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International Joint Ventures in the Framework of Dunnings' Oli Paradigm - A Study of Indian Corporates

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A B S T R A C T

Objective- The study aims to understand the motives for International Joint Ventures in India with at least one foreign partner in the framework of Dunning's OLI paradigm across industries and timelines. **Methodology**- The paper is conceptual and uses secondary sources. The list of Joint Ventures is obtained from the S&P BSE 500 listed Indian companies and is cross-industry in nature. **Findings-** Approximately 200 IJVs are studied through the data available on their websites and other electronic resources. It identifies factor from among ownership, location, and internalisation which was prominent in the formation of the particular joint venture. It identifies motives of IJVs across sectors and timelines. **Managerial Implications-** The study highlights the trend of important factors of bringing inward FDI in India in the form of International Joint Ventures. **Limitations-** Since a large sample of 200 companies is taken it is not possible to study each company in great detail. **Originality**- Few studies have focussed on IJVs from the perspective of Dunning's OLI approach thus the study is original in nature.

Introduction

According to the latest World Investment Report 2017 of UN Conference on Trade and Development (UNCTAD), India improved in its ranking as a FDI host country from being on 10th position in 2015 to 9th position in 2016. In a survey of top executives carried out by UNCTAD in early 2017, the economic situation in developing Asia ranked as the top macroeconomic factor influencing FDI, with the favourite FDI destinations remaining the US, China and India (Asit Rajan Mishra, 2017). The current research paper focuses on the inward FDI of Indian economy in the form of International Joint Ventures- a popular form of strategic alliance.

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The number of strategic alliances has been increasing substantially over the past several decades due to the accelerating growth of relationships based on partnerships rather than ownerships as suggested by Drucker (Inkpen, 2000). Joint ventures (JVs) are becoming an increasingly important organizational form in International business. A joint venture is a type of strategic alliance in which a voluntary co-operative agreement is formed for mutual economic gains between two or more independent firms, which results in a legally independent firm formed by combining the existing firms' skills, resources and capabilities to attain a competitive market position (Tsang, 1999). Various reasons for the formation of joint ventures as explained by García-Canal, Ana Valdés Llaneza and Esteban in 1998 are- improvement in efficiency by economies of scope/scale, through spreading risks or from synergies obtained by combining resources of the partner firms, learning from the local partner about the market conditions or the political/legal situations of the host country for better management of venture, and the market structure like competitive conditions in the host country which may act as a barrier in the entrance of the foreign firm (García-Canal, 1998).

The eclectic theory of international production, which was developed by Professor J.H. Dunning was first introduced by him in 1976, provides an analytical framework for the study of the determinants of FDI and foreign activities of multinational enterprises (Dunning, 2003). This research paper wants to co-relate the eclectic paradigm of Dunning with the formation of international joint ventures (IJVs) in India to study the prominent factors responsible for the formation of IJVs in the past 25 years. From the three factors proposed by Dunning, which are ownership, location, and internalisation, major factors are identified for large number of international joint ventures formed in India to study the various trends of International Business in Indian economy.

Research Objectives

1. To identify the main motives for formation of international joint ventures in India in the framework of Dunning's eclectic paradigm since 1991.
2. To highlight the prominent factors behind the inward FDIs across Indian Industries.
3. To study the sectoral trends of inward FDIs in India in the form of IJVs with their formation motives categorised in the OLI framework of Dunning.

Literature Review

FDI has been phenomenal in emerging economies specially in contributing towards the economic growth of countries (Jadhav, 2012). The IMF definition of FDI includes as many as 12 different elements, and a high-level committee of the Reserve Bank of India (RBI) and the Department of Industrial Policy and Promotion (DIPP) has recommended collection of data in accordance with the international definition of FDI recommended by the International Monetary Fund (IMF). In its preliminary report, The Finance Ministry revised the definition of FDI by incorporating 14 items like equity capital, reinvested earnings and other capitals, to align it with best international practices so that the inflows become comparable with other nations (Wei, 2005). A book written by T.H. Moran in 2005 addresses some important questions about inward FDI like does FDI brings better technology to the host country, does it has some spill over effect, does it improves the capital base or the wage/salary bar in the host country, etc. (Moran, 2005). Researches have taken place to study the trends of general FDI in Indian economy post liberalisation highlighting the sectors attracting FDI and the top investing nations of FDI equity inflows (Parul mittal, 2012), but this paper will be focusing specifically on International Joint Ventures in FDI.

Collaboration between competitors is in fashion which is often called "competitive collaboration", and thus forming strategic alliances is the best way to enter foreign markets, gain technologies and other resources to enhance their internal skills (Hamel, Doz and Prahalad, 1989). Tsang in 1999 classified strategic alliances as franchising, co-production, R&D collisions, joint ventures, and licensing (Tsang, 1999). According to literature available on joint ventures, researches have categorised reasons of their formation as improvement in efficiencies, learning or access to knowledge, various political factors and collusions or restriction in competition (García-Canal, 1998). Eclectic Paradigm of international production, which is used in the study to highlight factors for the formation of IJVs, was first introduced by Dunning at a Nobel Symposium in 1976 explains the three major factors for studying the differences in the productivity of subsidiaries of the MNEs operating across the world as compared to their parent firm. Reasons for productivity differentials which can be headed under spatially transferrable intangible assets are categorised under the 'ownership-specific' factors, non-transferable assets or things particular to the place of operations are categorised under the 'location-specific' factors, things required to generate or exploit the resources obtained from outside are categorised under the 'internalisation-specific' factors (Dunning, 1988) (Dunning, 2003). Dunning's work has been explained in detail by Rugman in a research paper in 2010 which also tried to reconcile it with Rugman's country matrix (1981) which resulted in misalignment due to the difference in both the approaches (Rugman, 2010). Studies relating OLI framework with strategic management theories have also been done to understand the performance differences among firms (Madhok and Phene, 2003) and research done by Cantwell and Narula related globalisation and eclectic paradigm explaining the increasing interactive dynamics between and among the OLI factors (Cantwell and Narula, 2001). Researchers in China have related Dunning's approach to MNEs of Chinese economy to trace the role of cultural and economic factors in the success of organisations (Erdener and Shapiro, 2005).

Research Methodology

The research design for the present study is descriptive in nature; it only tries to explain the current scenario of Indian economy in terms of FDI to analyse its trends. All the International Joint Ventures of Indian economy with at least one foreign parent forms the universe for this study. The sample for the current paper has been obtained from the S&P BSE 500 index (as on 31st March, 2017) listed companies because this index represents nearly 93% of the total market capitalization on BSE. S&P BSE 500 covers all 20 major industries of the economy. A list of IJVs is obtained after analysing each of the 500 firms, which consists of around 200 IJVs. The study used secondary data available on BSE website, each firm's website, and various articles available on different media websites to study the reasons for the formation of IJVs. Data is then cleaned, codified and analysed by preparing graphs, pie charts, etc.

Data Analysis

Around 200 joint ventures have been studied for the current research paper, and then the data has been sorted and cleaned to study Indian economy after 1991, which witnessed LPG reforms having a major influence on FDI. Figure 1 plots a graph of IJVs since 1993 to 2018 by taking into consideration the major sectors, i.e. manufacturing and services. The figure shows that during 1993-1998 there is a huge difference in the number of IJVs across sectors which kept on decreasing till

2013 but is again increasing in the recent 5 years. The number of IJVs in service sector has declined in the last 5 years, this might be because global economic growth has declined in these years both in advanced as well as emerging economies (Homer, 2017).

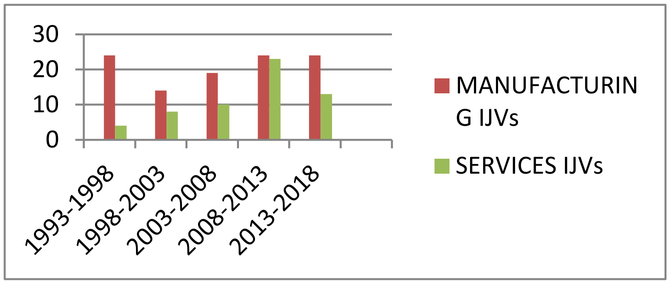

Fig-1: IJVs in manufacturing & service sector

Figure 2 shows the OLI trend for manufacturing sector IJVs in Indian economy, where 45.5% IJVs has been formed for internalisation motive, 26.5% due to location and 28% due to ownership factors. This can be because majority of the manufacturing sector industries requires various resources to exploit the resources gained from the IJV partner to gain competitive advantage and many of them might be set up due to ownership factor which includes ownership benefits like patents, etc. Then the location factor comes which includes resources like land, labour and other natural resources particular to a place.

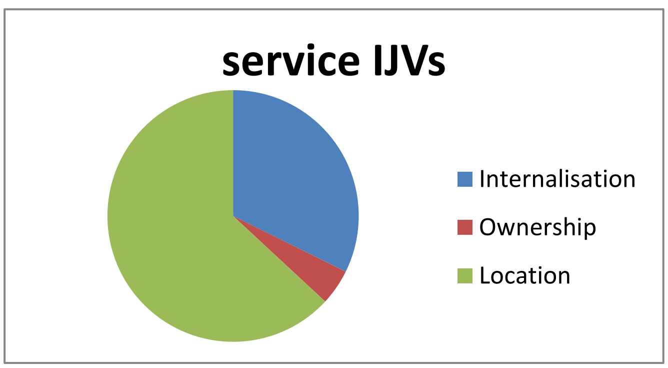

Fig.-2: Motives behind the IJVs in manufacturing sector

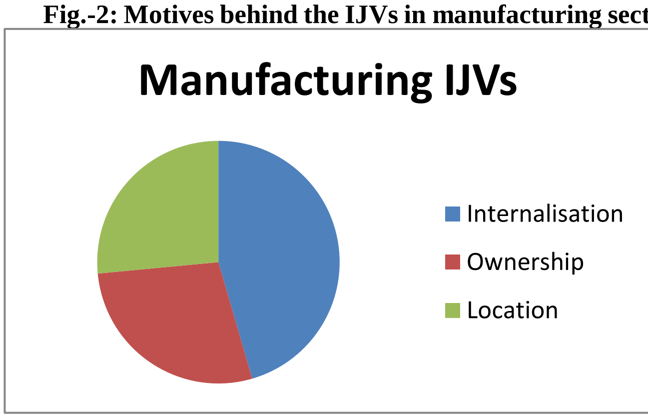

Fig.-3: Motives behind the IJVs in service sector

Figure 3 shows the trend of major factors in the formation of service sector IJVs in Indian economy since 1992, location has been the main motive behind 63.1% of the IJVs in service sector, while 32.3% IJVs in service sector has been because of internalisation factor and around 4.6% has been due to the ownership factor. This trend can be traced to the reasons like service sector includes BPOs, Banking & insurance industries which are formed in a particular country due to the conditions particular to that location like demographics.

Conclusion & Limitations

The research paper has drawn some conclusions after studying approximately 200 International Joint Ventures (from the S&P BSE 500 index) in Indian economy which has been formed since 1991 till now. Our study showed that the manufacturing sector of India has constantly witnessed inward FDI in the form of joint ventures since 1991 in industries like pharmaceuticals, capital goods, textiles, automobiles, etc. On the other hand, Indian service sector has grown from only 4 IJVs (BSE 500 listed) during 1993-1998 to the formation of 23 IJVs (BSE 500 listed) during the period 2008-2013 which has fallen to the formation of only 13 IJVs (BSE 500 listed) during 2013-2018, this proves that service sector has witnessed fluctuations in terms of inward FDI in the form of IJVs during the last 25 years while manufacturing sector has shown an upward trend in the number of IJVs formed. For the Indian economy as a whole, internalisation has come out as the major factor from the Dunning's OLI paradigm of FDI, for the formation of around 42% IJVs. Talking about detailed sector analysis, 45% of the manufacturing IJVs have been due to internalisation. For example: GE BE Pvt Limited (GEBEL) which is a joint venture firm between Bharat Electronics Ltd. and General Electric Medical Systems which manufactures engineering goods has internalisation motive behind the formation of this joint venture as both the firms needed skills of the partner firm which would help them in exploiting the resources efficiently in the manufacturing of engineering goods. 63% IJVs of service sector have been formed due to location while 32% has been formed due to internalisation factor. This might be because many important factors come under the location head which are important for the success of service IJVs in the host country. For example: ICICI Prudential Life Insurance Company was formed in 2001 as a joint venture between ICICI Bank Ltd. and Prudential Corporation Holding Ltd to tap the potential market of India due to factors specific to this location, thus making location the main motive for its formation.

The study has various limitations like it is limited in scope and application. Only BSE 500 listed Indian companies have been studied for this paper, so these results cannot be applied to other nations and cannot be generalise for all the IJVs even of Indian economy. As the sample size is around 200 IJVs, personalised detailed primary data for study could not be obtained. The paper also lacks application of modern statistical tools but at the same time it has provided a new idea in the field of international business to link IJVs with the Dunning's OLI theory. The study has provided a wide scope for further research as very few studies have linked IJVs with eclectic paradigm.

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