowed foreign companies to enter Indian market through JV route. The BPL Mobile had a JV with France Telecom.

2. Technology

One of the reason for formation of JV is to get the new technology to India. The technology can be getting the technology from abroad or customising the existing technology to meet Indian requirements.

3. Products & Services

The JVs formed in India has been able to introduce new Products / Service to Indian market. Also, JVs are formed to customize the products to meet the Indian conditions and also to ensure that IPR of the foreign companies are protected by way of control in the Board of Directors. Some of the JV are providing the Services to the products which are already sold to Indian customers.

Eg: The JV with BHEL and GE is providing the maintenance service of Gas turbines manufactured by GE USA.

4. Low Cost of Manufacturing / Servicing

The cost of Indian labour is cheaper compared to the Western Countries. In order to reduce the cost of manufacturing and also export the product to the neighboring markets of Bangladesh, Nepal, Sri Lanka etc. These JVs are formed to reduce thecost of manufacturing and ensure the economics of Scale by setting up base in India. In certain cases the JVs are formed as a EOU(Export Oriented Unit) so that tax exemptions can be availed.

IJV in Indian context

For the foreign companies entering Indian market, there are multiple types of partners available in Indian context. They are

1. Private Companies
2. Family owned business
3. Public Sector Units
4. Government

Table 1: Some of the JV formed in India

Type	Foreign Partner	Indian Partner	Indian company	Products / Services
Private company	Honeywell, USA	Tata Group	Tata- Honeywell	Control Equipments
Family owned business	Durametallic Corp, USA	Sanmar	Flowserve Sanmar Private Limited	Fluid Sealing Products
Public Sector Unit	Mobil	Indian Oil Corporation	Indo-Mobil	Lubricants
Government	NPO Mashinostroyenia, Russia	DRDO	BrahMos Aerospace	Missiles

1. Private Companies

Big companies like Tatas, Kirloskar, Mahindra Group etc are forming JVs as a diversification strategy. These companies form JV so that new Products are introduced which is not part of their product portfolios. Over the years these JV will flourish but some of them close down if the JVs product do not meet the market requirements.

- Tata Starbucks Pvt Ltd is a JV between Tata Consumer Products and Starbucks to own and operate Starbucks outlet in India.
- Tata Marcopolo Motors Ltd is a joint venture between Tata Motors and Marcopolo S.A for manufacturing of bus and coach
- Tata Hitachi Construction Machinery Company Pvt Ltd JV between Tata Motors Ltd and Hitachi Construction Machinery of Japan for excavators.

2. Family owned Business

India is having many family owned businesses which are doing well in terms of performance and new entrepreneurial capabilities. Some of them are Sanmar, GVK Reddy, Jindals etc. These companies are forming JV with leading MNCs in the world to get quality products to India.

- Cabot Sanmar is a JV between Cabot Corporation, USA Sanmar Group in the area of Fumed Silica.
- Flowserve Sanmar, JV between Sanmar and Flowserve Corporation, USA is the market leader in engineered mechanical sealing devices.

3. Public Sector Units (PSU)

PSU are the companies in which the Government of India owns more than 50% of the equity. These companies operate in strategic and other select sectors.

Some of the JVs formed by PSU are

Lubrizol India Pvt Ltd is a JV between Indian Oil Corporation and Lubrizol Inc for Lube Additives.

BGGTS is a JV between BHEL and GE towards maintenance and servicing of Gas turbines manufactured by GE, USA.

4. Government

In Indian context, the Government had also formed JV with foreign companies. The best example is the Maruti Udyog, in which the Government of India had formed the JV Suzuki Motor of Japan for manufacture of Cars in India. Over the years, the Government of India exited the holdings from the Company.

The other JV is in the Strategic Defence sector, where in it was a Government to Government agreement which resulted in the formation of BrahMos for the design and manufacture of Missiles.

Findings

The major findings of this study is that the objectives of the partners during the IJV formation to get the new Products / Services to India. Also, there are incompatible in terms of having different risk taking attitude being different for the type of companies. The Private sector and family owned business will not be able to take the risk when it comes to accepting short–term losses in order to build market share over the period of time.

In strategic sector, where ever Government to Government dealings are taking place then Government itself has formed a Joint venture and in some times the PSU has formed a Joint Venture. However, it is observed that may of the private companies are also entering into strategic sectors and forming Joint Ventures in India.

Also the internal factors on which the companies have formed the JV will change over time in terms of management structures, staffing of IJV. In other factors, the external factors like tax holidays, and other concessions given by State/Central Government, Market for the products can change over time. These are the factors which are considered at the time of formation of IJV, over time these factors change, the IJV life also changes.

That the amount and type of help needed from a partner changes over time complicates the choice. Usually, a manager will require the partner's managerial expertise in, say, technology or market-related matters for a few years but will soon learn enough so that such help is no longer needed. If, however, the technology or market in question continues to change quickly, the partner's permanent help will be required as long as the product/services is sold in India. Many companies prefer to start with a equal management control that they can later convert to a majority stake. Once both partners have become accustomed to operating the JV, however, such transitions are difficult to make as the valuations of the JV increases over time.

Thus, if a partner is chosen for reasons other than managerial input—financial backing, access to resources, patents, or because it consumes a large amount of the product to be made—a dominant parent venture provides the best fit. Dominant parent joint ventures are also appropriate when a company takes on a partner solely in response to meeting the requirement of the Government policy in Foreign Direct Investment (FDI). In such a situation, foreign companies often prefer to find a passive local company that has no knowledge of the product and is willing to be a passive investor. If the local partner never learns the joint venture's business, the foreign partner's bargaining position with the local partners will remain strong and the JV will have long survival.

Suggestions

Problems that arise in IJV are usually as a result of poor planning and not considering the all the factors and forming too hasty in setting up IJV. For example, a marketing strategy may fail if a product was inappropriate for the IJV or if the partners involved failed to appropriately assess the market for the product involved in JV. Partners must pay attention to several analyses both of the external environment and customers they hope to target. Failure to do this sets off a bad precedence for the venture, creating problems in the future and in many cases leading to termination of the IJV.

Also, the fastest ways for a IJV to fail is financial disputes among partners. This usually happens when the financial performance is poorer than expected either due to poor sales, cost overruns or others. Poor financial performance could also be as a result of poor planning by the partners before setting up a joint venture, failure to approach the market with sufficient management efficiency and unanticipated changes in the market situation.

Conclusion

One of the major factor for forming an IJV is the access to new market and it influences the overall functioning of the IJV. In this study attempt was made to explore the effect of different factors for IJV formation for domestic and foreign firm. It was found that many factors for IJV formation commitment within the IJV like organisational learning, commitment of the parent companies, organisational culture similarity, and IJV age.

The partners of the joint ventures not only should share profit and losses and resources, but they also should be open to share there operational, strategies, technology, trust, knowledge acquisition from foreign partners, selection of experienced partner and performances. And they should overcome the barriers such as cultural differences, managerial inequalities, lack of knowledge, selection of inexperienced partner, lack in communication, and political. These barriers should be carefully tackled otherwise the joint venture will end up in failure. A good solution is to evaluate financial situations thoroughly before and during every step of the IJV.

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