A MODEL OF THE JOINT VENTURE
DECISION PROCESS IN
INTERNATIONAL BUSINESS

by

James William Christopher Tomlinson
M.A., Oxford University
(1963)
S.M., M.I.T.
(1966)

Submitted in Partial Fulfillment
of the Requirements For The
Degree of Doctor of
Philosophy
at the
Massachusetts Institute of
Technology
May, 1968

Signature of Author: ................................................
Alfred P. Sloan School of Management, May 7, 1968

Certified by: ................................................................
Thesis Supervisor

Accepted by: ................................................................

Archives
MASS. INST. TECH.
AUG 19 1968
LIBRARIES
Thesis Abstract

A Model of the Joint Venture Decision Process

in International Business

by

James William Christopher Tomlinson

Submitted to the Alfred P. Sloan School of Management on May 7, 1948, in partial fulfillment of the requirements for the degree of Doctor of Philosophy.

A major objective of this study was to set up the framework for a model of the decisions and dimensions involved in establishing and operating joint ventures in international business. To simplify the range of potential variability in the subjects and their environments, the research strategy adopted was to examine in detail a sub-set of the total population of joint ventures. This study is therefore the result of research based upon interviews with senior executives in fifty British companies which were involved in joint ventures in India or Pakistan.

The definition of a joint venture which was used was:
"The commitment, for more than a short duration, of funds, facilities and services, by two or more legally separate interests, to an enterprise for their mutual benefit."

Although the foreign investment decision process was examined briefly, this decision was a separate and major area of interest in itself. The analysis and discussion of joint ventures started therefore from the assumption that a decision to invest in a given country or market had already been made. It appeared from the data that this assumption was realistic - three major decisions could in fact be distinguished. In their usual order of occurrence, these were:
   a) The decision to invest.
   b) The decision to use the joint venture form.
   c) The decision to select a specific associate.

The framework of the model was eventually organised in terms of eight sets of variables:
1) Size and profitability of the foreign parent firm.
2) The nature of the business involved.
3) Attitudes to control on the part of the foreign parent firm.
4) Reasons given for going into a joint venture.
5) Reasons given for selecting a specific associate.
6) Variables with an immediate bearing upon the two decision processes above.
7) Broad-scale characteristics of the structure of joint ventures.
8) Measures used by parent firms or the study to evaluate various features and relationships associated with joint ventures.

After an introductory chapter, the next six deal with the first five groups listed above, the other variables being examined in terms of their relationship to one or more of the five major groups. A first approximation to a model is presented in Chapter Eight, largely in diagrammatic form. This
shows the overall relationships and linkages between variables verified in the study and discussed in detail in the appropriate chapters.

A final chapter summarises some of the implications for investors and managers and the conclusions arising out of the research. Among the more important were the following:

a) Larger foreign parent firms were able to attract loan funds to associated joint ventures more readily than were others.

b) Profitability of joint ventures appeared to be inversely related to size of foreign parent, or to the latter's predilection for control.

c) Evaluation of performance was not based primarily upon rates of return and such rates were rarely forecast with much accuracy - if at all.

d) There was considerable evidence that 50-50 joint ventures were rather a snare and a delusion.

e) If this data can be extrapolated to the general case, there are more potential associates in less-developed countries than the literature suggests.

f) Host government associates were not found to be much of a hindrance by this group of foreign firms.

g) Pressures for 'localisation' in these countries were met by grafting technical knowledge onto staff of managing agency partners in many cases.

h) Local associates were considered to be most important and desirable.

i) Foreign firms are most likely to be pressured into joint ventures in engineering and electricals operations. On the other hand, they are also likely to have a better choice of associates in these two than in other industries.

j) Initiation, promotion and development of new ventures tends to be the responsibility of individuals or special interest groups.

k) In industries where there is a strong interdependence among members and ancillary firms, as in the motor industry, some firms, suppliers for example, are caught in a squeeze between two monopsonists and their foreign investment decisions are in effect determined exogenously.

l) The decision to go into a joint venture, selection of associates and the manner in which it is set up, are only partially, at the most, determined by considerations of bilateral monopolistic advantage.

m) These firms, experienced in joint ventures, were mostly (85%) prepared to participate in other joint ventures in less-developed countries.

The study ends with a list of topics discussed during the course of the text and suggested as being worthy of further research.

*********************************************************

Thesis Committee

Richard D. Robinson - Senior Lecturer in International Business
Charles A. Myers - Professor of Industrial Relations
Everett E. Hagen - Professor of Economics
Dear Professor E. Neal Hartley,

I herewith submit my dissertation entitled "A Model of the Joint Venture Decision Process in International Business", in partial fulfillment of the requirements for the degree of Doctor of Philosophy.

At the same time, I should like to express my deep gratitude to my advisory committee members for all their time and efforts on my behalf, the value of which cannot be expressed in words.

Sincerely yours,

(J.W.C. Tomlinson)
Acknowledgements

The research for this study was carried out while the author was the recipient of a Ford Foundation Fellowship and with the aid of a research grant from the International Programs Committee of the Alfred P. Sloan School of Management and the School of Economics of the Massachusetts Institute of Technology.

None of the work would have been possible without the cooperation and assistance of the many executives who gave generously of their time and interest, in return for which, the anonymity of their companies seems but poor reward. In addition to the facilities at M.I.T., special thanks go to the staff of the library at India House and of the Board of Trade in London, all of whom were most helpful as and when needed. Thanks are also due for the services of the Harvard Computing Center and in particular to Mary Hyde for some guidance in a foreign facility.

Most important of all however, has been the guidance and advice offered by Richard D. Robinson, Charles A. Myers and Everett E. Hagen, to all of whom I am deeply indebted for their very comprehensive criticisms and their encouraging comment and direction.
# TABLE OF CONTENTS

<table>
<thead>
<tr>
<th>Chapter</th>
<th>Description</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>One</td>
<td>Background and Procedure of the Study</td>
<td>1</td>
</tr>
<tr>
<td>Joint Ventures</td>
<td>6</td>
<td></td>
</tr>
<tr>
<td>A Definition</td>
<td>10</td>
<td></td>
</tr>
<tr>
<td>Possibility of Setting Up a Model</td>
<td>11</td>
<td></td>
</tr>
<tr>
<td>Procedure of the Study</td>
<td>16</td>
<td></td>
</tr>
<tr>
<td>Generating the Sample</td>
<td>17</td>
<td></td>
</tr>
<tr>
<td>Value of the British Stake in the Sample of Joint Ventures, as a Proportion of Total U.K. and Other Foreign Investment in India and Pakistan</td>
<td>19</td>
<td></td>
</tr>
<tr>
<td>Some Assumptions</td>
<td>23</td>
<td></td>
</tr>
<tr>
<td>Interviewing the Sample</td>
<td>26</td>
<td></td>
</tr>
<tr>
<td>Organisation and Analysis of Data and Secondary Research</td>
<td>29</td>
<td></td>
</tr>
<tr>
<td>Brief Outline of Presentation</td>
<td>33</td>
<td></td>
</tr>
<tr>
<td>Notes and References</td>
<td>37</td>
<td></td>
</tr>
<tr>
<td>Two</td>
<td>Size and Profitability of the Foreign Parent Company</td>
<td>41</td>
</tr>
<tr>
<td>Foreign Parent Size in Terms of Assets or Sales</td>
<td>41</td>
<td></td>
</tr>
<tr>
<td>Parent Size and Size and Gearing of Joint Ventures</td>
<td>43</td>
<td></td>
</tr>
<tr>
<td>Parent Size, Attitudes To Control and Reasons For Going Into a Joint Venture</td>
<td>48</td>
<td></td>
</tr>
<tr>
<td>Parent Size and Selection of Associates</td>
<td>54</td>
<td></td>
</tr>
<tr>
<td>Parent Size and Profitability of a Joint Venture</td>
<td>57</td>
<td></td>
</tr>
<tr>
<td>Parent Size and Methods of Evaluating Joint Ventures</td>
<td>60</td>
<td></td>
</tr>
<tr>
<td>Profitability of the Foreign Parent Companies</td>
<td>64</td>
<td></td>
</tr>
<tr>
<td>Summary</td>
<td>69</td>
<td></td>
</tr>
<tr>
<td>Notes and References</td>
<td>71</td>
<td></td>
</tr>
<tr>
<td>Three</td>
<td>The Nature Of The Business</td>
<td>74</td>
</tr>
<tr>
<td>Nature of Business and Attitudes To Control</td>
<td>77</td>
<td></td>
</tr>
<tr>
<td>Nature of Business and Responsibility for Decision</td>
<td>86</td>
<td></td>
</tr>
</tbody>
</table>
Three......Nature of Business and Attitudes Towards
Potential Associates.................................90
Nature of Business and Selection of Associates..102
Summary..................................................108
Notes and References................................110

Four......Nature of Business - Structure and
Evaluation of Joint Ventures.....................113
Nature of Business and Structural
Characteristics of Joint Ventures....................113
Nature of Business and Evaluation of
Associates and Joint Ventures......................124
Summary..................................................132
Notes and References................................134

Five......Attitudes To Control......................135
Attitudes To Control and Ranking of
Potential Associates................................138
Attitudes to Control and Structural
Characteristics of Joint Ventures....................143
Attitudes to Control and Evaluation Criteria
Used In The Study........................................151
Summary..................................................160
Notes and References................................162

Six......The Joint Venture Decision.................164
The Background To Foreign Investment............164
A Trend in Attitudes Towards Foreign
Investment................................................167
Reasons Given For Investing In India
And Pakistan.............................................170
The Joint Venture Decision..........................173
Variations Over Time In Reasons For Going
Into Joint Ventures.....................................179
Size and Nature of Operations and Reasons
For Going Into A Joint Venture......................182
Reasons for Going Into A Joint Venture and
Selection of Associates.................................186
Bilateral Monopoly and Reasons For Going Into
Joint Ventures...........................................189
Six.....Notes and References........................................197

Seven.....The Selection Of Associates..............................200
    Separability of the Selection of Associates.............203
    Reasons For the Selection of Specific
        Associates...............................................206
    Prior Knowledge of Associates.............................215
    Availability of Alternative Associates..................218
    The 'Driving Force' and the Final Decision-Maker......222
    The Importance and Effectiveness of
        Selected Associates...................................227
    Selection of Associates and Profitability................231
    Summary.....................................................234
    Notes and References.......................................238

Eight.....Framework of a Model of the Joint
    Venture Process............................................241
    Notes and References.......................................261

Nine.....Conclusions and Implications............................262
    Some General Implications For Investors and
        Managers..................................................262
    Some Implications Peculiar To India or
        Pakistan..................................................269
    Some General Conclusions..................................272
    Suggestions For Further Research........................278

Appendix A.i...Calculation of the British Stake in the
    Joint Ventures of this Sample.........................35
A.ii...Calculation of Foreign Private Direct
    Investment in Pakistan..................................36
B.....The Questionnaire Form Used in the Study...281
C.....List of Industries in Which the
    Government of India Would Consider the
    Investment of Private Foreign Capital in
    Joint Ventures...........................................195

******************************************************************************
## LIST OF TABLES AND DIAGRAMS

<table>
<thead>
<tr>
<th>Table/Diagram</th>
<th>Title</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.1</td>
<td>Breakdown of Britain's Top 200 Companies</td>
<td>18</td>
</tr>
<tr>
<td>1.2</td>
<td>Outstanding Foreign Investment in India</td>
<td>21</td>
</tr>
<tr>
<td>2.1</td>
<td>Classification of Joint Ventures and U.K. Firms By Total Assets and Sales of the Foreign Parent Company</td>
<td>43</td>
</tr>
<tr>
<td>D/2.a</td>
<td>Relationship Between Size of Foreign Parent Company and Gearing of Joint Venture</td>
<td>45</td>
</tr>
<tr>
<td>D/2.b</td>
<td>Relationship Between Size of Foreign Parent and Attitudes to Control</td>
<td>48</td>
</tr>
<tr>
<td>2.2</td>
<td>Foreign Parent Size in Assets and Reasons For Going Into a Joint Venture</td>
<td>50</td>
</tr>
<tr>
<td>2.3</td>
<td>Foreign Parent Size in Assets and Reasons For Selecting a Specific Associate</td>
<td>54</td>
</tr>
<tr>
<td>2.4</td>
<td>Classification of Joint Ventures By Rate of Return Before U.K. Taxes, On British Parent Companies Long-Term Investment</td>
<td>58</td>
</tr>
<tr>
<td>D/2.c</td>
<td>Return On Investment in Joint Ventures According To Size of British Parent Company</td>
<td>59</td>
</tr>
<tr>
<td>2.5</td>
<td>Foreign Parent Size in Sales and Evaluation of Joint Ventures Through Performance Against Scheduled Objectives</td>
<td>62</td>
</tr>
<tr>
<td>2.6</td>
<td>Classification of Joint Ventures By Three Measures of Profitability of the British Parent Company</td>
<td>64</td>
</tr>
<tr>
<td>D/2.d</td>
<td>Relationship Between British Parent Company's Return on Investment and Minimum Acceptable Rate of Return on Investment in a Joint Venture</td>
<td>66</td>
</tr>
<tr>
<td>3.1</td>
<td>Classification of British Parent Companies and Associated Joint Ventures According to the Nature of the Business</td>
<td>75</td>
</tr>
<tr>
<td>3.2</td>
<td>Nature of Business and Attitudes of British Parent Companies To Effective Control Over a Joint Venture</td>
<td>79</td>
</tr>
</tbody>
</table>
3.3.... Nature of Business and Location of Responsibility For Decision To Go Into A Specific Joint Venture..........................87
3.4.... Attitudes Towards Potential Associates According To Nature of Business of U.K. Parent..95
3.5.... Ranking of Potential Associates According To Nature of Business of U.K. Parent...........95
3.6.... Nature of Business and Reasons For Selecting Specific Associates...............................103

4.1.... Structural Dependence Scores of Joint Ventures According To Nature of Business.................116
D/4.a..... Relationship Between The Stated Effectiveness of Associates and Nature of Business........125
4.2.... Nature of Business and Importance Attributed To Associates In Specific Joint Ventures In India Or Pakistan..........................127
4.3.... Nature of Business and Importance Attributed To Associates in Joint Ventures In the Less-Developed Countries In General.............128
4.4.... Readiness Of British Firms To Participate In Joint Ventures In Countries Other Than India or Pakistan.................................130

5.1.... Ranking of Various Types of Potential Associates According To British Company's Attitude To Effective Control Over a Joint Venture........................140
5.2.... Structural Dependence Scores of Joint Ventures According To Foreign Partner's Desire For Effective Control..............................144
5.3.... Associate's Responsibility For Production, Technical and Engineering Functions in Joint Ventures.............................................147
5.4.... Relationship Between Foreign Parent Companies' Aspirations and Achievements Concerning Effective Control Over Joint Ventures........151
D/5.a.....Relationship Between Foreign Parent's Predilection For Control and Return On Joint Venture Investment..............................152
D/5.b.....Relationship Between Foreign Parent's Predilection For Effective Control and the Effectiveness of Associates..........................154
5.5......British Parent Companies' Attitudes To Effective Control and Their Comments On Associates' Importance to the Joint Ventures...155
5.6......British Parent Companies' Attitudes To Effective Control and Their Comments On The Importance of Associates To Joint Ventures In General........................................157
5.7......Relationship Between Attitudes To Effective Control and Readiness of British Firms To Invest In Other Joint Ventures.................158

6.1......Reasons Cited By British Parent Companies For Their Investment In India Or Pakistan.............172
6.2......Reasons Cited By British Firms For Choosing The Joint Venture Form Of Investment In India Or Pakistan..............................176
D/6.a.....Relationship Between Age and Pressure To Go Into a Joint Venture........................................180
6.3......Size of Project and Reason For Going Into A Joint Venture........................................184
6.4......Variations By Nature of Business in Reasons For Going Into Joint Ventures.........................185
6.5......Variations in Criteria For Selecting Associates According to Reasons For Going Into A Joint Venture........................................187

7.1......Origin of First Approach To Set Up A Joint Venture........................................204
7.2......Origin of Initial Contact With Chosen Associates........................................205
7.3......Reasons Cited By British Parent Companies
For Their Selection Of a Specific Joint
Venture Associate...........................208

7.4......Reasons For Selection and Prior Knowledge of
Associates By British Parent Firms.............216

7.5.......Availability of Associates for Joint Ventures...220

D/7.a.....Variations In Location Of Responsibility For
Promotion ('Driving Force') and Decision
According To Reason For Selecting Associates...225

D/7.b.....Effectiveness of Associates According To The
Primary Reason For Their Selection.............228

7.6.......Importance Of Associates According To The
Reason For Their Selection.....................230

D/7.c.....Profitability of Joint Ventures According To
Reason For Selection Of Associate...............232

D/8.a.....Model of Relationships and Linkages Based Upon:
Nature of Business................................249

D/8.b.....Size of Foreign Parent Firm....................250

D/8.c.....Attitudes To Control........................251

D/8.d.....Reasons For Going Into A Joint Venture........252

D/8.e.....Reasons For Selecting A Specific Associate....253

D/8.f.....Profitability of Foreign Parent Firm........254

.............Linkages Associated With:
8.1.......Nature of Business................................255

8.2.......Parent Size................................256

8.3.......Attitudes To Control.........................257

8.4.......Reasons For Going Into A Joint Venture........258

8.5.......Reasons For Selecting A Specific Associate....259

8.6.......Profitability of Foreign Parent Company........260

Bibliography........................................293
CHAPTER ONE

BACKGROUND AND PROCEDURE OF THE STUDY

Trends in world trade over the last two decades may perhaps be misleading as indicators of future investment opportunities. There has been in particular, a disproportionate growth, in terms of value, in the trade between advanced nations as compared with that between industrially less-developed ones. Markets in developed countries have grown more rapidly overall and are sustained by very much higher levels of per capita income. As a result, the opportunities for return on investment have been much more visible and much more secure in these markets. These facts have tended to obscure the future potential of the presently under-developed markets as locations for investment.

In the long run, the latter may well be some of the most attractive markets of the future, if, or when, these countries achieve a Rostovian "take-off" (1), or pass over the type of national "watershed" suggested by Fforde (2). They are likely however, to be markets which will increasingly have to be permeated through local manufacturing operations, in order to conform to the needs and aspirations of these host nations. Whatever may be the arguments in favour of free trade on the basis of comparative advantage in factor endowments or comparative costs, these are probably not the arguments which will prevail upon a country urgently bent on its own national development.

The standard case appears to be that foreign exchange problems of developing nations increase as they develop, at least up to some stage of quasi-equilibrium. In some cases, these problems arise in two ways. On the one hand, the needs of industrial development call for increased imports. On the other, the terms of trade may work against the export
of commodities for which demand is price-inelastic. Unfortunately for the aspirations of such nations, these commodities may be the basis of any initial comparative advantage with which they are endowed.

In theoretical terms, it may be possible to fund these needs by means of foreign exchange loans (3). Past experience appears to suggest, however, that servicing costs rise faster than diffusion of the benefits from such loans, resulting in diminishing returns to the borrowers (4). Foreign private direct investment provides an alternative method of satisfying such developmental needs, but the cost to the host country may be even greater in the long run. The Indian Government, for example, has calculated that the ratio of the cost of foreign investment to that of foreign exchange loans is something of the order of 5:1.6, in terms of long-term refunding commitments on the part of a capital importing nation.*

Diffusion of benefits on the other hand, is usually more efficient in the case of foreign direct investment. Thus the same government has made the strategic decision to try to attract such investment under terms which will stimulate diffusion as much and as rapidly as possible. Its argument has been that the technological and training benefits associated with import-substituting, as well as the more obviously desirable export-promoting foreign investment are sufficient to justify these efforts.

The tactics therefore have been to raise barriers against imports, for example, through tariffs and quotas in India, or through quotas in Pakistan. This at any rate has been the rationalisation in economic terms, for a phenomenon which may actually be strongly motivated by nationalistic sentiments in favour of "conspicuous production"(5). From the point of view of foreign investors, these factors have also dictated the situation in which local operations have to take the form of association with domestic capital and interests (6).

* The difference being accounted for chiefly by capital appreciation of the foreign investment.
In the short run, the markets in countries of this type are markets for established formulations, processes, equipment and techniques. Many of these corporate assets are constantly being forced into quasi-obsolescence by the pressures of a rapid rate of competitive technological development in the industrially advanced nations themselves. Markets in the less developed countries provide a longer potentially productive life for such assets. In very many cases, it may be a quieter and more profitable life, as the foreign investment sinks peacefully to rest behind a host nation's protective tariff barrier.

This simpliste argument may of course hide some of the problems. In a recent book, Baranson has described and stressed the problems involved in modifying products for the Indian market (7). There are obviously likely to be differences in methods of operation and needs for some modification in product design from those which are most appropriate and up-to-date in a market like the United States. The pre-occupation with the problems of 'gearing down' design, production lay-out and production methods in this type of investment which was described by Baranson for the Cummins case, reflects similar objections put forward by U.S. firms interviewed in an earlier study by Richard Robinson (8).

The problems may be exaggerated. Baranson also stresses the fact that specifications in a country like India call for reliability, rather than for the most advanced performance in absolute terms. Reliability is often the characteristic of established models which have had a fairly long production life. Tooling, designs and records of 'bugs' which arose at various stages from start-up onwards, are usually well-recorded and available. Under these circumstances, re-design for a less
developed market becomes simpler than the Cummins experience in India appears to imply. This at least, was the experience of the British firms in the present study, operating in the same country and including a manufacturer of diesel engines which had been in India and Pakistan since Partition.

Appraisal of opportunities of this type presents an interesting set of problems in decision-making under uncertainty. On the one hand is the clearly discernible relative attraction in the short run of alternative investments in currently developed countries. Coupled with this are the apparent risks, both internal and external to any operation, of investing in a host environment which is usually politically vulnerable, socially unstable, and economically unviable.

Against these, are the tangible factors of highly profitable results from successful past investments in the less-developed nations, true for the general case (9), and true even for the particular case of India, whose efforts to keep such returns within reasonable proportions have received considerable publicity (10). Coupled in turn with this attraction, are threats of discrimination, in absolute quota, or relative tariff terms, against present and future importers in such nations. The attraction is also perhaps enhanced by the less tangible but impressive potential of these markets if development efforts succeed. They are markets moreover, where dominant positions are likely to be vested, politically, as well as economically, in the first comers.

The whole matrix of uncertainty is compounded by the difficulty of obtaining accurate or reliable information, through which the degree of risk along various dimensions of the decision can be evaluated. Even local investors and entrepreneurs cannot always assess these risks with any great accuracy (11). The problem certainly creates major difficulties
in the foreign investment decision processes of companies in the developed countries (12).

Economic advantages to capital-exporting countries are perhaps not proven. In an interim report, Reddaway suggests that the continuing return benefit to the British economy from overseas investment is only between £4 and £6 annually, per £100 invested. This is admittedly, on the basis of some very conservative assumptions, especially in connection with the effects of reinvestment and capital appreciation (13). Depending upon which particular axe is to be ground, present values of expected future return flows, or alternatively, point-in-time impact of outflows, can be calculated in such a manner as to suggest vastly different effects upon the balance of payments. Witness, in this connection, the conflicting evidence of U.S. Treasury advisers and business groups in the hearings on the 1963 Revenue Act restrictions on returns from direct investment abroad. The intuitive answer in this conflict of opinion is summarized by Kindleberger: "However, the fact that the investment is undertaken only if the expectation of a higher than normal profit exists suggests that the intermediate as well as long-run effects of direct investment on the balance of payments is likely to be favourable" (14).

While the economic advantages may be in dispute, the political repercussions of overseas investment in less-developed countries are a different matter. Their importance has been recognised specifically in the relatively favourable position of such investments, as compared with those in Europe, under the 1968 restrictions by the U.S. Government on capital exports. Only the relatively desperate foreign exchange straits of the United Kingdom over the past few years, have forced the British Government to legislate against overseas investment as a whole.
The theme here appears to be that the economic development of underdeveloped nations is more than just a social, moral or political responsibility of the advanced countries. To some unidentifiable extent, it is likely, in the long run, to be an important feature of their own continuing growth. It may be that such mutual advantage can best be achieved "by means of international, socially-responsible business enterprise that is solidly built upon international cooperation, mutuality of interest and enlightened management.... It seems inevitable that international economic integration, satisfactory investment climates and constitutional governments will follow." (15).

Joint Ventures

Combinations of business interests, motivated either by complementary attributes, or by defensive considerations such as the sharing of business and non-business risks, are nothing new. Even before World War I, the large European trading houses and, to a lesser extent, some American firms like United Fruit were involved in operations in the less-developed countries, in association with other interests as well as individually.

There were however, three significant features of these older joint ventures which differed from the later developments after World War II. The earlier associations were almost entirely concerned with trade, mining, or plantation agriculture, in one form or another. They usually existed between partners from the same parent country, or from different advanced nations, in most cases, fellow colonial powers. When local interests were allowed to participate, their role was almost invariably subordinate to that of the foreign partner.
Two of the most important changes since 1945 in the nature and organisation of international business operations have been the geographical diversification of manufacturing and the increased participation of local nationals in joint ventures. Participation moreover, which is carried out under terms giving local partners relatively equal authority. These changes have resulted from a combination of factors. Exogenous to the underdeveloped countries has been the arrival of a major political and economic counterbalance to the power of the 'traditionally' advanced nations. Coupled with this, has been the growth of a more permissive political morality, based upon changing social and cultural values, on the part of the latter. Both of these factors have led to the relaxation of colonial authority.

In their turn, the ex-colonies have assumed sovereign responsibility and enhanced independent political status. As a result, they have been better able to insist upon the regulation of foreign activities and investments in their countries, to conform to what they consider to be in their own best interests. The linking factor has been the attempt to bridge the gap between the needs and ambitions of these new nations and the technological and financial resources of the advanced countries.

According to a study by Friedmann and Kalmanoff, "There appears to be a somewhat greater trend towards joint ventures (as a proportion of investment abroad) in West Germany and the U.K. than in the U.S., though not to the same degree as in Italy and Japan." (16). These authors also found that many U.S. firms were becoming convinced that the advantages of joint ventures abroad were sufficient to outweigh the difficulties which may be created. This appeared to be particularly true of firms
which were already involved in joint ventures, or had been in the past, even when such operations had turned out badly.

Similarly, the personnel who had been in closest touch with the problems and the disadvantages of this type of operation, the international executives, were the staunchest supporters of joint ventures with local interests from the less-developed countries. This finding turned out to be strongly supported by the results of the present study. To some extent, it was enhanced. British executives, with a longer experience of this type of operation than most of their American counterparts in an earlier pilot study, were even more favourably inclined towards such ventures in India and Pakistan (17).

An attractive explanation, at the abstract level, of the growth in joint ventures as a proportion of foreign investment in the underdeveloped nations arises out of a theory put forward by Rymer (18). This would seem to argue that such growth arises through changes in the balance of power in a situation of bilateral monopoly. It is a stronger argument if such monopoly is considered to be a reflection of political, as well as economic positions, motivated in many cases more strongly by the former than by the latter.

There is not much evidence from the past that what might be called the 'cycle of bilateral monopoly' was actually completed so long as the country in which the investment took place was in a position of political dependence. The case of the Indian textile industry argues in fact to the contrary (19). Such a dependent position meant that the country was unable to exploit any improvement in its economic or technical position vis-a-vis investors from abroad. Even where comparative advantage shifted with such economic and technological development to the dependent nation, the
latter's political subordination meant that vested interests in other countries could prevent it from assuming the benefits associated in the theory with such a shift.

At the level of corporate policy and decision-making, it is not clear that the bilateral monopoly thesis provides a completely satisfactory explanation. It may be that executives do not recognize the real reasons for which they make certain investment decisions. It may also be that they seek to rationalise some decisions in terms of an explanation of corporate requirements, rather than accepting the significance of external constraints upon freedom of choice. (Although the readiness of most executives to offer pungent comments upon the effects of host country restrictions on foreign investors would appear to belie such an argument.)

Assuming however, that responsible executives are sensitive to their own criteria and do not need to disguise them, it should be possible to test for the significance of a situation of bilateral monopoly as a constraint upon the investment decision. In particular, it should be possible to find out whether executives appear to recognise positive benefits to their own firms as the prime incentive for going into a joint venture, rather than the negative position of being forced (a) into such an operation and (b) into their choice of associate. Both of these aspects of compulsion could be expected to be features of varying importance in a situation dominated by bilateral monopolistic advantage.

Summarising briefly the points raised in this section, it would appear that there may be an increasing acceptance of the preferability per se of joint ventures, even over fully-owned subsidiaries, for operations in less-developed countries. This acceptance on the part of investors in
the advanced nations, even the U.S.A. is only partly dictated by external factors, such as legislation enacted in many 'new' nations, or shifts in the relative powers of bilateral monopolists. These issues are examined further in this study and are discussed in later chapters.

A Definition

The definition of a joint venture which was used in the present study was: "The commitment, for more than a very short duration, of funds, facilities and services by two or more legally separate interests, to an enterprise for their mutual benefit." (20)

The two most important implications of this definition are that:

(a) There must be some definite commitment and the accompanying risk, but this is a wider concept than participation based purely upon sharing of equity.

(b) There is no clearly specified qualifying period of duration. Thus projects embodying a definite contract period would be included when the latter is long enough to create the need for continuing, if short-term, relationships and interplay between the partners.

There are four main sub-sets belonging to the set 'joint ventures', as the latter is defined here. These are:

(1) **National joint ventures**, between two or more interests from the same country. An example would be Burmah-Shell Oil Storage and Distributing Company of India Ltd.

(2) **Foreign International Joint Ventures**, in which the partners are of different nationalities, but excluding that of the host
country, for example, as in the Electric Lamp Manufacturers Ltd. consortium which operates in several countries, and which includes A.E.I. and G.E.C. (now merged) and Crompton Parkinson of the United Kingdom and Philips of the Netherlands.

(3) International Joint Ventures, in which some part of the commitment is by local nationals, excluding host government interests. This is perhaps the most interesting and certainly the usual form of joint ventures discussed in the literature.

(4) Mixed International Joint Ventures, or Mixed Ventures, in which at least some part of the commitment is by the host government, while another is by foreigners. Oil India Ltd., a mixed venture between the Burmah Oil Company and the Government of India is an example of the 'purest' form of this type of operation.

Within each of these major sub-sets, there are considerable variations, according to the number of partners from each of the three main categories (foreign, local private and local, or 'host', government) and their relative commitments. Out of the sample of joint ventures examined in the present study, two were national and nine were mixed. In one of the latter, the foreign commitment was in the form of a large-scale, long-term service contract, involving the continuing presence of up to 70 foreign technicians and advisers. The remainder of the sample were all in sub-set (3). In view of the small size of the sample, the group was treated as a homogeneous whole in the statistical analysis, differences being examined only at the descriptive level.

Possibility of Setting Up a Model.

One of the original objectives of this study was to discover whether it was possible to establish a series of variables which would help to
predict the criteria through which associates would be selected for particular joint ventures. These variables consisted of characteristics of the parent companies, the joint ventures, and the background situation in which the decision was made. They were grouped into categories, or sectors, each of which could be examined against a further group of selection criteria described by investors as actually constituting the basis for selection.

If significant relationships and predictive capabilities among these sets of variables could be established, it was hoped that they could in turn be associated with certain organisational and structural characteristics of a joint venture. Finally, some elements of evaluation would be examined. Internally, these would take the form of methods used by parent companies to evaluate the performance of associated joint ventures. Externally, evaluation would be considered in terms of measures and criteria set out as part of the framework to describe the success of the joint ventures under study.

Given that the groups of variables proved to be significantly associated and that they could be used to predict at least the direction of variation amongst each other, the framework of an operational model would be established. It should then be possible to enter the heuristic at certain defined points and describe the likely constitution of the remainder. Similarly, if certain stages or variables were to be manipulated, it should be possible to predict the effects upon other parts of the model. From which, it should be possible to suggest policy recommendations for similar firms which were considering investing and operating under similar conditions.
Such a model would be intended to provide a tool for internationally-operating firms. As a result, the study was chiefly oriented towards the point of view of such firms. At the same time, if the model were valid, it should also be capable of interpretation or application as a guide to enlightened regulation of foreign investment by host country planning authorities (21). The latter role would perhaps, be useful in improving the intra-matrical accuracy in predictions of the effects of varying some of the inputs or dimensions to national development matrices. This role was not however, central to the study and was not considered in any detail.

In order to limit the range of dimensions along which the model could vary, it was decided to restrict the first sample of foreign parent firms* to those of one nationality. In this case, these were to be British companies. This was not meant to imply that there was necessarily a universal similarity between firms of different nationalities which operate internationally. It was merely that, at this stage, it was desirable to build in as much homogeneity as possible along this dimension for the first exploration and testing of a complex model. Significant as cross-cultural differences between parent firms might be for example, they could be tested at a later stage, either by extension of the original tests and model, or through comparison between models set up in the same way.

For a similar reason, the effects of environmental variations resulting from differences in host countries were reduced by limiting the milieu of the study. While there is a growing interest in the subject, there is still a lack of systematic reporting (22) of the actual operations of

* Except where indicated otherwise, or where obviously different in context, the term 'foreign' is used throughout to mean 'of a nationality other than that of the host country'. In the same way, 'local' means 'local' to the host country!.
overseas joint ventures. There is even less covering these operations in less-developed countries*. It appeared therefore, that location of the objects of this study in such a country, or in a sub-set of such countries, would have some additional value in increasing the available information about an area of growing interest and importance to business firms.

Another of the early intentions in this study was to examine joint ventures of British companies in a group of countries: India, Ceylon, Pakistan, Burma and Iran. Although the major company to grow out of operations in Burma was in fact studied, this firm is no longer an investor in Burma. At the same time, the political and economic regimes in that country were felt to be too disparate from the others. Iran too, was only loosely comparable with the Southwestern Asian nations. Neither of these two countries, nor Ceylon had a very large population of joint ventures from which to choose. All three were therefore rejected from the study.

India and Pakistan were felt to be sufficiently alike to treat as one host environment. To some extent, their national politics and align-

* The terms 'less-developed' and 'underdeveloped' are generally used as synonyms, together with 'developing', in various classifications of nations by comparing achieved against potential performance against economic indicators. The last term seems misleading, since the most rapidly developing nations, in economic terms, are very often the advanced nations. In practically all discussions of the under-development of national resources, the crux of the problem turns out to be the backwardness of the people. It is perhaps more realistic therefore, to place the emphasis squarely on this 'backwardness', as Myint has suggested (23), and to talk of the 'backward' nations. This would fit in well with one of the most useful measures of relative advancement or backwardness in this area, namely the Index of Human Resource Development suggested by Harbison and Myers (24). The main problem in such a course of action is probably the implicitly derogatory connotation of the term itself. Hence, it is perhaps more tactful to stand by the euphemisms - 'less-', or 'underdeveloped' - while strictly meaning 'backward'. 
ments and their respective endowments of natural resources would appear to refute the argument of similarity. They had however, a common history, similar social and economic problems, comparable legal systems and business organisations (although there were considerable differences in scale) plus a common business language. In spite of different political structures, their postures towards foreign business interests and, to a lesser extent, their patterns of development, were very much the same in effect.

This argument was directly supported in discussion by the respondents from British companies who were interviewed. Indirectly too, in the patterns of their responses to questions about the effects of host government policies upon the joint ventures in which their firms were associated, they appeared to find only marginal differences in operating in the two countries. It was interesting to compare this reaction with those of a smaller group of U.S. managers of international operations who were interviewed as part of the earlier pilot study mentioned above (17). The latter group appeared to be far more impressed by official statements made by host country authorities than were the British executives.

One case which stood out in this respect concerned an Indian joint venture set up by the British subsidiary of a U.S. firm. This was a joint capital investment by the U.S. and the U.K. companies, so far as the foreign share in equity was concerned, one in which the Indian activities were actually the prime responsibility of the U.K. arm. Discussing the relative merits of India and Pakistan as locations for investment, some of the U.S. executives in this particular company paraphrased and extended a quotation by President Ayub: "You can do business in India - You can make a profit in Pakistan."
A British director of the same firm, who had worked in India for many years before and after Partition, agreed that very high profits had been the order of the day in Pakistan's early years (25). He also pointed out, however, that:

(a) Similar profits were not unheard of as part of Indian operations.

(b) The Pakistan Government had tightened up considerably on the monopolistic profits which had previously been encouraged in order to generate reinvestment.

This executive stated further that: "We (as a company) do not know of any decisions made by the Indian Government that have not been reasonable."

**Procedure of The Study.**

In deciding upon the structure of the actual research needed to obtain the information required in this study, and upon the overall significance of the findings, certain prior assumptions were made. An accurate definition of the population of British joint ventures in India or Pakistan was not available from any of the anticipated sources*.

The Directory of Free World Enterprises and Collaborations In India lists some 850 British firms which are involved in "Collaboration" agreements in India (26), but the vast majority of these cases are simple licensing, or technical assistance contracts. In many cases, they only involve the provision of instructions and drawings, with little or no supervision, policing, and continuing contact**. No comparable information appears to exist in published form for Pakistan.

* These had included: The Board of Trade Offices and Library in London; the Offices of the High Commissioners for India or for Pakistan; the Library at India House in London; the Indian Investment Centre; the Library at the Office of the High Commissioner for Pakistan.

**This statement is based upon the comments made during discussion and in correspondence with actual respondents, and with many of the other British firms listed in The Directory as being involved in collaborations in India.
Because of the lack of clear definition of the population of British joint ventures in these two countries, it was decided that the best way to obtain a significant body of data on these operations would be to build a sample that was largely self-generating. Its significance would be represented by the importance of the companies concerned, measured in two main ways. First, the importance of the U.K. parent firms in their home environment, chiefly as expressed by their size. Second, the importance of the joint ventures as a proportion of the total British and other foreign private direct investment in their respective host countries.

Generating The Sample.

The London Stock Exchange compiles an annual list of the largest British companies, based upon the size of quoted equity market capitalisation. Part of this list was published in the Financial Times as "Britain's Top 200 Companies" (27). An initial sort of these 200 companies was carried out, by means of a cross-examination using the list of firms published in The Directory mentioned above, or through preliminary correspondence with many of the firms listed in the 200. This resulted in an approximate breakdown of the "Top 200" as shown in Table 1.1.

Further correspondence, based upon firms listed in The Directory, or in Kidron's book, Foreign Investments In India, or in an incomplete list provided by the office of the High Commissioner For Pakistan, resulted in the addition to the sample of 23 more British companies. Six of these, in terms of size, would have been in the top 50, and one in the top 200 companies in the United Kingdom, according to a comparison
Table 1.1 - Breakdown of Britain's Top 200 Companies.

<table>
<thead>
<tr>
<th>Classification of Companies</th>
<th>Number</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Banking, insurance, investment trusts or finance</td>
<td>58</td>
<td>Rejected as likely to have had Indian interests nationalised, or to be unable to operate in India, because of local legislation</td>
</tr>
<tr>
<td>Retailing, wholesaling, brewing, associated activities</td>
<td>23</td>
<td>Rejected as unlikely to be able to operate in India</td>
</tr>
<tr>
<td>Shipping, motion pictures, radio, television or associated activities</td>
<td>11</td>
<td>Rejected as being outside the main scope of interest of the study</td>
</tr>
<tr>
<td>Companies with no investments in India or Pakistan (although some had licensing agreements with local firms)</td>
<td>43</td>
<td>Rejected as unsuitable</td>
</tr>
<tr>
<td>Companies operating in India or Pakistan through branches or 100% subsidiaries, rather than joint ventures</td>
<td>26</td>
<td>Rejected as unsuitable</td>
</tr>
<tr>
<td>Companies unable to cooperate</td>
<td>9</td>
<td>At least 4 of these were later found to be unsuitable</td>
</tr>
<tr>
<td>Companies which did not reply to requests for information</td>
<td>3</td>
<td></td>
</tr>
<tr>
<td>Suitable firms, prepared to discuss their joint ventures in India or Pakistan</td>
<td>27</td>
<td>Interviewed</td>
</tr>
</tbody>
</table>

with the criteria of the London Stock Exchange. Out of these seven, three were large private companies which did not publish statements and were not quoted on the Stock Market. The other four were British subsidiaries of other foreign companies (Dutch, U.S., and two Canadian).

In each of the last four cases, the U.K. subsidiary was said to have been fully responsible for investment and policy decisions, setting up and operational liaison in connection with their Indian interests. The
same reasons were also accepted in adding to the list five firms which had been taken over by members of the "top 200". Finally, eleven smaller firms which were prepared to cooperate were added, making a total of fifty in the original sample.

Because of the possible sensitivity of some of the information and the volume of data required, it was decided that each of these fifty companies should be interviewed. As a check on the validity of this argument, a questionnaire was sent out, together with a detailed covering letter, to another 61 firms involved in "Collaborations" in India. Out of this control group:

- 15 companies were unsuitable,
- 24 companies were unable to cooperate,
- 16 companies did not reply (7 of these were later discovered to be involved in joint ventures in India),
- 4 companies agreed to cooperate but failed to do so,
- 2 companies provided the information requested.

Interviews with companies in the main sample were carried out over a four-month period from May through August, 1967. By the end of this time, information had been obtained from 49 parent firms, three of the original sample having been eliminated as unsuitable as the result of interviews. The information covered 71 joint ventures, of which 53 were in India and 13 were in Pakistan.

Value of the British Stake in the Sample of Joint Ventures, as a Proportion of Total U.K. and Other Foreign Investment in India and Pakistan.

The issue of the Reserve Bank of India Bulletin for January, 1967, lists the total values of outstanding foreign investments in India, as of
the end of March, 1965 (28). As the basis for these figures, private
investments are grouped in two categories. Branches and foreign-con-
trolled rupee companies were classed as "direct". All others were
included under "portfolio". The Reserve Bank's definition of control may
perhaps be open to debate. It appears to include joint-stock companies,
other than subsidiaries, in which 40% or more of the ordinary shares are
held in one country abroad, or 50% or more are held in two countries,
unless managerial control appears, in the official view, to be in the
hands of the local partner (29).

This is a definition which assumes that foreign technical and
financial strengths are likely to dominate over a simple equity position.
When the local shareholding is widespread, there is considerable justifi-
cation for this argument, which is equally valid in an advanced nation.
The definition is perhaps out-of-date in India for cases in which 51%
to 60% of the equity is held by a local partner. In any case, 40% is
a purely arbitrary figure.

Of the British firms in the present sample, some appeared to
dominate and control associated joint ventures in which their own share
of equity was well under 40%. At the same time, one firm which was in-
volved in two joint ventures, holding 60% of the voting equity in one, and
49% in the other, found control completely different in the two cases.
This was true to the extent that the executives of the British Parent
Company found considerable satisfaction in the fact that the local opera-
tion which they formally controlled was doing better than the other -
controlled by the local partner.
At the other extreme, respondents from several firms felt that the countervailing powers of the local government were such that they could not apply a majority advantage with the same rigour that they could in Europe. If a local minority partner opposed a proposal, they had to be persuaded, rather than voted down, in case they elicited host government support for their objections.

In order to provide a basis for testing the representative significance of the joint ventures included in this sample however, the Reserve Bank's figures were used. These were projected forward two years, by adding to the 1965 figures, twice the average annual inflow of foreign investment in the four years preceding 1965. These estimates may have been on the high side. The increasing uncertainty over these two years, of the short-run economic prospects in India may have been a disincentive to foreign investors. There were also restraints on U.K. investment abroad during the same period. The projected figures are shown in Table 1.2.

Table 1.2 - Outstanding Foreign Investment in India (Rs. Crores).

<table>
<thead>
<tr>
<th>Source</th>
<th>Type</th>
<th>March 1965</th>
<th>Estimated inflow April, 1965 to March, 1967</th>
<th>End March, 1967 (estimated)</th>
</tr>
</thead>
<tbody>
<tr>
<td>All Foreign Investment</td>
<td>Total</td>
<td>935.8</td>
<td>114.4</td>
<td>1050.2</td>
</tr>
<tr>
<td></td>
<td>Direct</td>
<td>613.3</td>
<td>53.0</td>
<td>671.3</td>
</tr>
<tr>
<td></td>
<td>Total Portfolio</td>
<td>322.5</td>
<td>56.4</td>
<td>378.9</td>
</tr>
<tr>
<td></td>
<td>Private Portfolio</td>
<td>154.8</td>
<td>17.0</td>
<td>171.8</td>
</tr>
<tr>
<td></td>
<td>Official Portfolio</td>
<td>167.7</td>
<td>39.4</td>
<td>207.1</td>
</tr>
<tr>
<td></td>
<td>Total Private</td>
<td>768.1</td>
<td>75.0</td>
<td>843.1</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>Total</td>
<td>529.3</td>
<td>37.2</td>
<td>566.5</td>
</tr>
<tr>
<td></td>
<td>Direct</td>
<td>462.6</td>
<td>32.4</td>
<td>495.0</td>
</tr>
<tr>
<td></td>
<td>Total Portfolio</td>
<td>66.7</td>
<td>4.8</td>
<td>71.5</td>
</tr>
<tr>
<td></td>
<td>Private Portfolio</td>
<td>66.7</td>
<td>4.8</td>
<td>71.5</td>
</tr>
<tr>
<td></td>
<td>Official Portfolio</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Total Private</td>
<td>529.3</td>
<td>37.2</td>
<td>566.5</td>
</tr>
</tbody>
</table>

(Notes: Rs. 1 Crore = Rs. 10 millions.)
The value of the British stake in the 58 Indian joint ventures of this study was estimated to be Rs. 243.7 Crores at the end of the 1966 financial year. (These calculations appear in Appendix A. i., at the end of this chapter.) This figure excluded an additional Rs. 26.3 Crores in long-term loans, made to the joint ventures by the U.K. partners. About Rs. 19 Crores out of the stake above was owned by British firms holding less than 40% of the equity in 15 associated joint ventures, leaving about Rs. 225 Crores which appeared to correspond to the Reserve Bank's category, "Direct Foreign Private Investment".

The significance of the sample of 58 Indian joint ventures, in terms of the value of the British stake as a proportion of foreign investment in India, could therefore be evaluated in several ways as follows. (Comparisons are with the estimates shown in Table 1.2, of the magnitude of such investment, based on Reserve Bank of India figures).

a) Total UK Stake / Total UK Direct Investment in India
   (in 43 JVs) Rs. Crores - 225/495 = 45%

b) Total UK Stake / Total UK Private Portfolio Investment in India
   (in 15 JVs) Rs. Crores - 19/72 = 26%

c) Total UK Stake / Total UK Private Investment in India
   (in 58 JVs) Rs. Crores - 244/567 = 43%

d) Total UK Stake / Total Foreign Direct Investment in India
   (in 43 JVs) Rs. Crores - 225/671 = 34%

e) Total UK Stake / Total Foreign Private Portfolio Investment in India
   (in 15 JVs) Rs. Crores - 19/172 = 11%

f) Total UK Stake / Total Foreign Private Investment in India
   (in 58 JVs) Rs. Crores - 244/843 = 29%

If the total Indian interests of these British firms were to be considered as a proportion of foreign and U.K. investment in India, these figures would underestimate the importance of this group of investors.
Twenty of these firms had investments in India, other than those in the joint ventures examined in this study. At least eight of these other interests were very much larger than the joint ventures in question.

A similar understatement also applied to the case of the significance by value, of the 13 Pakistani joint ventures in the sample. A very rough estimate of foreign private direct investment in Pakistan suggested a figure of Rs. 109 Crores by the end of 1966. (This calculation was based upon Papanek's figures (30), and appears in Appendix A.11 at the end of this chapter.) The total U.K. stake in the 13 U.K.-Pakistani joint ventures of the study was calculated to be Rs. 33 Crores at this same time. The value of this stake, as a proportion of foreign direct investment in Pakistan could therefore be estimated to be:

\[
\text{(g) Total U.K. Stake / Total Foreign Private Direct Investment in (in 13 JVs) \quad Pakistan} \\
\quad \text{Rs. Crores} = \frac{33}{109} \approx 30\%
\]

No published information was found, on which the representative significance of this stake could be assessed as a proportion of total U.K. private direct investment in Pakistan. On the basis of a visual comparison with the figures for the Indian sample, it may be reasonable to make a very tentative projection of about 40% to 45% for this relationship.

Some Assumptions.

The first major assumption of the study was that the experiences in India and Pakistan of the companies in this sample would provide a significant representation of the overall experiences of British firms involved in joint ventures in these two countries. Assuming this to be true, then the responses of these firms could be taken as typical. Their decisions and attitudes could therefore be used to describe or predict
past, current, or future behaviour of British companies. Subject to allowance for environmental variations in the United Kingdom and in the host countries, these could be extended to the general case. This argument was based upon:

(1) The status of the sample of British parent firms in their home country.

(2) The significance of their investments in these joint ventures as a proportion of British and other foreign investment in these two host countries.

A second series of assumptions was concerned with the nature of respondents and the validity of the information which they might provide. It seemed reasonable to expect that responsible senior executives would be able to offer evidence which would provide an accurate representation of their companies' corporate responses and attitudes. This would probably be true, if such executives:

(a) Had a genuine knowledge of, and involvement in, the parent firm's policy and decision-making at the highest levels.

(b) Had been concerned with the actual decision process and operations associated with a specific joint venture under discussion.

Out of the 49 British parent companies in the final sample, respondents were classified as follows: (Classified by the senior man for cases in which groups of respondents were involved.)

22 at parent company director level, (including chief executives.)

23 at divisional director, or general manager level.

1 senior functional manager, responsible for liaison with a joint venture.

3 deputies of the directors with whom interviews had been arranged. (The latter having been taken ill (1), or called abroad at short notice (2).)
Of the first 45 above, all but three were currently, or had been in the past, involved in the operations of the joint ventures discussed.

It was more difficult to control for the further assumption that the evidence of such respondents would not be biassed by their personal value judgments. Logical consistency over a range of answers could be, and was, checked, but this was only limited validation, since bias could presumably provide a series of consistently inaccurate answers. In those cases where interviews were carried out with groups of respondents, personal bias was perhaps balanced out to some extent.

However, it was felt that extending the study to include dual or multiple responses from each firm would probably have been inefficient. This was argued on the grounds that there would be a potentially decreasing marginal return against additional research costs - even if all companies had been prepared to cooperate in such cross-checking. The last assumption above was therefore accepted, with the 'fail-safe' corollary that, at the very least, the responses would represent the attitudes and judgments of a sample of influential executives. Executives who were, moreover, in a position of high authority over the subjects of interest to the study.

The prior assumption was also made, that these executives would be prepared to provide accurate and comprehensive answers to an impartial, but external questioner. It seemed likely however, that this would depend upon two additional factors. First, a guarantee that the information would remain anonymous. In the second place, direct interviewing seemed to be a more promising approach than that of simply asking executives to complete questionnaires. This seemed likely to be true for several reasons.
Through the direct contact, respondents could evaluate for themselves the researcher's potential integrity in dealing with sensitive details. It was also expected that many busy senior executives would have an antipathy towards form-filling. This would probably be associated with a subjective conviction that the information required could be provided more rapidly in discussion with an interviewer, than by completing a questionnaire. Parallel to these arguments was the fact that it would also be possible to ensure that there was no misunderstanding or misinterpretation of the questions - or of the answers.

While the requirement of anonymity may really have been no more than a minor gateway, many of the respondents referred to it in discussion and in correspondence. Several stated explicitly that they would not have been prepared to provide such frank answers without this guarantee.

In general, the preferability of direct interviewing appeared to be justified. This was particularly noticeable in a comparison of the refusal and non-response rates between the groups of firms which were actually interviewed, and the control group, which merely received a questionnaire.

**Interviewing The Sample**

The measures which the study was intended to test covered over 350 variables, including financial indices. The basic variables were organised into a questionnaire format. This was then printed, together with a precis of the research and a description of the researcher. Although it was only intended to send these forms out to a control group, organisation of the data to simplify collection and later analysis was assisted by using the same questionnaire as a vehicle and a guide during interviews. Whenever
possible, when respondents requested an agenda prior to discussion, a copy of the form was sent to them in advance.

Interviews were almost all held at company head offices and their duration ranged from one to eight hours, averaging about three and a half to four hours. According to the wishes and the nature of each respondent, interviews either used the questionnaire directly as an agenda or were handled as open-ended discussions, with the executives initiating many of the topics themselves.

Thus for example, an executive who began the interview by complaining bitterly about the plethora of questionnaires awaiting completion on his desk was obviously not approached with the form and did not realize that he was in effect completing another. In any case, the net result was much the same. Where an agenda was used, the discussion was encouraged to become open-ended through various stages. Where the interview took the form of an open-ended discussion, it was possible to ensure that all the variables on the questionnaire were covered.

After the interview was completed, a brief transcript was prepared and questionnaire forms were edited. In some cases, these forms were kept by the respondents for final completion and checking, to be sent on later. For a sub-sample, the accuracy of recording and interpretation were checked through follow-up interviews or correspondence. As accuracy was established for these cases, it was assumed that the whole sample of recorded information was also likely to be accurate.

Originally it had been intended to tape record some of the interviews, both for convenience in recording and to substantiate the evidence used in the study. In a trial interview with an executive outside this sample, certain difficulties appeared. Because of the volume of noise included in
a taperecording of a two and a half hour interview, editing of the tape proved less efficient than accurate note-taking during the interview.

There was also some definite hesitation in responding fully to certain questions when it was expected that the answers would be published, even though anonymity was guaranteed. At the end of the interview, the executive concerned admitted that he had felt inhibited by the tape-recorder and would prefer that his evidence should not be used. This experience might have turned out to be atypical, but as the first British executive interviewed reacted so adversely, it was decided to discontinue tape recording.

So far as substantiating the evidence was concerned, tape recording a sub-sample of interviews appeared no more effective than letting a similar sub-sample of respondents check the information recorded against their firms' names. Especially when this option was offered to all the people interviewed. (In fact, none took up this option of their own volition.)

In four cases, a member of the Indian associate company or the Indian chief executive of the joint venture happened to be available at the British firm's head office during the time of the interview. In each case, a brief discussion was held with the Indian executive, in one instance, he was a member of the respondent group. These discussions turned out to be only of marginal interest for the study. The Indians had severe constraints on their time in the United Kingdom which precluded discussion in depth. Their comments tended to support those of the U.K. partner, but under the limiting circumstances, such support was hardly significant.

A reverse study over the same sample of joint ventures would be very useful in rounding out the examination of the decision process. Such a study would however, require much more than a duplication of the research time and costs. It would be desirable to carry out a parallel study of this
kind in the future, but it was felt that such a dimension was outside
the immediate terms of reference of the current research.

Organisation and Analysis of Data and Secondary Research.

In the next chapters, the measures used in the study and some of
the hypotheses and results associated with them are described. These
measures were arranged into 277 separate basic variables and then into
45 questions in five sections of the questionnaire. These sections
covered in turn:

1) Descriptive and financial data,
2) Selection and decision criteria,
3) Organisation and control,
4) Evaluation, and
5) Effects of host government policies. Wording was phrased so
that the same form could be used in later studies with parent firms of
different nationalities operating in other host countries. (The complete
questionnaire appears in Appendix B).

The questionnaire was sent out to the control group in two parts.
The first consisted of pages 1, 4, 5, 9, 10 and was called the "Main
Questionnaire". In the covering letter firms were asked especially if
they would at least complete this part. Pages 2, 3, 6, 7, and 11 were
separated into a second form on which firms were asked to provide additional
information if this was available. It was hoped that in this manner, some
details at least would be obtained from respondents who might find a
four and a half page form rather less overwhelming than the full eleven-
page version.
Half of the control group received both parts of the form under the same covering letter, while the rest received only the main questionnaire. (The fact that the second part was to follow later was not mentioned at the time.) This strategy was a complete failure in all its parts. The only companies which completed the questionnaire filled in both parts at once. Even those which promised to complete the form and later defaulted, appeared initially to be quite prepared to fill in the complete list of all questions.

After the information collected had been edited, it was encoded, and then transferred onto punched cards and tape for analysis. The computer program written ran under the Data-Text System, a system set up by the Department of Social Relations at Harvard for use on an IBM 7090/94. Its vocabulary is modelled on FORTRAN and it operates under the Standard FMS monitor system. The system also operates successfully on an IBM 360/65, under EMULATE 7090/94, using the standard IBM allocation of tapes and channels for the FMS monitor system, at the Harvard Computing Center.* Since the Data-Text System was admirably suited to the requirements of this study, the computer analysis was carried out at the Harvard Computing Center, through the courtesy of that installation.

With the exception of financial data and certain measures of size, most of the variables used to examine decision criteria were strictly capable of analysis only at the nominal and ordinal levels of measurement.

* It was not possible to run the program at the V.I.T. Computer Facility, since the latter uses a different tape and channel allocation. Data-Text appeared to be virtually unknown at V.I.T. at the time of this study, but is very useful for the type of data analysis which is common on management research. The V.I.T. Computer Facility staff are currently examining the problems involved in adopting the system for a different monitor allocation, so that it can be added to the library of programs and systems available.
Correlations were calculated between measures of size, profitability, and financial structure. Analysis of variance was carried out for certain selection criteria against these measures. The major part of the statistical analysis however, involved testing significance levels and strength of association in the contingency tables which laid out the relationships between nominal or ordinal level variables. Unfortunately, the limited size of the sample made it pointless to examine anything more than two-way contingency tables.

This factor limits the overall statistical power of the model since the relationships described are a series of two-way linkages. Ideally, it would have been desirable to use an eight-or seven-way analysis combining different groups of measures from each of the eight sectors. This may be possible in the future with a larger sample and modified variables.

All of the contingency tables resulting from cross-tabulation of variables were however, greater than two-by-two, so the regular Chi-Square statistic was chosen as the most appropriate measure of the significance of relationships between variables. Where more than 20% of the Expected cell frequencies were less than 5, the Exact Mean and Variable technique was used (3).

An assumption was made that independence of responses would not be significantly affected if all analysis was carried out over the full sample of 71 joint ventures, rather than over the sample of parent firms. The arguments upon which this assumption were based were:

a) different divisions or respondents from the same UK firm answered differently for different joint ventures,

b) the same respondent answered differently (consciously) for different joint ventures,
c) in a duplicate run of tests over the two samples, the hypothesis was tested that variation in significance would merely reflect sample size. This hypothesis was not rejected.

(The changes in level of significance were approximately the same for those cases in which the measure could possibly have been parent-related as for those in which it was obviously joint venture related. Since parent and joint venture-related associations appeared to move either way in similar proportions as the sample size was varied, generally deteriorating as expected with sample size, there was no clear evidence that all measures could not be associated over the population of joint ventures.)

The strength of these relationships was assessed through calculation of Cramer's V Coefficient and Pearson's contingency coefficient $C$, for tests based on the Chi-Square statistic (32). In addition, certain other tests were used which were based upon rather more probabilistic approaches to examining the strength of association. Where measurement was at the nominal level, the Goodman and Kruskal Lambda statistic was calculated for the symmetric and the asymmetric cases (33). Where it was at the ordinal level, Kendall's Tau $B$ and Tau $C$ were used for the symmetric, and Sommer's $D$ statistic for the asymmetric case (34).

Background research was carried out with the assistance of the facilities at: The Board of Trade and its Library in London, The Offices and Libraries of the High Commissioners for India and for Pakistan in London, The Dewey Library and the Library of the Center for International Studies at MIT, and The Baker Library at Harvard Business School.

In addition, several of the companies interviewed provided access to records, correspondence and reports, while most provided financial
statements and Directors' Reports, in some cases for the joint venture and the local associate company as well as for the UK parent firm.

Brief Outline of the Presentation.

The variables and the methods of classification used are described as they arise in the course of the text. Forward references are provided in cases when a particular measure has not already been described. The analysis in the study concentrated upon activities, relationships and decisions arising after there was some commitment to invest in the host country. This investment decision was assumed to have been made, and is only touched briefly in Chapter Six. In its final form, the analysis was structured in terms of eight groups of variables as follows:

1. Size and profitability of British parent firms.
2. The nature of the business involved.
3. Attitudes to control on the part of British parent firms.
4. Variables describing various features of the background to the two chief decisions of interest in the study.
5. Reasons for deciding to go into a joint venture.
6. Reasons for selecting a specific associate.
7. Structural characteristics of the joint ventures.
8. Internal and external evaluation criteria.

Some of the effects of variations in the size and profitability of parent firms are described in Chapter Two. Chapters Three and Four deal with the significance of the nature of the business. Chapter Five covers different attitudes of parent firms towards control over a joint venture. In Chapters Six and Seven, the two decisions which were central to the study are discussed in detail. These were the decision to go into a joint venture, and the decision to select a particular associate.
The other groups of variables in the outline above are discussed in their relationship to one or more of the five major groups in the appropriate chapters. In Chapter Eight, the framework of the model is assembled and laid out in diagrammatic form. Finally, Chapter Nine summarises some of the implications for investors and management and some of the conclusions arising out of the study. Chapter Nine ends with a list of topics discussed earlier in the text and suggested as being worthy of further research.
Appendix A. i - Calculation of the British Stake in The Joint Ventures of This Sample. (The Indian Sub-sample)

A difficulty in obtaining a total figure of the U.K. stake in these joint ventures arose because details of Reserves and Surplus figures were not available for all cases. However, figures for issued voting equity were obtained in all but four cases. It was assumed therefore, that ratios obtained from the figures available for some joint ventures could be projected to the others for all which were established, i.e., more than three years old. Of the joint ventures set up before 1963, details of reserves and surplus figures were provided in 30 cases, while equity figures alone were available for 21 (all of these were ventures in India).

The calculations were therefore carried out as follows:

(a) For 30 pre-1963 JVs, the ratio of reserves plus surplus to equity was \( \frac{33.97}{59.49} = 57\% \). (Note: Total figures, not British share)

(b) As a check, this ratio was calculated for sub-groups of the pre-1963 group. For pre-1950, the ratio was 90\%; for 1950-1959 JVs, it was 60\%; for 1960-1962 JVs, it was 100\%; weighted average over percentages (rounded) came to 80\%.

(c) 70\% was taken as a reasonable ratio within the range 65\% to 80\%, to represent reserves and surplus as a proportion of issued equity.

(d) The U.K. share of equity in the 21 pre-1963 JVs for which equity figures only were available, came to Rs. 114.9 Crores. 70\% of this figure was Rs. 80.44 Crores.

(e) The total British share of the equity + reserves - surplus for all the Indian JVs (i.e., all available figures) was Rs. 163.27 Crores.

(f) \((d) + (e) = 80.44 + 163.27 = Rs. 243.71 \) Crores.
Appendix A. ii - Calculation of Foreign Private Direct Investment in Pakistan

State Bank of Pakistan figures, quoted in Papanek, Pakistan's Development (30), p. 307, describe annual inflows of foreign private investment as follows: (in Rs. crores) 1949-1950 = 0; 1951-1952 = 2; 1954-1955 = 2; 1959-1960 = 9; 1964-1965 = 8 (with the additional comment on p. 223, that this inflow averaged about Rs. 8 Crores in the 1960s.

Making the arbitrary assumptions that (a) foreign investment in 1947 was zero, (b) annual inflows would average about the same as the figure in a breakpoint, for the years since the last breakpoint, a total accrued foreign investment, ignoring capital appreciation, for 1966 was calculated.

1948-1952 = 5 years * Rs. 2 Crores (figure for 1952) = Rs. 10 Crores
1953-1955 = 3 years * 2 = Rs. 6 Crores
1956-1960 = 5 years * 9 = Rs. 45 Crores
1961-1966 = 6 years * 8 = Rs. 48 Crores

Estimated Total = Rs. 109 Crores
Notes and References to Chapter One.


7. Jack Baranson, Manufacturing Problems In India, (Syracuse University Press; Syracuse, New York, 1967).


17. Study of some U.S. joint ventures in India, Pakistan and Iran, by the author of the present study in 1965 (unpublished).


21. For some comments on the lack of dexterity of such governments in regulating foreign investment, see Wilfred Malenbaum, *op. cit.*, pp. 251-254 and 253; Matthew J. Kust, *Foreign Enterprise in India*, (University of North Carolina Press; Chapel Hill, 1964), pp. 141-142; see also the *Economic Times*, Bombay, 27 April, 1963 and 21 May, 1963.


29. Taken from *Reserve Bank of India, Survey of India's Foreign Liabilities and Assets*, Bombay, 1957.


CHAPTER TWO

SIZE AND PROFITABILITY OF THE FOREIGN PARENT COMPANY

In analysing the interdependence between the variables which constituted the framework of this study, the first approach was through examination of the characteristics of the foreign partners. Of particular interest were the effects of variations in the characteristics of British parent companies upon relationships between these and other variables. Three possible methods of classifying these British firms seemed likely to be most useful, in terms of their generality and ease of reproduction. These were to divide up the companies by size, profitability and nature of the business. Two measures of size and three of profitability were tested against other variables and the results are discussed in this chapter. Effects of variations in the nature of the business are treated in Chapters three and four.

Foreign Parent Size in Terms of Assets and Sales.

Although several measures of size and gearing* were available, in view of the way in which the data had been collected, the one chosen as most indicative of resources available to a foreign parent company was the volume of resources actually used. The figures used to describe firms in terms of their total assets included: value, after depreciation, of fixed assets; investments at cost; gross value of current assets, loans and advances. As would be expected, this measure showed a high positive

*As used here, the term 'gearing' refers to the debt:equity ratio in capital employed. It varies with the proportion of loan capital. The higher this proportion, the higher, or greater, the gearing.
correlation with capital employed and with shareholders' capital*. In turn, these three measures were, each and all, similarly correlated with certain other variables. The data therefore suggested little reason for preferring either of the other two over total assets. On the other hand, more cases were available for the assets measure, since its use had been expected and details had been obtained from additional sources.

In order to provide a second measure which might help to explain some further relationships between size of the foreign parent and other variables, size was also defined in terms of sales. The actual figures used were those for consolidated group sales of the U.K. parent companies. Again, this measure was highly correlated with size in terms of assets**. Both measures were, in turn, similarly correlated with the same group of third variables, especially:

1. Joint venture size in assets.
2. Long-term investment in a joint venture by the U.K. parent.
3. Joint venture gearing.

Parent company size was also significantly related to:

1. Attitudes to control.
2. Reasons for going into a joint venture.
3. Reasons for selecting a specific associate.
4. Some of the measures set up in the study to evaluate certain aspects of joint ventures.

* $r = .993$ and $r = .991$ respectively, both significant at the 1% level for size of N.

**$r = .988$ (significant) at the 1% level (for size of N).
The size measures were classified in four categories, as shown in Table 2.1.

Table 2.1 - Classification of Joint Ventures and U.K. Firms by Total Assets and Sales of the Foreign Parent Company

<table>
<thead>
<tr>
<th>Value of Parent Company Assets or Sales (in millions)</th>
<th>Category</th>
<th>Size in Assets</th>
<th>Size in Sales</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Number of Cases</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>U.K. Firms</td>
<td>JVs</td>
</tr>
<tr>
<td>Under 51</td>
<td>Small</td>
<td>9</td>
<td>11</td>
</tr>
<tr>
<td>51 - 100</td>
<td>Medium</td>
<td>9</td>
<td>11</td>
</tr>
<tr>
<td>101 - 500</td>
<td>Large</td>
<td>17</td>
<td>24</td>
</tr>
<tr>
<td>Over 500</td>
<td>Very Large</td>
<td>14</td>
<td>25</td>
</tr>
<tr>
<td>Totals</td>
<td></td>
<td>49</td>
<td>71</td>
</tr>
</tbody>
</table>

Parent Size and Size and Gearing of Joint Ventures.

Parent size was positively correlated with the size of joint ventures as measured in terms of total assets*. This finding conformed to expectations. It was quite possible that a large foreign parent could be involved in a small joint venture abroad, but it was expected that a larger joint venture would very rarely be associated with a small foreign firm as the chief partner. From the host country point of view, a large local joint venture would have implied a large local matching investment, most often possible only for the government, or for a large local interest. To the extent that advanced technology was possibly more likely to be associated with larger firms, at least among firms which invested abroad, any technology required by a large local company, which

* $r = .667$ for parent size in assets and $r = .668$ for parent size in sales, both at the 1% level.
could not be transmitted through licensing, or via Fforde's "individual route" (1), was also more likely to have been a corporate asset of a larger foreign company.

On the reverse of the coin, one of the more common reasons given by small to medium-sized firms in this sample for rejecting a potential local associate, was the large size of the latter. This was said to be associated with the fear of excessive dominance of the proposed joint operation by such an Indian or Pakistani partner. The justification for this fear was not well established. The potential ability to dominate was obviously present, but only one British firm mentioned having actually experienced pressures of this sort. Several others indicated that there had even been a 'drawing-off' from close involvement, by a large local partner, to leave the joint venture virtually independent. (Both of these types of extreme were cited with reference to Tata interests, the largest potential private Indian partners.)

Larger British companies were also expected to be better able to obtain loans abroad for joint ventures in which they were associated (2). Parent size in assets showed a slight positive correlation with the gearing of joint ventures*, when the ratio used to define gearing was: total capital employed by a joint venture, divided by shareholders' capital. The cause and effect of this relationship, which is sketched out in Diagram 2.a, was likely to be complex. If large U.K. firms tended to associate with large local interests in large joint ventures, then

---

* \( r = 0.349 \), at the 1% level.
the fact that these joint ventures were better able to attract loan capital than smaller ones may have been due to several factors.

One reason may have been the ability of the local partners to obtain loans through their own standing. Another possible explanation could have been the potential significance of a large new joint venture to the national economy. An important new company of this type might well have had the dual status of a virtuous recipient of government-directed loans, and of a reliable source of return upon private disposable funds. There was some evidence (3) that this last source of capital tended to be most attracted, in the form of both equity and loans, to local companies associated with prestigious foreign firms. To the extent that size was one aspect of prestige, then the size of the foreign parents helped to explain a high gearing ratio in joint ventures with which they were associated.
It was not possible, in this study, to examine the effects of varying the size of the local associate upon the gearing of a joint venture, since sufficient financial information on Indian or Pakistani partners was not available. In several cases, this information was not only unavailable during the study. It also appeared that some British companies themselves rarely got a chance to look at their partners' books. Since many of these partners were private companies, which are not under an obligation to publish financial details (except for taxation purposes), it may not have been possible to obtain this information under any circumstances. Nonetheless, subject to the existence of such a difficulty, this dimension of joint venture organisation is one worth examining in more detail in future research.

On the whole, the argument that size of the joint venture was, in itself, an explanation of the availability of loan capital did not appear to be supported by the evidence of this sample. None of the measures of joint venture size were very highly correlated with those of joint venture gearing. More important was the size of the foreign firm's share in the equity of the joint company. With the reservation that data limitations meant that comparison had to be carried out over a sub-sample of the local joint operations, there was some slight indication that joint venture gearing ratios tended to increase with the size of the British share in the equity of the joint venture*

This may have been due in part, to the fact that an increase in this share could have made the foreign parent more prepared to provide loans itself to the joint venture. Such an inducement appeared to have

* $r = .246$, at the 5% level.
some validity, according to responses during discussion. For example, a large vehicle manufacturer was currently negotiating with the host government a deal whereby they would make a loan indirectly to a joint venture in which they were involved, in order to enable the latter to carry out a needed expansion project. The collateral desired by the British partner was government permission to convert the loan into an equivalent holding of equity in case of default, such conversion would have increased the foreign share in equity to a majority holding. The data were not complete enough however, to provide an adequate basis for testing the validity of this argument in general. Along the same lines too, was the possibility that local (or foreign, third party), funds were more attracted to a joint venture as its equity distribution suggested increasing control by a well-known foreign company.

It was also expected that gearing would be correlated with the performance of the joint venture, on the grounds that loans would be more readily available to profitable operations. This received some slight support from the results of several tests. Gearing ratios showed some positive correlation with the ratios of profits to sales and profits to capital employed*. Since, however, this whole relationship was of post hoc, rather than propter hoc, status, it was of less interest for predictive purposes. No other joint venture characteristic appeared to be very strongly related to its gearing. It seemed reasonable, therefore, to assume that the latter was, to some extent, a function of the characteristics of the foreign parent company, in particular, of its size, measured in terms of both assets and sales.

* $r = .419$, at the 1% level and $r = .348$, at the 5% level, respectively.
Parent Size, Attitudes to Control and Reasons for Going Into a Joint Venture

Parent size was expected to be associated with attitudes to control, in particular, equity control*. "A big international company is more likely to demand - and get - control of a new joint venture, than any other", according to the comment of Kidron on foreign investment in India. (4) In the general case, a study published by the National Industrial Conference Board (N.I.C.B.) in 1966 reported: "The survey findings indicate that, if the foreign investor is a large internationally aggressive company, with ample resources to expand outside the home market... (it) feels in a position to demand majority ownership in a joint venture, and, as a matter of policy, will seek (this) out". (5)

The relationship between size and attitudes to equity control was significant** and is shown in Diagram 2.b. Over half the cases in which

---

Diagram 2.b - Relationship Between Size of Foreign Parent and Attitudes to Control.

*The control measures are described in Chapter Five.

**Significant at the 0.020 level for asset size, and the 0.016 level for sales size. (In all cases when significance levels are described without further explanation, these refer to the Chi-Square Statistic. The discussion in the last paragraph above is based upon the figure for parent size in assets.
majority control was felt to be necessary involved large, or very large, companies. In over 80% of their joint ventures, firms in these two classes felt that such control was necessary or desirable, as compared with less than 50% of the joint ventures of small or medium-sized firms. Similarly, over 60% of the cases in which majority control was described as being no more than acceptable, were those involving small and medium U.K. parents. This finding may have arisen in part out of a recognition of the realities of the situation. Smaller companies would be expected to have a weaker bargaining position, vis-a-vis the host government, in insisting upon a majority share in the equity of a joint venture. If so, attempts at reduction of possible dissonance, between ability to achieve and aspirations, might have resulted in rationalisation of the latter at a lower level. (6)

On the other hand, this difference may have occurred because of a genuinely more relaxed attitude to control on the part of smaller firms. Such an attitude would not necessarily have been evidence of a major difference in the managerial philosophies of companies related to their size. Rather, it may have been a result of the way in which a joint venture was set up, and its original raison d'être. When parent size was tested against the chief reason given by U.K. parents for going into a particular joint venture*, this argument was supported, as shown in Table 2.2.

* This relationship was significant at the 0.007 level for size in assets, and at the 0.009 level for size in sales.
Table 2.2 - Foreign Parent Size in Assets and Reasons for Going into a Joint Venture.

<table>
<thead>
<tr>
<th>Reasons for Going into a Joint Venture</th>
<th>Foreign Parent Size in Assets (Number of cases &amp; cell % based on column sum)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Small</td>
</tr>
<tr>
<td>Explicit host government pressure</td>
<td>1</td>
</tr>
<tr>
<td>Implicit host government pressure</td>
<td>3</td>
</tr>
<tr>
<td>Spreading the risk</td>
<td>-</td>
</tr>
<tr>
<td>Need for local facilities/ resources</td>
<td>7</td>
</tr>
<tr>
<td>Total &amp; (% based on row sum)</td>
<td>11 (16)</td>
</tr>
</tbody>
</table>

(Notes: Percentages do not all add up to 100 because of rounding. Classification of reasons for going into a joint venture are discussed in Chapter Six.)

Over 60% of the very large foreign companies felt that they had, in effect, been forced to go into a joint venture in a given case. More than 50% felt that this pressure had been quite explicit. On the other hand, only one out of eleven cases involving small, and two out of eleven involving medium-sized, British companies were said to have been forced upon these foreign parents quite explicitly. Three more small firms felt that some fear of such pressures had influenced their decision.

The remainder of these smaller companies chose to go into a joint venture in a particular case primarily for other reasons. Usually this was because they themselves needed certain facilities or resources possessed by potential associates, in order to operate satisfactorily in India.
or in Pakistan. Given that they were expecting these contributions to be provided by a local partner, they could be expected to recognise the latter's claim to a larger share in the equity of the joint venture.

An additional test was carried out, using parent size in sales, to define further the limits of the equity majority in which foreign investors were interested. Their attitudes to a holding of 75% or more of the joint venture equity were measured on a five level scale. The figure of 75% was significant for two reasons:

(a) In relative terms, it was used here as a general target figure, representing a substantially large equity majority.

(b) In absolute terms, under the Indian Company (Amendment) Act of 1960, (7) certain rights of shareholders, changes in administration and liquidation of a company can only be altered or arranged with the agreement of the holders of 75% of the issued voting shares.

The relationship between these attitudes and parent size in sales was significant*, but was very unevenly distributed. In no case was such a holding felt to be necessary (level 1), or unnecessary (level 4). Two small and one very large firm said that 75% would be unacceptable to them (level 5). In 20 cases, of which 10 were medium-sized firms, 75% would have been acceptable (level 3). For all of the remaining 47 cases, a 75% holding would have been desirable (level 2).

* At the 0.004 level.
While the distribution of responses in this test was too lumpy to suggest a significant trend in variation by size of the foreign parent company, it did appear to confound two prior expectations related to risk-avoidance schedules. First, that equity holding might be kept to a minimum above a level which would give the foreign firm a majority, as one way of minimising the exposure of assets to a risky environment. This concern for exposed assets was part of a foreign investment strategy suggested by a Vice President of Merck & Co., Inc. during a seminar in 1965, in connection with operations in Brazil. (8) Second, one might expect that the importance attributed to such a method of reducing the risk in foreign investment would tend to vary inversely with the size of the foreign parent company.

There were several reasonable explanations for the rejection of the first of these predictions. Parent companies may have felt that the larger their share in the equity of a joint venture, the less the risk to their own participation through contrary action by partners. Coupled with this was perhaps the argument that, while such risk was due to environmental effects, as well as to internal business variability, it was best reduced by restricting the total amount of voting equity issued and increasing gearing through local loan capital. Investing overseas, in other words, in the 'American style', rather than limiting the foreign as a proportion of total equity.

The explanation may even have been much more straightforward. British firms, for historical reasons, did not seem to consider India or Pakistan to be particularly risky environments. If this were the case,

* As an example of this particular phenomenon in India, the practice of two U.S. rubber companies before 1955 was interesting. According to a Government of India report, in 1955, Firestone showed an annual turnover of Rs. 70 million on a total paid-up capital of Rs. 20,000. In the same year Goodyear had a turnover of Rs. 40 million on a paid-up capital of Rs. 15,000. (9) Both firms have however, since increased their local capitalisation and reduced the ratios above.
these investors may simply have wished to increase their share in the
return by increasing their share in the investment. This situation may
be changing. Over a quarter of these respondents mentioned strong doubts
about the future desirability of India as a locus for investment. Typical
was the comment of a director of a large chemical company: "Our main
reassurance for the future in India is in the fact that our experience
with this joint venture has been reasonably good. We would certainly
hesitate to invest in any other projects at the moment, because of the
difficulty in forecasting India's political and economic development."
In essence, these executives were worried about an increase in the
element of uncertainty rather than in risk, to use Aharoni's distinction
(10). India's future performance and political stability were felt to be
becoming less predictable (11).

A possible reason for the apparent lack of difference in attitudes,
between large and small firms, to a large majority holding in the equity
of an overseas joint venture may have been the homogeneity of the sample
along the size dimension. The category "small" may perhaps only have
been valid in the context of this sample. Only one British parent
company had assets and sales of less than $10 million. Three others
had assets of less than $20 million, but their sales were considerably
greater. In fact, the two small firms which would have found an equity
holding of 75% or more unacceptable, were the two smallest.

At the same time, the one very large company which made this
response, did so in reference to a joint venture in which its participa-
tion was in the form of a long-term contract (involving set-up supervision,
training and supply of components), with a large, public sector operation.
In this case, the question of foreign equity control was quite obviously
irrelevant. If this case were removed, the remainder of the responses could be interpreted as showing some slight support for the argument that the size of the equity share in a joint venture desired by a British parent firm varied directly with the size of the latter.

Parent Size and Selection of Associates.

The line of reasoning discussed above, in connection with reasons for going into a joint venture, continued to be supported when parent size was tested against reasons for choosing a specific partner for a given joint venture*. This relationship is shown in Table 2.3.

Table 2.3 - Foreign Parent Size in Assets and Reasons for Selecting a Specific Associate.

<table>
<thead>
<tr>
<th>Reasons for Selecting an Associate</th>
<th>Foreign Parent Size in Assets</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Small</td>
</tr>
<tr>
<td></td>
<td>No.</td>
</tr>
<tr>
<td>Forced-choice</td>
<td>-</td>
</tr>
<tr>
<td>Convenience of facilities/resources</td>
<td>4</td>
</tr>
<tr>
<td>Favourable past association</td>
<td>7</td>
</tr>
<tr>
<td>Status/Identity etc.</td>
<td>-</td>
</tr>
<tr>
<td>Total &amp; (% based on row sum)</td>
<td>11</td>
</tr>
</tbody>
</table>

(Notes: Percentages do not all add up to 100 because of rounding.

Classification of reasons for selecting associates is discussed in Chapter Seven).

* This relationship was significant at the 0.016 level.
The only firms that had been forced into their choice of partners, 17% of the sample, were all larger companies, three-quarters of them very large. To some extent, this finding may have been due to the fact that the choice of potentially compatible partners for such foreign investors was probably more limited. At the extreme, their only choice was the one significant local interest in the field, or alternatively, the host government. "Project size sufficient to deter a firm from investing ..., other than on terms unacceptable overseas, may also make it probable that an overseas government is the only likely local partner" (12).

This last point was particularly valid so far as the oil companies were concerned. Whatever their own inclinations may have been, all the U.K. firms in this group had the decision pre-empted by the local government in several cases. This was the case, for example, in Titas Gas Transmission Company Ltd., a mixed venture involving Shell in East Pakistan. It was also the case for Burmah Oil in several mixed ventures, including: the two Sui gas projects, Sui Gas Transmission Company Ltd. (13), and Sui Northern Gas Pipelines Ltd. (in West Pakistan); Eastern Refinery Ltd. (in the Eastern Wing of the same country); and Oil India Ltd. in India.

There may also have been an element of forced-choice for the larger British companies in the fact that they had chosen their partners in 25% of the cases primarily because of the status of the latter. Status was considered in terms of both financial standing and influence—especially influence with local authorities. This relationship had been expected, on the grounds that these firms would need to find comparable and compatible partners under the suggested matching constraint. It had also been expected, however, that status of a local partner would have
been an important reason for selection by smaller U.K. companies, largely as a feature of their anticipated risk-avoidance schedules. In fact, in only 20% of the cases in which status was a ruling consideration, was the British Parent in the medium size category. In no cases did a small company cite status as its primary selection criterion.

This result was probably due to a fact noted earlier, specifically that most smaller British firms went into joint ventures in the first place because they needed local facilities or resources. On the other hand, when it came to the selection of a specific partner, only about 36% of these smaller firms indicated that this choice had been determined by the potential contribution in these areas by a local interest. However, 64% of the small firms and 36% of the medium-sized stated that favourable past association had been their main reason for choosing a particular partner.

For such companies, satisfactory past experiences may have provided the most acceptable method for defining a partner's status, or for reducing the possible area of risk in associating with local interests. This consideration was perhaps especially relevant when, because of the matching size constraint, potential local partners were smaller firms themselves. Firms moreover, which were not usually as well, or as reliably documented and reported as were the giants. This feature was further compounded in its effect in that a higher proportion of these smaller local interests were likely to be private firms*, free from the restraining influence of publicly audited financial results.

* i.e., close corporations. (14)
In a similar manner, the high proportion of answers from smaller U.K. parents citing favourable past association as the prime selection criterion in a specific case may have concealed another feature. The associate chosen for meritorious past conduct may well have been contributing the facilities or resources which had motivated the decision to go into a joint venture (one hesitates to say - in the first place). There was an element of the chicken-or-egg riddle in this relationship. Although it might have entered into a joint venture in order to obtain lacking facilities or resources, would the smaller British company have gone into such a project at all, without the security engendered by a favourable past association?

For 36% of these firms, the answer was presumably - "yes". For the others, it seemed unlikely that past association, no matter how favourable, would have been enough to motivate a foreign firm to go into a joint venture with a partner which had nothing more tangible to offer than such association. This seemed even less likely when the joint operation would still have been short of certain facilities or resources which the foreign parent could not itself provide. Nor was there any evidence in this study to suggest such a case. When past association was the prime reason cited, it had led to a choice between a number of possible partners endowed with the necessary attributes, or of one which had already proved the extent of its endowment.

Parent Size and Profitability of Joint Ventures.

Because of the advantages generally supposed to accrue to size - more particularly, internal economies of scale and external ability to exert monopolistic pressures on prices and upon potential competition - it was expected that returns on investments in joint ventures would tend to vary
directly with size. Local conditions appeared likely, if anything, to enhance this effect. Firms which were large in the United Kingdom, would probably have even greater competitive advantages in the limited development of the Indian and Pakistani economies - especially when these advantages were amplified by tariff or import quota protection.

To test this assumption, parent size was examined against the return before United Kingdom taxes on long-term investment by British firms in associated joint ventures. This return included fees, royalties, profits and interest earned. The investment covered the British share in equity, reserves and surplus, plus medium and long-term loans to the joint venture. The rates of return, which were available only for a sub-sample, were classified into three categories, as shown in Table 2.4.

Table 2.4 - Classification of Joint Ventures by Rate of Return, Before U.K. Taxes, on British Parent Companies' long-term Investment.

<table>
<thead>
<tr>
<th>% Return on Long-Term Investment in a Joint Venture</th>
<th>Category</th>
<th>Number of Joint Ventures</th>
<th>Weighted Group Average Return</th>
</tr>
</thead>
<tbody>
<tr>
<td>10% or less</td>
<td>Low</td>
<td>12</td>
<td>6.5%</td>
</tr>
<tr>
<td>11% to 20%</td>
<td>Medium</td>
<td>17</td>
<td>14.5%</td>
</tr>
<tr>
<td>Over 20%</td>
<td>High</td>
<td>10</td>
<td>27.0%</td>
</tr>
<tr>
<td>Overall sub-sample total and average</td>
<td></td>
<td>39</td>
<td>15.3%</td>
</tr>
</tbody>
</table>

Although these data were only available for 39 cases, the relationship between size of parent and return on investment in a joint venture was significant*. It appeared to contradict, quite clearly, the assumptions which had been made. The results are shown in Diagram 2.c.

* At the 0.009 level for size in assets and the 0.013 level for size in sales.
Diagram 2.c - Return on Investment in Joint Ventures, According to Size of British Parent Company.

| Return Before U.K. Taxes on British Firm's Long-term Investment in a Joint Venture |
|---------------------------------|-----------------|----------------|----------------|
| 21.25                           | 19.75           | 12.5           | 11.1           |

(Number of Joint Ventures)

British Parent Company Size in Assets

Only two out of sixteen smaller firms showed returns in the low category, while five small, and four medium-sized, parent companies had investments earning over 20%. On the other hand, only one out of fifteen large firms, and no very large ones, were in the high category, while eight large and two very large firms were in the lowest group.

A possible explanation for this reversal from expectations may follow two lines. First, interest charges were limited by the effect of host government tax policies. At the same time, the larger firms were those most capable of providing loans to joint ventures - and in fact, were the companies which did so. Thus their overall returns, as constituted here, showed the results in some cases, of an effective limit of around $6 1/2\%$ on interest payments. (15)
Second, the effects of the operations of larger parent firms and larger joint ventures were much more 'visible' locally, in terms of their significance to the host economy. Smaller firms may not, therefore, have suffered quite such strict surveillance, over prices and high rates of return, as larger companies. The latter were likely to have their results subjected to much closer official scrutiny and regulation, because of what was felt to be the national interest. There may, however, have been a stage at which the international leverage of the very large firms was such that these companies could themselves prevent the host government from completely limiting their advantages. Support for this argument came from the fact that 75% of the cases involving very large British parents showed returns in the 11%-to-20% class, even though none appeared able to achieve a higher rate of return.

**Parent Size and Methods of Evaluating Joint Ventures.**

Prior to this study, it was suspected that evaluation of the success, or otherwise, of overseas investments - in particular joint ventures - would not be as pure an operation in practice as in theory. More specifically it was anticipated that:

(a) Clearly specified minimum rates of return would probably not have been determined by many foreign investors.

(b) Even when such 'benchmarks' had been established, they would tend to be treated pragmatically, in the light of circumstances, rather than used as a strict control over investment.

Apart from the difficulty in determining what constituted a reasonable, or an optimum, rate of return on these investments for any given case, such figures would probably be merely a formal, even an arbitrary, financial guide. Variation in such figures was expected to be less significant
than achievement of certain more general objectives. Objectives which had been of underlying importance when the original decision was made to invest in a given project or market.

Only in 31 of the investments in this sample were returns on investment cited as a primary basis for evaluation. In 13 more, this return was recognised as one component in an evaluation matrix. For 25 joint ventures, no fixed levels of return were used as guides. Even among the firms which did set a minimum acceptable figure, this was treated with considerable tolerance, as typified by this comment from the managing director of an electrical company: "We feel that, once committed, it is probably too late to worry about firm performance standards, as we can't very well get out, except by incurring considerable 'write-off' losses. This would need a terrible and sustained performance".

More important, in evaluating joint venture performance, to most of these foreign parent companies, was achievement of the more general objectives mentioned above. These were grouped into four categories:

(1) Long-term development of the local market.

(2) Actual performance against budgeted output and/or cost standards.

(3) Contribution to integration of the international operations of the foreign parent company.

(4) Achievement of returns other than dividends, (i.e., fees, royalties, transfer pricing margins).

Parent size in sales was significantly related to the nature of these primary overall objectives used by U.K. firms in evaluating the success of a joint venture*. This relationship is shown in Table 2.5.

* At the 0.003 level.
Table 2.5 - Foreign Parent Size in Sales and Evaluation of Joint Ventures
Through Performance Against Scheduled Objectives.

<table>
<thead>
<tr>
<th>Scheduled Objectives</th>
<th>Foreign Parent Size in Sales</th>
<th>No.</th>
<th>%</th>
<th>No.</th>
<th>%</th>
<th>No.</th>
<th>%</th>
<th>No.</th>
<th>%</th>
<th>No.</th>
<th>%</th>
<th>Total</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Small</td>
<td>Medium</td>
<td>Large</td>
<td>V.Large</td>
<td>Total</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Number of cases &amp; cell % based on column sum</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Long-term market development</td>
<td>- -</td>
<td>13</td>
<td>77</td>
<td>6</td>
<td>43</td>
<td>7</td>
<td>25</td>
<td>26</td>
<td>42</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Output or cost performance</td>
<td>2</td>
<td>64</td>
<td>2</td>
<td>12</td>
<td>7</td>
<td>7</td>
<td>25</td>
<td>12</td>
<td>19</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>International Integration</td>
<td>- -</td>
<td>1</td>
<td>6</td>
<td>3</td>
<td>21</td>
<td>12</td>
<td>43</td>
<td>26</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other return</td>
<td>1</td>
<td>33</td>
<td>1</td>
<td>6</td>
<td>4</td>
<td>29</td>
<td>2</td>
<td>7</td>
<td>13</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Totals &amp; (% based on row sum)</td>
<td>3 (5)</td>
<td>(27)</td>
<td>(23)</td>
<td>(45)</td>
<td>62 (100)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

(Note: Percentages do not all add up to 100 because of rounding)

A concern for international integration was obviously likely to increase with the size of the parent company, since larger firms were more capable of having, and likely to have, a wider range of international operations. It did. It was also expected that larger firms would be more likely to have longer time horizons, in that they sought long-term market development. This was only partly supported by the evidence. Forty-three percent of the large firms cited this as their primary objective. Only 25% of the very large firms made this their prime reason. For these companies, there may have been some continuity between this objective and that of international integration, to the extent that the latter actually involved the long-term development of a complex of markets.
A noticeable feature of this set of responses, however, was the concern of medium-sized companies for long-term market development. Fifty percent of the firms giving this reason were in the medium category, and 77% of the medium-sized firms gave such development as their primary criterion for evaluation. No small companies gave this reason. This finding may in part constitute further evidence of the continuity in objectives, just mentioned above, as a possible underlying explanation.

More explicitly, however, the medium-sized firms were also those which stated most frequently that they had gone into a joint venture in India or Pakistan primarily in order to develop a new market. Larger companies were usually defending an existing market, reacting to a tariff, or else matching competitive needs. (16) These results suggested that the hypothesis relating larger size to longer time horizons was incomplete, at best, in terms of its relevance to these companies. Neither age of the joint ventures, nor type of business, were significantly associated with overall evaluation criteria used by foreign parents. A better explanation than those put forward above was not, therefore, available.

Achievement of other returns was mentioned as a primary consideration in only 13% of these cases. This response accounted for 29% of the answers given by foreign parents in the large class, but was not important for the others. It had been expected that this method of evaluation would have been more important for smaller foreign firms, or would be associated with smaller foreign shares in joint venture equity. The latter relationship was not significant. The former was valid for a single case, which appeared to be slender evidence upon which to base conclusions.

A similar reservation applied to the fact that 67% of the small parent companies mentioned performance against standards as a basis for
evaluation, since this only involved two cases. This objective was important in 25% of the joint ventures associated with very large foreign parents, but was not considered to be significant for the others.

**Profitability of the Foreign Parent Companies.**

Three measures were used to examine the effects of variations in the profitability of British parent companies. These were, net profits of the company, as a proportion of:

(a) Shareholders' capital (Net return on investment, or 'NRI').
(b) Capital employed ('NPCE').
(c) Total sales ('NPSales').

The distribution of joint ventures according to these measures was as shown in Table 2.6.

**Table 2.6 - Classification of Joint Ventures by Three Measures of the Profitability of the British Parent Company.**

<table>
<thead>
<tr>
<th>Percentage Range in Profitability</th>
<th>Net Return on Investment (NRI)</th>
<th>Net Profit on Capital Employed (NPCE)</th>
<th>Net Profit on Group Sales (NPSales)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>No.</td>
<td>%</td>
<td>No.</td>
</tr>
<tr>
<td>5% or less</td>
<td>6</td>
<td>9</td>
<td>31</td>
</tr>
<tr>
<td>6% to 10%</td>
<td>39</td>
<td>60</td>
<td>22</td>
</tr>
<tr>
<td>11% to 15%</td>
<td>18</td>
<td>27</td>
<td>11</td>
</tr>
<tr>
<td>Over 15%</td>
<td>2</td>
<td>3</td>
<td>1</td>
</tr>
<tr>
<td>Totals</td>
<td>65</td>
<td>65</td>
<td>65</td>
</tr>
</tbody>
</table>

(Notes: Data only available for 65 cases, from parent company reports and Exchange Telegraph Daily Statistics Service. Percentages do not all add up to 100 because of rounding.)
Both of the measures of parent company return on capital, NRI and NPCE, conformed to expectations in being highly correlated with similar ratios for the joint ventures with which these firms were specifically associated*.

The fact that profitability of joint ventures varied directly with that of the U.K. parent may have been a result of the latter's effectiveness, or it may have reflected the nature of the two businesses. In most cases, these were much the same and may have possessed some inherent competitive advantages, tending to make them comparably profitable in both the U.K. and the joint venture's host country. It was not possible to distinguish between these two effects over the cases in this sample.

Whatever the primary reason for the correlation between the profitability of British companies and that of their overseas joint ventures, there was some indication that the former expected this relationship to be continued. For the cases in which a specific figure was actually given by a U.K. parent as the minimum acceptable level of return on the investment associated with a joint venture, this figure was compared with the British firm's NRI. The relationship between the two variables was significant* over a sub-sample of 32 cases and is outlined in Diagram 2.d.

* For Parent NRI and JV NRI, $r = .841$.
For Parent NPCE and JV NRI, $r = .849$.
For Parent NRI and JV NPCE, $r = .846$.
For Parent NPCE and JV NPCE, $r = .853$.
All four of these correlations were significant at the 1% level, after allowing for $N$, or sub-sample size.
Parents with a higher NRI themselves tended to expect a higher rate of return from a joint venture. All of the cases for which a lower return was acceptable, involved U.K. firms showing a lower level of profitability themselves. Origin of causation in this feature was not clear. Did it reflect generally higher standards set by more efficient parent firms? Was it the result of considered analysis of the potential opportunity peculiar to a given joint venture? Or was it simply that such expectations were calibrated to a continuation of the status quo; in which case the relationship was 'trivial'? Trivial, but possibly an interesting indication of the way in which standards for evaluation were set up in one area of corporate policy determination. One suspects that a genuine answer is itself indeterminate.

More efficient firms may have set higher standards, but they did not appear to set them in the form of return on investment figures. In none of the cases in which British parents were in the higher groups by

*At the 0.024 level.
NPCE, did they evaluate joint venture performance primarily through this criterion*. In 25% of these higher NPCE parents, it was cited as part of the overall check on performance, but no more. To some extent, as suggested in the previous section of this chapter, these firms were looking at a wider matrix of returns.

In 50% of the group in which foreign parents themselves had a higher NPCE, contribution to the international integration of their own operations was the prime basis for evaluating a joint venture**. Most of these cases involved oil companies. This finding again led back to the possibility that nature of business may have been a more important determinant of policy and profitability, than were variations in the effectiveness of foreign parents. Unless, of course, oil companies were more effective than others, a possibility which could not be disproved from this evidence.

So far as 'considered analysis' in financial terms was concerned, this too appeared to have limited application. Some of the issues were also discussed in the previous section. Even after the event, in 37% of these cases, the British parent company did not know whether any additional cost or loss resulted because of operating through a joint venture, rather than through a subsidiary. Nor had they attempted to discover whether this was an effect of a joint operation. Another 20% made the comment that the issue was irrelevant in any case. Fifteen percent felt that there was merely a lower return on a lower investment, while 21% said that there was no loss, in fact their returns were probably better

* Relationship significant at the 0.017 level.
** Relationship significant at the 0.015 level.
than they would have been in a subsidiary. Only 7% stated that they could
determine some loss through joint operations, and most of these were
firms in the lower group by NPSales*.

In general therefore, this evidence supports the earlier argument
that optimum return on investment figures were perhaps not very thoroughly
determined, or capable of determination. They were probably not very
important in evaluating joint venture performance, certainly not to
firms considering a wider complex of investments. There also appeared to
be some slight indication that when such figures were felt to be impor-
tant, this was part of a less flexible approach to evaluation by less
effective foreign parent companies.

The profitability measures appeared to have little significant rela-
tionship with the selection criteria used in choosing associates, or with
the groups of variables related to the background to that choice, or with
the structure of the joint ventures. A marginally significant association
did exist between parent company NRI and reasons given for choosing the
joint venture form**. This appeared to suggest that more profitable
foreign parents were also more likely to be those which felt that they
had been forced into a joint venture. It could have been argued that,
being more successful themselves, such companies felt more capable of
operating without local assistance, but this argument was not tested.

On the other hand, there was also a tendency for firms seeking local
facilities or resources as the prime reason for going into a joint
venture to be the more profitable ones. This duality was probably ex-
plained by the existence of two clear groups of more profitable companies,
in the relationship between parent company NRI and parent size in assets***.

* Relationship marginally significant at the 0.057 level.
** At the 0.066 level.
*** Significant at the 0.012 level.
The first group consisted of very large firms, powerful enough to limit officially-induced erosion of their own profitability, a category which also tended to have been forced into joint ventures. The second was made up of small firms, which tended to seek complementary local facilities or resources. They therefore sought to go into joint ventures by preference.

Summary.

The size and gearing of this group of joint ventures were positively correlated with size of the British parent companies, possibly because larger projects were likely to involve larger foreign and local partners. Greater ability to attract loan capital was probably, to some extent, a reflection of all three of these size dimensions, but primacy was argued as being most likely to rest with size of the foreign parent.

Very few of these British companies, large or small, had any inhibitions about taking a large share (75% or more) in the equity of a joint venture in India or Pakistan. Larger firms were more likely to feel that they had been forced into a joint operation and to seek control. This may well have been due to a weaker bargaining position on the part of smaller foreign investors. It may also have been due to a more relaxed attitude towards control, since a higher proportion of these firms sought positive contributions from potential partners - for which they were presumably more prepared to forego control over a joint venture. The choice of prospective associates was more limited for larger foreign firms, the latter, in particular the oil companies, were more likely to be explicitly forced into a mixed venture.

Status of a local partner was only really significant for larger British companies, smaller ones usually choosing to continue a favourable past association with an existing associate. The tendency for
partners to be matched in size enhanced the importance of known associates for small foreign investors, since less substantial information was available concerning smaller local interests. There was also the fact that past associates had been chosen originally by some smaller British firms, because of their need for facilities or resources which these local associates could provide.

Over a sub-sample, there was some evidence that profitability of joint ventures varied inversely with size of the foreign parent. This relationship was due in part to the fact that a higher proportion of larger firms made loans to an associated joint venture, loans on which interest rates were limited by local taxation. It may also have been due to less stringent scrutiny of rates of return obtained and prices set by smaller companies, since these operations were less 'visible' to local authorities.

Return on investment appeared to be of limited importance to U.K. firms in evaluating the performance of joint ventures. Many could not, or did not, specify any acceptable minimum rate of return. In over a third of these cases, British parents had not considered, or could not determine, whether there was any cost or benefit to them in operating through a joint venture, rather than through a branch or a subsidiary.

Even when a formal bench-mark did exist, it was not as important as achievement, defined in more general terms, of the parent company's objectives in a wider context. Medium-sized firms had usually gone into these two countries in order to develop a new market, and their chief concern was with long-term development of this market. As firms increased in size, their objectives became more international in scope. Long-term
development of a specific market became subsidiary to needs of international integration. There was also some evidence that firms which did set specific minimum acceptable levels of return in evaluating joint venture performance, were in the less profitable classes of British parent companies.

Profitability of joint ventures showed a high positive correlation with that of British parents, and the latter expected this relationship to continue. It was not clear whether this relationship reflected higher standards set by more efficient parents, or simply anticipation that the status quo would be maintained.

Notes and References to Chapter Two

3. For some details of over-subscription of issues by foreign-associated companies in India, up to 1962, see the Economic Times, of Bombay, July 10, 1962.
6. This appears to be a reasonable application of the ideas in Leon Festinger, *A Theory of Cognitive Dissonance*, (Stanford University Press; Stanford, 1957).

7. Company (Amendment) Act of 1960. See also Indian Companies Act, 1956, as amended, Schedule 1, Table A.

8. Discussed by Mr. Leo Fernandez, Vice President, Western Hemisphere Operations, Merck, Sharp and Dohme, International, Division of Merck and Co., Inc., at a seminar at the Massachusetts Institute of Technology, December 15, 1964.


13. The origins of this joint venture were reported in detail in Wolfgang G. Friedmann and George Kalmanoff, *Joint International Business Ventures*, (Columbia University Press; New York, 1961), pp. 456-466. It was also reported in the *Burmah Group Magazine*, No. 5, Spring, 1966, pp. 10-18.

14. See Indian Companies Act, 1956, as amended, Sec. 4 (?), for a description of the private companies in India.
15. In fact, interest rates on loan funds are higher than this in India and Pakistan, see J.D. Nyhart and Edmond F. Janssens, *A Global Directory of Development Finance Institutions in Developing Countries*, (The Development Centre of the Organisation for Economic Co-operation and Development; Paris, 1967), pp. 143-169 and 287-293. This is however, the rate at which high levels of taxation on returns commenced.

16. These results appear to agree with those reported in Kidron, *op. cit.*, pp. 253-255.
CHAPTER THREE

THE NATURE OF THE BUSINESS

It was not possible to classify either parent firms or joint ventures in any meaningful way according to the level of technological complexity of their activities (1). The British parent firms especially, were involved in a diversity of operations of varying levels of complexity, so that classification was felt to be arbitrary, rather than accurate. So far as the joint ventures were concerned, the differences in production functions between Britain, India and Pakistan appeared to be too variable to control under the conditions of the study. It is anticipated that future research, carried out over a similar sample of companies, and directed specifically towards the definition of production functions and their variation internationally, may be able to overcome this problem (2).

In all but one case, the nature of the business of the joint venture was the same as, at least some part of, that of the British parent company. British firms were classified by their major type of business, into seven categories, as were joint ventures. This arbitrary method of classification exaggerated slightly the difference overall, between parents and joint ventures, according to the nature of their respective operations. Thus the figures in Table 3.1 suggest an overall difference in roughly 10% of all cases, whereas the true difference was in fact less than 2%.

Both 'parent business' and 'joint venture business'* were tested against other variables. In each case, the significance of the resulting relationships was very similar for the two measures of nature of business.

*These two variable names are used throughout the text as abbreviations for the nature of the parent company's business and the nature of the joint venture's business.
against any particular third measure, while the direction of variation was the same. The nature of the foreign parent company's business usually determined that of an associated joint venture. The former was therefore used in examining the effects upon other variables of variations in the nature of the business.

Table 3.1 - Classification of British Parent Companies and Associated Joint Ventures According to The Nature of The Business.

<table>
<thead>
<tr>
<th>Nature of the Business</th>
<th>Category</th>
<th>British Parent Firms</th>
<th>Joint Ventures Classified by Business of the Parent</th>
<th>JV</th>
</tr>
</thead>
<tbody>
<tr>
<td>Oil, Petro-chemicals, Natural Gas</td>
<td>Oil</td>
<td>5</td>
<td>13</td>
<td>12</td>
</tr>
<tr>
<td>Chemicals, Pharmaceuticals, Plastics, Fertilisers, Pesticides, etc.</td>
<td>Chemicals</td>
<td>13</td>
<td>16</td>
<td>17</td>
</tr>
<tr>
<td>Heavy &amp; Light Engineering, Machine Tools, Instruments, Mechanical Handling Equipment, etc.</td>
<td>Engineering</td>
<td>8</td>
<td>10</td>
<td>9</td>
</tr>
<tr>
<td>Electrical Equipment, Materials and Cables</td>
<td>Electricals</td>
<td>9</td>
<td>15</td>
<td>14</td>
</tr>
<tr>
<td>Vehicles &amp; Transport Equipment, Components &amp; Accessories</td>
<td>Vehicles</td>
<td>5</td>
<td>7</td>
<td>9</td>
</tr>
<tr>
<td>Metals, Metal Products, Glass, Ceramics</td>
<td>Metals</td>
<td>5</td>
<td>5</td>
<td>6</td>
</tr>
<tr>
<td>Tobacco &amp; Food Products, Other</td>
<td>Tobacco, Food</td>
<td>4</td>
<td>5</td>
<td>4</td>
</tr>
<tr>
<td>Totals</td>
<td></td>
<td>49</td>
<td>101</td>
<td>71</td>
</tr>
</tbody>
</table>

Prior to the study, it had been expected that the nature of business would turn out to be significantly associated with all the other groups of variables, as one of the most useful predictors. With the exception of those variables which described the methods by which parent firms
evaluated the performance of joint ventures, this turned out to be true. As it happened, this latter group of variables appeared to have very few consistent or predictable relationships with any of the others in the study.

The present chapter discusses some of the relationships between the nature of the business and:

(a) Attitudes to control over joint venture operations of the British parent companies.
(b) Location of responsibility for the British parent companies' decisions to go into joint ventures.
(c) Attitudes of British parent companies towards different types of potential joint venture associates.
(d) The selection of associates for specific joint ventures.

Chapter Four deals with relationships between nature of business and:

(a) Certain structural characteristics of joint ventures.
(b) Effectiveness and importance attributed by British parent firms to their associates in relation to specific joint ventures.
(c) Preparedness of British parent companies to invest in further joint ventures in various types of countries.

Among the variables which were not significantly related to nature of business, at least not within the limited size of this sample population, were:

(a) Past knowledge of the host country, or of the selected associate.
(b) Availability of alternatives to the chosen associate.
(c) The nature of the initial contact, or the original approach to set up a joint venture.
(d) Location of responsibility within the British parent company for the initiation and promotion of a specific project.
(e) The chief reason for choosing the joint venture form of operation.

Particularly unfortunate perhaps was the lack of a significant relationship between nature of business and the last of the above variables. Such an association would have helped to test part of the hypothesis that the joint venture decision was governed by bilateral monopolistic advantage. It had been hoped to test, in particular, the argument that conditions of bilateral monopoly might be governed by the nature of the business. In line with this theory (3), it had been presumed that industries which were more complex in technological terms, would be more desirable to the host country. As a result, firms from such industries could perhaps be expected to state less frequently than others, that they had been forced into joint ventures. This argument appeared to be supported by the experience of companies such as I.B.V., A.E.I., or English Electric in India. (4)

**Nature of Business and Attitudes to Control.**

Even though the effects of variations in technological complexity could not be adequately tested, there were expected to be significant differences in attitudes to control over joint ventures by various kinds of business. An earlier study on behalf of the N.I.C.B. stated that: "A company's preference for a minority or a majority position in a joint venture is very often dictated by the type of business...The value of local partners will vary with each type of business." (5)
It was assumed that the vehicle and transport equipment industry would indicate a strong desire for control. This was partly due to the fact that the aggressive competition, in which these companies were almost universally involved, did not appear to be likely to favour joint operation. It was also due to the scale of operations which was commonly a feature of this type of business, and the argument that: "companies in industries requiring large-scale production units...generally desire controlling interests in joint ventures." (6).

Oil and associated interests were also expected to look for control wherever possible, in order to facilitate optimum international integration of their operations. The argument for the food and tobacco companies was slightly different. These firms operated in other countries in monopolistic, or more often, oligopolistic markets. It seemed likely therefore, that they would tend to seek control in order to be able to continue to operate in the manner to which they had become accustomed.

On the other hand, the basic diversity of the types of operations which were included in the engineering, metals and electricals groups suggested that their attitudes to control would not show many consistent intra-group tendencies. Finally, it was anticipated that the chemicals group of companies would probably be the most relaxed in terms of their desire for formal control over a joint venture. This was argued on the grounds of the leverage which could be exerted by such companies through a joint venture's dependence upon their corporate process technology and continuing research and development results.

Both the main control measures* were examined against nature of business and both were significantly related to the latter**. The results by nature of the various business groups were not however, entirely as had been expected, and are shown in Table 3.2.

* These two measures are explained in Chapter Five. The desire for majority control is probably self-explanatory. In the desire for effective control, the definition of 'effective' was left to respondents.

**Both relationships were significant at the 0.000 level.
Table 3.2 - Nature of Business and Attitudes of British Parent Companies To Effective Control over a Joint Venture

<table>
<thead>
<tr>
<th>Nature of Business</th>
<th>Effective Control Described as:</th>
<th></th>
<th></th>
<th></th>
<th></th>
<th>No.</th>
<th>%</th>
<th>No.</th>
<th>%</th>
<th>No.</th>
<th>%</th>
<th>No.</th>
<th>%</th>
<th>No.</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Necessary</td>
<td>Desirable</td>
<td>Acceptable</td>
<td>Unnecessary</td>
<td>Totals</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>No.</td>
<td>%</td>
<td>No.</td>
<td>%</td>
<td>No.</td>
<td>%</td>
<td>No.</td>
<td>%</td>
<td>No.</td>
<td>%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Oil</td>
<td>-</td>
<td>-</td>
<td>11</td>
<td>85</td>
<td>1</td>
<td>8</td>
<td>1</td>
<td>8</td>
<td>13</td>
<td>19</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Chemicals</td>
<td>2</td>
<td>13</td>
<td>12</td>
<td>80</td>
<td>1</td>
<td>7</td>
<td>-</td>
<td>-</td>
<td>15</td>
<td>21</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Engineering</td>
<td>2</td>
<td>20</td>
<td>-</td>
<td>-</td>
<td>4</td>
<td>40</td>
<td>4</td>
<td>40</td>
<td>10</td>
<td>14</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Electricals</td>
<td>5</td>
<td>33</td>
<td>2</td>
<td>13</td>
<td>6</td>
<td>40</td>
<td>2</td>
<td>13</td>
<td>15</td>
<td>21</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Vehicles</td>
<td>1</td>
<td>14</td>
<td>3</td>
<td>43</td>
<td>1</td>
<td>14</td>
<td>2</td>
<td>29</td>
<td>7</td>
<td>10</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Metals</td>
<td>1</td>
<td>20</td>
<td>1</td>
<td>20</td>
<td>2</td>
<td>40</td>
<td>1</td>
<td>20</td>
<td>5</td>
<td>7</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tobacco, Food</td>
<td>3</td>
<td>60</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>2</td>
<td>40</td>
<td>5</td>
<td>7</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Totals</td>
<td>14</td>
<td>20</td>
<td>29</td>
<td>41</td>
<td>15</td>
<td>21</td>
<td>12</td>
<td>17</td>
<td>70</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

(Note: Percentages do not all add up to 100 because of rounding. Percentages in the final column are based on the column sum)

Responses from the vehicles group were actually very different over the two measures of attitudes to control. In fact the opinion was expressed, as anticipated, for all cases in this group, that majority control was necessary or desirable. However, effective control appeared, from the figures in Table 3.2, to be less important in 43% of this particular group of joint ventures. These foreign investors appeared to consider that equity control gave them a final sanction which was consistent with their investment policies. Since, however, they were all satisfied with the effectiveness of their associates (as discussed in Chapter Four), they were prepared to leave effective control of operations to the latter.
Most of the food and tobacco group considered that control was necessary, however defined. (One of the two cases in this group in which control was described as unnecessary actually involved the one British parent which was neither a food nor a tobacco company, but was included under the heading 'other'). Responses from the metals and electricals group were as varied as had been anticipated. None of the former stated that equity control was necessary. Attitudes of these three groups therefore, appeared to agree with those forecast.

Attitudes to control of companies in the engineering group tended to be rather more relaxed than had been predicted. None of these parent firms stated that equity control was necessary, and only 20% felt that they needed effective control. A probable explanation here was the proportion of smaller investments in this group. Some of these involved relatively 'painless' participation by British firms, in the form of equity shares in a joint venture which had been granted, under the original agreement, in return for licenses or know-how*. Alternatively, the foreign participation was in the form of plant or machinery which had already been depreciated in Britain. Some of these firms also earned additional returns from a joint venture investment through continuing technical assistance contracts, or through the supply of components. Among this group of companies were several which, according to statements during interviews, were not interested, and had not been in the past, in running a company in India or Pakistan under any circumstances. The reason usually given was lack of the necessary staff.

On the whole, the answers from oil and associated interests did conform to expectations. While neither effective control, nor a majority share in joint venture equity were considered to be necessary for any of

* Shares granted in this manner were often described, somewhat quaintly, as "free shares", both by Indian authorities and by British executives.
the joint operations in which these firms were involved, each of these methods of control were felt to be desirable in 85% of this group of cases. There was perhaps an element of philosophical resignation, or at least, a recognition of reality, in the attitudes of oil companies to the issue of control. They would have preferred to have control in a joint venture, but were quite prepared to operate without it.

Even in combination with other foreign interests, the oil firms only held a majority position in 45% of their joint ventures in this sample. Nor was such combination entirely reliable in some cases. Witness the politically motivated 'slippage' of foreign partners' tankers during the Indo-Pakistan conflict in 1965. "In September, 1965, during the Indo-Pakistan hostilities, crude oil shipments to Karachi were dislocated (Esso and, to a lesser extent, Caltex tankers 'slipped') to the point where PRL** had to reduce crude runs somewhat for 13 days" (7).

Desire for control turned out to be much stronger than had been expected for companies in the chemicals group. In 14 out of 15 cases, both majority and effective control were felt to have been necessary or desirable (if they could have been achieved). These firms were in fact confident of their ability to exert any necessary pressure upon a given joint venture through technical leverage, regardless of their own equity position. A respondent from the British parent of a 50-50 joint venture in the chemicals group actually commented along these lines: "This operation could probably now stand on its own feet without either our local partner or ourselves. It would certainly be unable to develop further however, without our products, patents and know-how."

* 'Slippage' was the failure to meet scheduled timing by supply tankers, especially, as here, failure to meet times laid down for arrival at refineries.

**PRL was Pakistan Refinery Ltd. at Karachi.
The implication appeared to be that complacency about their situation could be interpreted as satisfaction with the existence of a required state of affairs - namely effective control - rather than as impartiality towards the issue of control, as had been originally expected. Why then, the concern over equity majority positions by the firms in the chemicals group? Less than 30% actually had a majority position in any joint venture, and yet they appeared to feel that they had effective control in most cases.

One reason may have been the very strong association, by most of the British executives in the sample, of effective control with majority control - in principle, if not necessarily in effect. Thus for the chemicals companies, even though they realised the extent of their effective control over the operations of a joint venture, they appeared to feel that this would be enhanced by its formal recognition in the form of a majority holding of equity. A director of one large chemicals company explained: "If we control financially, it is easier to provide technical interchange with a joint venture, since we have control over the eventual use of the technology. This applies especially to corporate know-how, which tends to be best transmitted through free interchange. Sharing technical responsibilities tends to bring difficulties."

There were realistic deviations from this concern. One of the more impressive performers in this group had originally received permission from the host government to hold 50% plus one share in the equity of a joint venture which it set up with a major Indian company. At the time, the issue had not been equity control in the joint venture, but the possibility of consolidating the latter's financial results with those
of the British parent, for U.K. tax purposes. At the time of the interview, this same British firm was considering disposing of two shares in the Indian joint venture in question. This manoeuvre would have changed the status of the joint venture, under the U.K. tax system, to that of an associated company and the two sets of accounts would not have been consolidated.

The whole operation was being carried out in order to improve the debt:equity ratio of the British company. In general, Indian companies were permitted a higher gearing ratio than was common in the United Kingdom* and this particular joint venture had taken full advantage of this opportunity. By reducing the proportion of debt in its own overall capital structure, the British firm was hoping to become a more attractive proposition for additional financing in Britain. The question of control over the joint venture was not considered to be significant in terms of relative equity holdings between partners.

This particular British firm was obviously satisfied with its Indian partner and the local joint operations. In fact, this satisfaction was tangibly expressed in a deliberate policy of offering this local partner a 50% share in all its other Indian operations. Most of which other interests had arisen from the acquisition in Europe of

* The debt:equity ratio officially approved by the Indian Capital Issues Controller was theoretically limited to 2:1 (3). However, purely short-term loans were not apparently counted in the computation of the debt side, being allowed as working capital. The result was a high proportion of overdraft and other short-term financing. The effective limit which was thought to be realistic by respondents in this sample was about 3:1 (although the U.S. rubber companies' figures described in Chapter Two suggested that this estimate might have been a bit low). Over the sub-sample in this study of cases in which financial data were sensitive enough to permit the necessary calculations (43 cases), gearing of the joint ventures averaged about 2.4:1. This compared with an average of approximately 1.6:1 for the total sample of British parent companies, according to figures from their consolidated group accounts.
other foreign parents of Indian subsidiaries, in particular of a large
British-controlled operation in India, bought from the original owner in
the United Kingdom.

A more explicit reason for this apparent contradiction in the
attitudes to control held by companies in the chemicals group, may be an
offshoot of the '50-50 phenomenon'. One third of the chemicals cases
were 50-50 joint ventures. In more than half of this group, the British
share was in the 49% to 51% range, and said to be legally and firmly
restricted by the host government. This was a higher proportion than in
any of the other groups as defined by nature of business.

In several of these cases involving equal shares between partners,
the joint venture had apparently come up against the problem of increasing
investment to permit growth at a rate which the British partner felt was
justified by market demand and potential. When the local associates
were Tata interests, or firms with a similar access to financial liquidity,
matching investment increases were no problem. In fact, they appeared
to have been sought equally eagerly by the local partner. In some of the
other cases (at various stages, most of the 49% to 51% group), the local
associates' inability or unwillingness* to match an increase in British
investment had created difficulties. These had been reinforced by host
government insistence upon the maintenance of relative shares in equity.

As a result of these problems, the growth of these joint ventures
had, at certain times, been stultified. These experiences appeared to
conflict with those described by Friedmann and Kalmanoff, who stated

* Unwillingness, due partly to what Hirschman called: "the milking so
often practiced by local capitalists"(9), in which profits from a
reliable source, such as a sound local industrial enterprise, were
applied to high risk, but also high return, local alternatives.
that: "There is considerable evidence that serious conflicts have not arisen, and that joint ventures have followed a liberal policy of reinvestment for growth." (10) The present study indicated that there appeared to be evidence on both sides of this particular argument. This is an issue which needs clarification and definition through appropriately-oriented and rather more comprehensive research.

Given that these problems had arisen, they apparently led the foreign partners in such cases to consider as desirable:

(a) Permission to increase investment as needed by the joint venture, if necessary, to a level, or in a manner, which would have caused the foreign share in equity to exceed 50%.

(b) The added leverage which it might have been possible to exert upon a host government to permit increased unilateral foreign investment. In particular, through the argument that, if foreign majority control were to be a fait accompli, then an increase in the foreign share in equity would not be significant or damaging to host country interests.

(c) The added argument of financial control through an equity majority, in order to justify, to foreign shareholders, the investment of any additional needed funds in the form of non-voting equity, or long-term loans to the joint venture. (Given that the strategy suggested under (b) above did not work, or that the foreign parent decided that loans were a more suitable form of investment within the constraints of its own investment decision matrix.).

* The remainder is offered that 'foreign' means foreign to the host country. While the strategies discussed in this section were based on British firms' experiences, they are perhaps capable of extrapolation to the general 'foreign' case.
Since problems of the type just discussed appeared to have arisen most frequently in the joint ventures associated with British chemicals companies, they may have been major contributory factors to the unanticipated concern by these firms over majority holdings in equity, in addition to effective control. This argument would have agreed with the comments of a large U.S. chemical company, as quoted by Robinson: "We feel that it is best to have either a minority interest, or a controlling interest." The author continued: "The firm had a number of fifty-fifty interests abroad, and in some instances problems had arisen in reaching decisions."(11).

Nature of Business and Responsibility for Decision.

The location of responsibility within a British parent firm for initiating and promoting a specific project did not appear to vary significantly according to the nature of business. There was however, some indication of the nature of the decision process in the relationship between nature of business and the final responsibility for the decision to go into a proposed joint venture*, as shown in Table 3.3.

The chief hypothesis under examination here was that overseas investments might be primarily motivated by individuals or groups, since, it had been suggested, "Even in giant firms, the most important decisions are effectively taken by very small groups." (12). Further, that such people would have either considerable experience in the country concerned (13), or else a special interest in promoting overseas investments. (14)

This study appeared to support such a hypothesis, even to the extent of this explicit statement by an executive director of a chemicals company: "Support for any such policy of international development of operations usually comes from those who are familiar with it. These

* Significant at the 0.001 level.
Table 3.3 - Nature of Business and Location of Responsibility for
Decision to Go Into a Specific Joint Venture.

<table>
<thead>
<tr>
<th>Nature of Business</th>
<th>Final Decision Stated to Have Been Made By:</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Familiar Individual*</td>
</tr>
<tr>
<td></td>
<td>No.</td>
</tr>
<tr>
<td>Oil</td>
<td>-</td>
</tr>
<tr>
<td>Chemicals</td>
<td>7</td>
</tr>
<tr>
<td>Engineering</td>
<td>7</td>
</tr>
<tr>
<td>Electricals</td>
<td>5</td>
</tr>
<tr>
<td>Vehicles</td>
<td>1</td>
</tr>
<tr>
<td>Metals</td>
<td>2</td>
</tr>
<tr>
<td>Tobacco, Food</td>
<td>3</td>
</tr>
<tr>
<td>Totals and % (based on row sum)</td>
<td>25</td>
</tr>
</tbody>
</table>

(Notes: * i.e., an individual familiar with local conditions in the host country.

**See footnote describing 'normal channels' below.

Percentages do not all add up to 100 because of rounding.)

**For example, 'normal channels' were described in two cases as follows:
(a) Project proposal to International Division Coordinator/to Executive Board of Product Division/to Board of British Holding Company/to Main Board. (Oil company). The statement was made that, once a project team or promoter had put forward a proposal to the coordinator, it was no longer an individual responsibility.

(b) Project proposal to Chief Executive of local subsidiary in the host country/to International Group (or division)/to Executive Board of Product Division/to Executive Management Committee (or Board)/to Main Board. (Vehicle accessories company).
decisions are usually pushed through by one or a few individuals."

In 30 out of 71 cases, the decision to go into a particular joint
venture investment was said to have been made by an individual. In 25
cases, the decision-maker was also familiar with the host country in
question, and in many, with the chosen associate. In a further 7 cases,
the decision was said to be the responsibility of a group other than the
main board of the company.

In terms of their level of responsibility within the British parent
company, the breakdown of the individual decision-makers was as follows:

1. Chief Executive of British parent company,
   (as distinct from main board) . . . . . . . . . . . . . . . 37.5%
2. Executive director of British parent company . . . . . . 20.0%
3. Chief executive of international or overseas division . . 17.5%
4. Chief executive of local branch or subsidiary in host
country . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . 25.0%

In view of their overall international orientation, it was perhaps
natural that all the decisions involving oil and associated interests
should have been made 'through normal channels'. If these 13 cases were
removed from the sample, the decision was said to have been made by an in-
dividual in 52% of the remaining joint ventures, while in a further 12%, it
was ascribed to a group other than the board. Only in 36% of the 'oil-
less' sample was the decision said to have been made through normal
channels.
There did not appear to be any significant association between the location of responsibility for decision and the size of the British parent companies. Such a relationship might have produced a conclusive alternative explanation, using size as a major determinant of the location of effective authority for the decision process in a specific case. There was some indication that the joint venture decision was made through normal channels in cases which involved the very large British companies. In all other size groups, it was made most frequently by an individual.

An exception to the general case of individual responsibility for the joint venture decision occurred in the vehicles group. Among these firms, an individual was said to have been responsible for the decision in only 1 case, while 4 out of 7 joint ventures were reported as being decided upon through normal channels. This seemed to be the result of a feature of the way in which these companies tended to enter into new operations. No spokesmen from the British automobile manufacturers were available for interview*, but several major component and accessories producers for the motor industry were included in the sample.

For these firms, the decision to set up local operations in a new country or market was quite clearly determined exogenously. Because of their close interdependence with the car and truck manufacturers, these suppliers had to be prepared to provide their own products wherever, and whenever, their customers required them in any specific market. A director of one of these firms explained: "We have no hard or fast rules on overseas investment, because of the ancillary nature of our operations to the motor industry. We have to be where the motor industry is. The

* These companies appeared to have been somewhat saturated with researchers in the period preceding this study. Their comment was that they had reached the stage where they were only prepared to provide information to government-sponsored agencies in the immediate future.
motor industry was developing in India. As part of the motor industry in the United Kingdom, we had to be in India with them." The ultimate sanction described by these respondents in discussion, was the potential loss of major customers in other markets, especially the large markets in the developed nations, if they failed to support them in countries like India.

Thus the component and accessories manufacturers were caught in a squeeze between two monopsonists. On the one hand were their customers, who demanded universal service. In theory, this could have been provided through exports to each market area where it was required. On the other hand, the presence of a vehicle manufacturer immediately presented the host government with an indirect monopsonistic advantage over that firm's suppliers. The government could then raise tariffs or impose import quotas, in order to force the latter, either to manufacture locally, or else to lose their customer in that market - and therefore, in others.

As a result of this squeeze, this group of companies, more than most others, made a practice of keeping in step with their customers in local investment, rather than strictly initiating new operations themselves. Such a situation tended to provide less scope for individuals to persuade, guide, or direct their companies into overseas investments which had been initially stimulated by their own personal interests and their experience of a given set of conditions.

Nature of Business and Attitudes towards Potential Associates.

Some of the most interesting results of the tests carried out in connection with this part of the study, arose through the clear association between nature of business and British parent companies' attitudes towards possible types of associate. For the purpose of analysis, the latter were divided into five categories:
(a) Fellow nationals - Other interests from the same country as the foreign parent company (in this case, Britain).

(b) Other foreigners - Interests from other developed nations.

(c) Local private - Local private business interests from the host country, excluding investment consortia.

(d) Host government - Agencies of the host government.

(e) Local Public or Investors - Investment consortia, or the general public in the host country.

The first four categories were clearly defined business concentrations, in theory, taking a participatory interest in any joint venture. In the fifth, were included investing interests which were essentially non-participating associates.

Two groups of tests were carried out: the first examined attitudes towards possible associates; the second used the order in which types of potential associates were ranked in terms of preferability to British parent companies for the joint ventures in the sample. These produced ten, two-way cross-tabulations, practically all of which indicated a significant relationship between nature of business and attitudes towards, or ranking of, the type of associate in question.*

* These relationships were summarized as follows in terms of significance:

<table>
<thead>
<tr>
<th>Type of Associate</th>
<th>Attitudes towards Associates</th>
<th>Ranking of Associates</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Level of significance by Chi-Square of relationship to nature of business</td>
<td></td>
</tr>
<tr>
<td>Fellow nationals</td>
<td>0.013</td>
<td>0.042</td>
</tr>
<tr>
<td>Other foreigners</td>
<td>0.009</td>
<td>0.012</td>
</tr>
<tr>
<td>Local private</td>
<td>0.018</td>
<td>0.018</td>
</tr>
<tr>
<td>Host government</td>
<td>0.036</td>
<td>0.035</td>
</tr>
<tr>
<td>Local public/investors</td>
<td>0.026</td>
<td>0.137**</td>
</tr>
</tbody>
</table>

**Only remotely significant, included as the only less-significant sub-groups.
Considerable variation had been expected in the preference likely to be shown for different types of associate, according to the nature of business. This proved to be the case. With the exception of oil interests however, it had also been expected that certain overall patterns would be discernible. In particular, because of the possible uncertainty and risk involved in operating in a different environment, there might well have appeared to be some preference for a fellow national associate, or at least, for one from a comparable background. The advantages of associates from a background comparable to one’s own had been suggested by several respondents in a 1966 study for the N.I.C.B. (15). Through such a choice, the area of uncertainty in the environment and the operation might have been felt to be reduced, while the risk would have been shared by a partner of similar capability and standing.

If forced into participation with local capital however, it was anticipated that foreign companies would have preferred a strategy leaving them more control over actual operations. Such a strategy would perhaps have led them to seek local investors, or the public, as potential ‘sleeping partners’. The N.I.C.B. study just mentioned quotes the comment of a British managing director in support of this particular argument: "Stockholders in the mass are essentially inarticulate, and, provided dividends are forthcoming on a regular basis, it follows that interference with parent company policy will be minimal." (16).

Least of all were foreign investors expected to favour partnership with host government interests. The grounds for this argument were the potential capability of such interests for interference with the policies and operations of a joint enterprise. Coupled with this was expected to
be the fear of conflicting goals and standards for evaluation in an association between private business interests and a government agency. A fear which appeared to have been part of the outlook of many companies from "free enterprise economies" (17).

The data had been collected in such a way that both sets of results from these two attitudes measures could be examined at the ordinal level of measurement. A series of weighted scores was therefore calculated from the distribution of responses in each of these two groups of tests. Responses were given a value from 1, (for a strongly positive attitude, or a first place ranking), to 5, (for a strongly negative attitude, or a fifth place ranking). These values were multiplied by the frequency of occurrence for each group of parent companies by nature of business, and then summed over each group. This sum was then divided by the number of responses made by the related group, to give a weighted average score, representing the group's responses to that type of associate:

In another form, $X_j$, the weighted average group:associate score was calculated according to the formula:

$$\bar{X}_j = \frac{\sum x_{ij} y_i}{N_j}$$

where: $x$ = a number of parent company responses of a particular kind;
$y$ = the weighting value assigned to a particular kind of response;
the subscript $i$ represented kinds of response or values as follows:

---

* Thus, for example, in their attitudes to fellow-national associates, parent firms in the oil group gave strongly positive, 6 positive, 1 neutral, 2 negative, and no strongly negative answers. This gave a weighted total of 27 over 13 responses, and an attitude score in this case of $27/13 = 2.08$. The figure of 27 was this group's contribution to the gross all-industry score for this particular type of associate.
strongly positive = 1 = first-place ranking
positive = 2 = second-place ranking
neutral = 3 = third-place ranking
negative = 4 = fourth-place ranking
strongly negative = 5 = fifth-place ranking;

the subscript \( j \) represented different groups by nature of business;

\[ N_j = \text{sum of parent company responses in a particular group } j. \]

An all-industry score for each type of associate was also calculated, from the weighted sums for each group*, according to the formula:

\[
\text{All-Industry Score} = \sum_j x_j N_j \quad \text{or} \quad \sum_i x_{ij} y_{ij}
\]

These scores were tabulated and a rank order defined for each type of associate, for each nature of business group, in each of the two tests, in order to provide an overall basis for comparison. The results were summarised in Tables 3.4 and 3.5. In general, the lower the score, the more favourable the attitude towards that type of associate, and the higher their ranking in preferability as against other types. The actual size of the margin between scores was not strictly capable of interpretation, but the order was.

The order of preference indicated by the attitudes of the British firms in the electricals group showed an exact agreement with that forecast. This was the lone exception however, and was not even supported by the actual ranking of possible associates by this same group, let alone by the all-industry order, as shown in the tables. In general, the forecast certainly appeared to have been correct at the bottom end.

* See footnote on preceding page.
Table 3.4 - Attitudes to Potential Associates of British Companies

<table>
<thead>
<tr>
<th>Nature of Business of U.K. Parent</th>
<th>Fellow National</th>
<th>Other Foreign</th>
<th>Local Private</th>
<th>Host Government</th>
<th>Local Public/Investors</th>
</tr>
</thead>
<tbody>
<tr>
<td>Oil</td>
<td>2.08 (1)</td>
<td>2.32 (2)</td>
<td>2.92 (5)</td>
<td>2.54 (3)</td>
<td>2.69 (4)</td>
</tr>
<tr>
<td>Chemicals</td>
<td>3.07 (3)</td>
<td>3.33 (4)</td>
<td>2.27 (1)</td>
<td>4.07 (5)</td>
<td>2.47 (2)</td>
</tr>
<tr>
<td>Engineering</td>
<td>2.90 (2)</td>
<td>3.10 (3)</td>
<td>2.00 (1)</td>
<td>4.00 (5)</td>
<td>3.40 (4)</td>
</tr>
<tr>
<td>Electricals</td>
<td>2.20 (1)</td>
<td>2.33 (2)</td>
<td>2.53 (4)</td>
<td>3.87 (5)</td>
<td>2.47 (3)</td>
</tr>
<tr>
<td>Vehicles</td>
<td>2.71 (3)</td>
<td>3.14 (4)</td>
<td>2.00 (1)</td>
<td>3.71 (5)</td>
<td>2.57 (2)</td>
</tr>
<tr>
<td>Metals</td>
<td>3.20 (4)</td>
<td>3.00 (2)</td>
<td>2.20 (1)</td>
<td>3.80 (5)</td>
<td>3.00 (2)</td>
</tr>
<tr>
<td>Tobacco, Food, Other</td>
<td>2.00 (2)</td>
<td>2.00 (2)</td>
<td>2.20 (4)</td>
<td>3.60 (5)</td>
<td>1.60 (1)</td>
</tr>
<tr>
<td>All-Industry Score</td>
<td>177 (2)</td>
<td>194 (4)</td>
<td>166 (1)</td>
<td>255 (5)</td>
<td>184 (3)</td>
</tr>
</tbody>
</table>

Table 3.5 - Ranking of Potential Associates by British Companies

<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Fellow National</td>
</tr>
<tr>
<td></td>
<td>Weighted Average Score and (rank) for each group</td>
</tr>
<tr>
<td>Oil</td>
<td>1.85 (1)</td>
</tr>
<tr>
<td>Chemicals</td>
<td>2.60 (3)</td>
</tr>
<tr>
<td>Engineering</td>
<td>2.90 (2)</td>
</tr>
<tr>
<td>Electricals</td>
<td>2.13 (1)</td>
</tr>
<tr>
<td>Vehicles</td>
<td>2.57 (2)</td>
</tr>
<tr>
<td>Metals</td>
<td>2.60 (2)</td>
</tr>
<tr>
<td>Tobacco, Food, Other</td>
<td>2.80 (2)</td>
</tr>
<tr>
<td>All-Industry Score</td>
<td>169 (2)</td>
</tr>
</tbody>
</table>
of the scale. Host government partners were felt to be least desirable, in terms of both the attitude and the ranking test, by almost all groups.

Only the oil companies failed to place host government associates last. This was partly due to the scale of investment required in their operations, which made public issues, or local private interests appear to be less feasible alternatives – at least in the less-developed nations. It was also due in part to a philosophy of recognising realities, stated quite explicitly by a respondent from one company: "Since Partition, our policy has been that our interests in India and Pakistan can only continue to exist if the host government is given some share or interest in oil operations. We are therefore, quite prepared to teach the government the oil business, and to trust them, partly in an effort to get them to trust us in turn. In general, oil companies now have to be in partnership with local governments if they wish to operate locally. We have decided therefore, to accept this position, and to try firmly to like it."

Since its operations were exploiting (in the non-pejorative sense) the natural resources of the host country, or were alternatively, importing a crucial raw material, this firm argued that it was reasonable to expect that the host government should wish to be closely involved. Coupled with this attitude was in fact a history of what were said to be fairly satisfactory joint venture relationships with host government interests by the company concerned. The fact that mixed ventures of this type were by no means always unsatisfactory to foreign private investors has also been described for the case of U.S. companies by Robinson (18).

Local public and investing interests came third in the actual results as well as in the original forecast. However, the order above
and below this type of associate in the ranking lists changed between prediction and findings, because of transposition of local private and other developed nation interests. This latter feature was perhaps the most striking deviation from the forecast. Only host government partners appeared to be less desirable than partners from another developed nation. Although this type of associate came fourth on both the attitude and the ranking measure, the latter was probably a better indication of the true facts of the matter.

No executives expressed a strongly negative attitude towards other foreign interests. Time and again, the responses given were along the lines: 'No point, no advantage, nothing to offer as a partner in a local joint venture that could not be better supplied by ourselves, or by local interests'. In particular, another foreigner could not offer local know-how, contacts or identity to a joint venture, and so was ranked behind local interests. At the same time, other foreigners were not felt to offer any noticeable technical or financial advantage to most British firms, that the latter could not get more easily from fellow British companies. Thus, in overall terms, this type of associate was simply considered to be fourth in rank, or level of preferability, rather than undesirable per se.

Both in their attitudes and in their specific ranking, the U.K. companies in this sample indicated a preference for local private interests, as the best potential choice of partner for a joint venture in a less developed country. No respondents gave a strongly negative answer and only 14% appeared to be at all negative in their attitudes to this type of partner. Half of these negative responses were from oil
companies, typical of these comments was the following: "Private sector interests in these countries (less-developed) are rarely of sufficient standing, or have adequate resources to be of much use to oil companies. If they have the right ideas, they may be useful political adjuncts".

On the other hand, 72% of the attitude responses concerning local private interests were positive or strongly positive. In 43% of all cases in the sample, this type of associate was also ranked as the first choice of potential partner for a joint venture. Only in connection with two joint ventures which involved oil companies, were associates of this type ranked in fifth position.

Two sub-groups were discernible among these favourable responses. In some cases, companies forced into joint ventures chose local private partners as the best alternative, subject to the constraint that they had to take in some kind of local associate. In the second sub-group were those British firms which sought local facilities or resources in a joint venture. These naturally tended to favour local companies which possessed such attributes. For both these sub-groups however, the positive contribution which local partners could offer was seen to be much the same.

Apart from fixed assets, especially sites, the preference of these British parent firms was clearly indicated in terms of three attributes offered by a good local company.

First came local influence and standing, especially the ability to lobby effectively on behalf of the joint venture's interests, and also, less directly, in the general interests of the foreign parent company. An ability described by Kidron as the "paramount...importance of Indian partners in the role of...coping with officialdom."

This was considered to be a very important contribution in the general case, even by
British firms which felt, quite firmly, that they could themselves conduct negotiations with the authorities as effectively as could their local associates (at least in the special case of India or Pakistan); firms, furthermore, which maintained permanent representatives themselves in New Delhi for just this reason.

Second was the corporate asset of good local managerial personnel, especially significant to smaller British companies, but in recent years, a consideration which had become important even for the giants. This was chiefly a reflection of wide, internationally-encountered pressures for 'localisation' of personnel exerted upon foreign enterprises in the underdeveloped nations. This phenomenon was very strongly represented by the Indian case. Over three-quarters of the respondents in this study mentioned in discussion, the difficulties of employing expatriate staff in India. In the general foreign case, these difficulties could arise directly in the form of restrictions on the renewal of visas, or the unavailability of new entry visas, for individuals which were not nationals of British Commonwealth nations. For most of the employees of firms in this sample, pressure had been exerted indirectly, through prohibitive rates of personal taxation.

Theoretically, the Indian system of personal taxation was selective and biased towards the employment of necessary foreign technically-qualified staff*. In practice, it appeared to work somewhat haphazardly, and at times, irrationally. An administration manager of one British parent company was granted a tax waiver for a tour of duty with an

* Following the amendments in the Finance Act of 1966, foreign technicians are allowed exemption from income tax for 3 years (as before 1966), plus a further period of 5 years in which, if government approval is obtained for their continuing employment, they are not liable for taxation on the personal tax paid on their behalf by their employers (20).
associated joint venture in a role which was essentially administrative in nature. The waiver was granted on the grounds that, in a previous job with another employer, the man in question had obtained considerable experience in crop-spraying. Yet a year later, the same British parent company sent to the same joint venture a technical production manager, with an honours degree qualification, who failed to obtain a waiver from personal income tax as a technician (21).

A third attribute of local partners which was amongst those cited most frequently, was the possession of a sound domestic marketing network. Some joint ventures had in fact grown out of associations with previous local distributors, a sequence of events which has been widely described as a common strategy for 'dynamic development' or 'evolution of overseas investment' (22) in the literature of the field. Unfortunately, the evidence usually cited does not provide any firm basis for comparison in quantitative, or even qualitative, terms.

For the companies in the present sample, this case appeared to have occurred less frequently than had been expected. The evidence is discussed in more detail in Chapters Six and Seven. It leads possibly to the hypothesis that such a strategy may have been less important to British than to U.S. companies, certainly for investment in India or Pakistan. This is however, a hypothesis which needs to be tested more specifically in future research.

The argument upon which such a hypothesis would be based would attribute any difference in strategy to the longer experience of British investors and managers of the local marketing channels in India and
Pakistan. Coupled with this would possibly be a greater informal awareness of the power points in such channels. As a result, British companies may have felt the need for local associates in these countries who could provide marketing facilities rather less than did U.S. firms.*

Whatever the validity of such an argument for past operations, this particular attribute of a local associate appeared to be increasing in importance in India and Pakistan, because of host government discrimination. Discrimination along the lines that trade should be a suitable activity for local, rather than for foreign, interests, and that marketing constituted trade. "The marketing of oil products is treated as trade, not industry, by the Pakistan Government, whose declared policy is to let Pakistanis handle all trade, and to eliminate foreign interests." (23)

More generally, the Government of Pakistan, in its statement of industrial policy with respect to foreign direct investment, distinguishes between industry, and trade or banking, where Pakistan interests are expected to have control, both in equity and in practical terms (24).

All three of the attributes described above were positive contributions to local operations. None of them were felt to be available from a local public shareholding. Only rarely, and in part, were they likely to be provided by a local investor. In general, most of the British firms in the sample, with the exception of the tobacco and food group, stated explicitly that they looked for such positive contributions, rather than just for local capital. Hence a local private partner was ranked as more desirable in most cases, than a public shareholding or an associate.

* Thus, in the case of several joint ventures in the electricals, chemicals and oil groups, not only did the British partner take responsibility for marketing the products of the joint venture, it also handled those of its Indian or Pakistani partner, usually through its own local branch or subsidiary operation. This appeared to be evidence of the often under-emphasized pragmatism of these governments, when an apparent exception to the general rule was encouraged because of technical realities. These were goods which required sophisticated technically-complicated methods of distribution that were not available locally, except from the foreign partner.
which was purely an investor. Only when a local shareholding was felt to be essentially a token gesture towards pressures for local participation was this order reversed. Such, for example, was the argument given in relation to most of the cases in the food and tobacco group.

In several responses, there was an indication that fellow-national interests aroused stronger antipathy from British executives than did other foreigners. In this respect, the intra-industry antagonism among British ceramics producers appeared to be comparable to that between some of the U.S. rubber companies (25). One British executive director in this group stated flatly that: "Under no circumstances would we ever go into a joint venture with one of our British competitors", a statement supported by rather stronger comment in discussion. In view of the fact that geographical concentration of the industry was a feature in both cases (Akron, Ohio, for the U.S. rubber companies; Stoke-on-Trent and the Potteries, for the British ceramics producers), there appeared to be some argument for further research into this phenomenon. An argument in fact, for a study of the possible correlation between frictional effects of competitive asperity and intra-industry juxtaposition.

Nature of Business and Selection of Associates.

There was a significant relationship between nature of business and the main reason given for selecting a specific associate for a particular joint venture*. In the absence of a satisfactory measure of technological complexity, the only specific argument which was tested in this section was that oil companies would feel, more than others, that they had been forced into their choice of associate. This was argued on the

*Significant at the 0.019 level.
grounds that host government ambitions, together with an absence of feasible alternative partners for these firms, would mean that association was virtually pre-empted by a government agency for cases in which local participation was compulsory (a situation which was also expected to be especially prevalent amongst the joint ventures involving foreign oil companies). The relationship between these two variables was shown in Table 3.6.

Table 3.6 - Nature of Business and Reasons for Selecting Specific Associates.

<table>
<thead>
<tr>
<th>Nature of Business</th>
<th>Reason for Selecting an Associate</th>
<th>Number of Cases and cell % based on row sum</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Forced-Choice</td>
<td>Convenience of Facilities/Resources</td>
</tr>
<tr>
<td></td>
<td>No.</td>
<td>%</td>
</tr>
<tr>
<td>Oil</td>
<td>6</td>
<td>46</td>
</tr>
<tr>
<td>Chemicals</td>
<td>3</td>
<td>19</td>
</tr>
<tr>
<td>Engineering</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Electricals</td>
<td>3</td>
<td>20</td>
</tr>
<tr>
<td>Vehicles</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Metals</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Tobacco, Food</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Totals</td>
<td>12</td>
<td>17</td>
</tr>
</tbody>
</table>

(Notes: Percentages in the final column are based on the column sum. Percentages do not all add up to 100 because of rounding. Classification of reasons for selecting associates is discussed in Chapter Seven.)
The results shown in Table 3.6 appeared to support the prediction of a difference in pressures upon the oil companies. Although this group of companies were said to have made a forced-choice in less than half (46%) of the joint ventures in which they were involved, these cases represented 50% of the forced-choice category, taken over all industries. In fact, the chemicals and the electricals groups were the only others reporting cases in which the choice of partners had been thrust upon them. For these two groups, the forced-choice cases involved 19% and 20%, respectively, of the joint ventures in which they participated. Proportions which were very much smaller than that in the group of oil company joint ventures.

Facilities or resources offered by a prospective associate appeared to have been most important to the chemicals and the metals groups. This reason was also cited by many British engineering firms, (i.e., in 40% of the cases in which they were involved). These last included some companies which had been looking for a local 'going-concern', that could use British technology and operate effectively with a minimum of direct contribution and close supervision by the U.K. parent. As one executive stated: "We prefer to develop overseas manufacturing out of licensing agreements, with a minimum necessary commitment ourselves. We therefore, also prefer a local associate with staff and facilities, as well as contacts and political know-how".

For the chemicals companies, two features appeared to have been most important. One was the need for a suitable site, with adequate water, power and effluent disposal facilities. Adequate sites were said to have been very limited in number, and were usually under the control of local companies already in the field. The cost of making a
contribution to the development of an infrastructure sufficient to support a new site for chemical operations had been felt to be prohibitive, except where a large proportion of such costs would be borne by the State Government*.

The second major concern described by respondents from chemicals companies, was the need to find local personnel of a suitable level of education for employment as chemical plant operatives. This was in addition to the need for competent managerial and technical staffs, a cause for concern also cited among firms in the metals group. The problem had been solved neatly by one of the companies in the chemicals group in a joint venture which was not included among the present sample.

In this case, a fairly small Indian chemical engineering firm had a highly competent staff and had proved themselves in adapting foreign patents and technology into forms suitable for domestic production capabilities. The British firm in question had set up what was, in effect, a consultancy joint venture with the Indian company, the main

* Acquisition of the land was apparently not a problem, although long-term rights of foreign enterprises in India were not clear in this respect. Article 19 (1)(f) of the Indian Constitution includes the basic freedom to acquire, hold, and dispose of property, but these rights are clearly limited to Indian citizens. The Supreme Court ruled in 1963 and 1964, that companies were not entitled to the rights guaranteed to citizens, even though all the shareholders were Indian citizens (26). Companies were however, persons, according to Section 3 (42) of the General Clauses Act, and therefore, under Article 31 of the Constitution, could only be deprived of property once acquired - upon payment of due compensation. Justice Bose of the Supreme Court has suggested that "in the absence of such a law (to the contrary), non-citizens can also acquire property in India, if they do, they cannot be deprived of it any more than citizens, save by authority of law." (27). Expropriation under due authority of law would involve adequate compensation, and India's compensation record has been excellent.
reason for which had been to obtain the services of the local interest as a consultant organization to help in developing and starting-up new projects in India. They had also employed the Indian firm as consultants in the United Kingdom (although this appeared to have been something in the nature of a quid pro quo arrangement, enabling the local personnel to obtain a source and overseas depository for foreign exchange).

Confidence arising out of a favourable past association was referred to as the main choice criterion most often amongst British firms in the engineering group. It also accounted for a significant proportion, roughly 30% of the joint ventures in each group, for British companies in chemicals, electricals, tobacco and food, and even for oil and associated interests.

This reason was not mentioned at all in connection with joint ventures of the vehicles and metals groups. Most of the firms in these latter two groups had actually had the opportunity to choose a past licensee, distributor, or major customer. In roughly 50% of these cases in which past associates had been available, they had in fact been selected. Other considerations had however, been felt to be more important than past association per se.
Status and standing of a local associate appeared to have been most important to the vehicles group. For the metals group also, cases in which local personnel had not been the prime concern, were those in which the chief reason for selection had been the status of the chosen partner. These were the only two groups in which this reason for selecting an associate had been of major significance. Together, they accounted for nearly 50% of the times when it was cited.

It was difficult to find a satisfactory reason why this criterion should have been so much more significant for the vehicle group companies, except possibly through a process of eliminating their possible alternative reasons. In most cases, the local partner was actually said to be a very competent and effective business interest with excellent managerial personnel. Yet they were said to have been chosen in most cases, either for their political influence, or for their general financial standing.

These reasons did not appear to have been necessarily of peculiar significance for this type of British company. On the other hand, the choice was not said to have been forced, nor apparently, had it been based upon favourable past association. In the majority of this sub-group of joint ventures, a new operation had been set up and had been managed, at least in the early stages, by the British partner. Thus, it seemed reasonable to assume that previously existing facilities and resources had been of limited importance to the British parent. Since three out of the four suggested alternative reasons for choosing partners did not appear to have been relevant for these cases, there was perhaps a higher residual probability that the selection would have
been said to have resulted primarily from the status and standing of the potential local associate.

Summary.

It appeared to be very rare for the nature of business of a joint venture to differ from that of its foreign parent. However, the variation in technology between British, Indian and Pakistani operations, even under the auspices of the same parent company, meant that no overall measure of technological complexity was appropriate within the limitations of the data in the study. It was however, possible to set up somewhat arbitrary and broad-scale groupings of operations by nature of business.

Attitudes towards control over joint venture operations varied according to the nature of business. There was a strong association by British executives of effective control with a majority share in equity. Even firms which had considerable technical leverage in controlling a joint venture, such as in the oil and chemicals industries, tended to seek a majority position as an additional safeguard. Oil companies appeared to be becoming resigned to local restrictions on their control over local operations.

Among these groups, the most relaxed in their attitudes towards control appeared to be companies in the engineering, electricals, vehicles and metals categories. These were also the most variable in terms of the intra-group differences in concern over control.

On the whole, 50-50 joint ventures were felt to be frustrating, especially by firms in the chemicals group, the group which were most frequently involved in this type of arrangement. There was some evidence that the nearer the relative equity shares approached to equality, the greater was the frustration, especially over issues concerned with reinvestment and increasing investment.
Individuals had been responsible for the decision to go into a joint venture in nearly half the cases in this sample. These people were usually familiar with conditions in the host country. The chief exception to this practice occurred in the oil and vehicles groups. Oil companies were primarily concerned with international integration of their operations, leaving less scope for individual decision-making. Vehicle accessories manufacturers virtually had the decision to invest made for them by a combination of monopsonistic pressures from their major customers and from host governments.

Except for the oil companies, all British parent companies ranked host government associates as the least desirable alternative for joint venture partners. The oil companies had little alternative and were, to some extent, resigned to association with such interests. For most groups, local private interests were felt to be the best type of partner, usually because they could offer some tangible contribution to a joint venture. Other foreign companies were only considered to be preferable to host government partners, largely because there was felt to be little point in associating with such companies, rather than with fellow nationals or with local interests.

The oil companies were the only group in which a large proportion of associates had been forced upon the British parent company. An associate's provision of local facilities or resources was important to all except the oil group. This contribution was felt to be particularly valuable by companies in the chemicals, metals and engineering groups.

Favourable past association was the most frequently mentioned reason for choosing partners in the engineering joint ventures. The status of an associate was apparently of major interest only to companies in the vehicles and, to a lesser extent, in the metals group.
Notes and References to Chapter Three

1. Similar problems were also mentioned in Michael Kidron, *Foreign Investments in India*, (Oxford University Press; London, 1965), for example, p. 244, but the only technical classification used was by nature of business.

2. This is a specific proposal for future research by the present author, but has not yet been formally laid out as a project.


4. The cases of I.B.M. and English Electric were described in Matthew J. Kust, *Foreign Enterprise in India, Laws and Policies*, (The University of North Carolina Press; Chapel Hill, 1964), pp. 143-149.


13. Raghbir S. Basi, *Determinants of United States Private Direct Investments in Foreign Countries*, Bureau of Economic and Business Research, Printed Series No. 3. (*Kent State University; Kent, Ohio, 1963*).

14. Yair Abaroni, *The Foreign Investment Decision Process*, (Division of Research, Graduate School of Business Administration, Harvard University; Boston, 1966), pp. 56-61, 197.


16. *ibid*, p. 34.


21. For a full discussion of Indian taxation and appropriate source material, see Matthew J. Kust, *op. cit.*, pp. 342-418; and also Matthew J. Kust, *Supplement to Foreign Enterprise in India, Laws and Policies*. (The University of North Carolina Press; Chapel Hill, 1966), pp. 73-81.


25. The comments upon the attitudes of the U.S. rubber companies were based upon interviews with some of these companies carried out in Akron, in 1965, by the author of the present study.


The last two chapters described a series of relationships between characteristics of a group of British parent companies and variables describing certain features of the ways in which their joint ventures had been set up. In this chapter, one of these characteristics, the nature of the business, is described in terms of its association with some of the results of that setting up. Among these results are the structure of the resulting joint ventures and the assessments of their associates by British executives from the parent companies concerned. Nature of business is also examined against the readiness of this group of investors to participate in other joint ventures, both in developed and in less-developed countries.

Nature of Business and Structural Characteristics of Joint Ventures.

Variations in the relationships between nature of business and the structure of joint ventures were examined by means of three measures representing different aspects of possible dependence of joint ventures upon the British parent company. These were as follows:

(a) The percentage of the voting equity in a joint venture which was held by the British parent.

(b) The overall responsibility of the local associates for a joint venture's operations in nine functional areas. These covered:

   (1) Marketing and distribution

   (2) Purchasing and procurement

   (3) Engineering and technical matters
(4) Production
(5) Administration and control
(6) Finance (including obtaining capital)
(7) Recruitment and personnel
(8) Relations with the host government and with local authorities
(9) Public Relations

(c) The overall independence of a joint venture from control by the British parent company in eleven areas of policy, including:
(1) Capital expenditure
(2) Pricing
(3) Dividend policy
(4) Organisation
(5) Product selection, design and planning
(6) Production planning and control
(7) Quality control
(8) Marketing and sales
(9) Purchasing
(10) Wage and labour policy
(11) Selection, promotion and compensation of executives

The relationships between nature of business and each of these three measures were marginally significant in statistical terms*.

Responses over these variables had again been obtained in a manner which permitted their ordering according to the degree of independence from influence by the British parent company. They were therefore aggregated, in much the same way as the attitude variables had been aggregated, in much the same way as the attitude variables had been

* The relationships between nature of business and the three measures were significant at the 0.069, 0.069 and 0.070 levels respectively.
combined*, in order to provide a comparison between groups, according to
the nature of business, at the ordinal level of measurement. Frequencies
of particular classes of response and allocated weights were used to
compute scores. The scores were then averaged in the same way as in the
measuring of attitudes and ranking of associates in Chapter Three. The
values assigned in these three dependence measures were as follows:

**Parent Share in Joint Venture Equity**

- Under 25% = 1
- 25% to 49% = 2
- 50% = 3
- Over 50% = 4

**Associate's Responsibility for Joint Venture's Operations**

- Full responsibility = 1
- Full to joint responsibility = 2
- Joint to no responsibility = 3
- No responsibility = 4

**Joint Venture's Independence from British Parent in Policy Areas**

- Highly independent = 1
- Independent = 2
- Considerable control by British parent = 3
- Close control by British parent = 4

The results of these calculations were laid out in Table 4.1, in
general, the lower the score, the lower the level of dependence of that
group of joint ventures upon the British parent companies, in terms of
the measure concerned.

* See Chapter Three, page 18.
Table 4.1 - Structural Dependence Scores of Joint Ventures According to Nature of Business.

<table>
<thead>
<tr>
<th>Nature of Business</th>
<th>Number of JVs</th>
<th>Equity Share of U.K. Parent</th>
<th>Associate's Responsibility in Functional Areas</th>
<th>Joint Venture's Independence in Policy Areas</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Weighted Average Group Score and (Group Order Rank)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Oil</td>
<td>13</td>
<td>2.31 (3)</td>
<td>3.23 (6)</td>
<td>2.54 (3)</td>
</tr>
<tr>
<td>Chemicals</td>
<td>15</td>
<td>2.93 (6)</td>
<td>2.73 (5)</td>
<td>2.57 (4)</td>
</tr>
<tr>
<td>Engineering</td>
<td>10</td>
<td>1.90 (1)</td>
<td>1.90 (1)</td>
<td>2.10 (1)</td>
</tr>
<tr>
<td>Electricals</td>
<td>15</td>
<td>2.20 (2)</td>
<td>2.33 (3)</td>
<td>2.27 (2)</td>
</tr>
<tr>
<td>Vehicles</td>
<td>7</td>
<td>2.57 (4)</td>
<td>2.00 (2)</td>
<td>2.71 (5)</td>
</tr>
<tr>
<td>Metals</td>
<td>5</td>
<td>2.60 (5)</td>
<td>2.40 (4)</td>
<td>3.00 (6)</td>
</tr>
<tr>
<td>Tobacco, Food</td>
<td>5</td>
<td>3.60 (7)</td>
<td>3.40 (7)</td>
<td>3.60 (7)</td>
</tr>
<tr>
<td>All-Industry Average Score</td>
<td>2.50</td>
<td>2.57</td>
<td>2.55</td>
<td></td>
</tr>
</tbody>
</table>

On all of these scores, the joint ventures in the engineering group appeared to be the least dependent, and those in the tobacco and food group the most. A separate pair of tests had indicated that the British share in joint venture equity was not significantly related, in statistical terms, with either the level of responsibility assumed by associates, or the joint venture's independence in areas of policy. However, the share in equity probably helped to explain the results in the other two measures for the extreme cases.

For example, British parent firms held a majority of the equity in four out of the five tobacco and food group joint ventures. In the fifth, the British partner held a minority share with a management contract which gave them effective control over the operations of the joint venture.
At the other extreme, a British parent held a minority in nine of the engineering joint ventures (in three of them, the holding was actually less than 25%). The tenth joint venture in this group involved a foreign equity majority, but also a management contract granted to the local partner.

It was possible that the foreign parent's share in joint venture equity may also have been a major determinant of the level of dependence for joint ventures in the electricals group. The argument in this case, would have been that the lower level of dependence was due to the higher proportion of minority and very small British shares in the equity of joint ventures in this category (i.e., 11 minority holdings, of which 4 were less than 25%, out of 15 cases).

Such an explanation did not appear to be entirely satisfactory however, for joint ventures associated with British companies in the oil, chemicals, vehicles and metals groups. It was especially unsatisfactory in helping to predict:

(a) The level of the contributions which were attributed to associates by British firms in the oil and, to a lesser extent, in the vehicles groups.

(b) The dependence of joint ventures in the chemicals and the metals groups.

For each of these pairs, the two groups concerned deviated from the level which would have been predicted from foreign parent shares in equity, and the deviation was in opposite directions.

The variance of the joint ventures in the oil group was probably due to the fact that seven of them were mixed ventures, which had certain
peculiar characteristics. In particular, it turned out that whatever the relative shares in equity of the partners, the actual operations were almost entirely run by the British parent company. Whether carried out with the help of a formal management contract, or not, the net results were much the same. The host government partner merely assumed a watching brief. It took an interest in policy matters and watched over the actual operations of a joint venture to make sure that they did not conflict with what was considered to be the national interest. It made little contribution however, in the sense of assuming direct responsibility for such operations.

This type of experience agreed with the comment upon the more general case made by Friedmann and Kalmanoff: "Generally, government agencies are content to leave management to the experienced foreign partner, at times through formal management contract arrangements." (1). As a result, dependence of these joint ventures, in terms of the responsibilities which were undertaken by associates, was not as low as would have been predicted by the relatively low score of the British share in equity. A general interpretation of this relationship was that some of the alleged fears of foreign investors concerning potential interference in joint venture operations by host government associates were not justified.

Among the vehicles group, the contribution from associates was perhaps greater than might have been expected. A probable explanation lay in the very high level of competence which was attributed to their local associates by practically all the British companies in this group. A fairly typical comment was the following by an executive of one of these firms: "Our local partners are pretty good and run the operation well."
They are keen, and achieved profitability after two-and-a-half years. They are generally 'on the ball', and have sent over some excellent people to the U.K. for training.". Given such competence and given this satisfaction with their associates, it was reasonable to expect that local partners in this group would be granted a greater opportunity to make an effective contribution - and that they would in turn, be able to take advantage of it.

All of the highly commended local partners in the vehicles group were in fact from the South of India, where the joint ventures were themselves located. It was remarkable how much warmer were the attitudes, even over the sample as a whole, towards South India, especially Madras, and towards partners from that area, than they were towards the rest of the country. Most of these associates were Chettys or Chettiars, one of the major Indian business communities, most important and influential in Madras and South India. (2). In this area, the work force especially was alleged to be as effective as anywhere else in the country, but was not prey to the disruptions caused elsewhere. In the Bombay area such disruption was said to be caused by militant labour organisers, or in Calcutta for example, by politically motivated agitation.

It would be interesting to examine relative wage rates, living standards, employment levels and work force satisfaction in these three areas, in order to determine whether such comments described a genuine state of affairs, or whether they were open to a less charitable interpretation. In particular, did they represent managerial satisfaction over a relatively quiet life in the South. A quiet life made possible by a local labour force which may have been less sophisticated in its awareness of the benefits available through collective bargaining.
In all fairness to the British companies in the sample, there was no hint of such sentiments in their actual comments. They accepted the high labour costs around Bombay as a fact of life. They were becoming very worried over the increasing antagonism towards foreign interests in the Calcutta area. They were simply pleased at being able to get on with the business of doing business in Madras.

No satisfactory explanation was immediately apparent for the lack of independence of joint ventures associated with British companies in the metals group. It seemed probable that the technological complexity, of continuous and integrated processing operations, may well have contributed to a need for foreign control in some of these local firms. This seemed especially plausible in view of the fact that the one case in which a joint venture in this group was classed as highly independent, involved one of two batch-type and less-integrated production systems. (The second of these also involved a British majority share in equity together with a local partner whose main contribution was in marketing and, to a lesser extent, in administration.) Because of the small sub-sample size and the indeterminate nature of the assessment of technological complexity, this explanation could only be offered as conjecture.

An interpretation of the reasons for the relatively lower dependence in policy areas of the joint ventures in the chemicals group, in spite of the fact that foreign shares in equity were apparently higher than in most other groups, probably depended upon three features. In the first place, these included the majority of the 50-50 ventures, which received a relatively high value under the weighting system used. This gave a higher apparent significance to the foreign share in equity than was perhaps justified.
Second, in over half of the cases in this group, a British firm had joined an established local business in what had previously been the latter's own private operation. An operation moreover, which had probably been free from 'internal' interference in policy matters and free therefore, to be run in any manner which the local owners might desire, subject only to official 'externally-derived' restraints. In this type of situation, there was likely to be a certain amount of difficulty for the foreign partner in altering the existing status quo.

The third reason was that the 50-50 form of joint ventures generally appeared to create problems for foreign partners in their efforts to determine or influence policy. The fact that partners were formally equal in authority, as shown by their relative shares in equity, may have meant that equality was jealously guarded by local associates, even to the point at which determination of policy was hindered. The general implication of this type of situation would appear to have been that it was quite possibly easier to influence policy in a joint venture with a minority equity holding, than from a position of 'unstable equilibrium' - a position in which local partners might become nervous about possible dangers of erosion of their equal rights. The existence of such a phenomenon has been reported for the general case in earlier studies (3). It was also cited specifically in connection with the experiences of U.S. firms*.

There appeared therefore to be a clear difference according to the nature of business, in the structure of joint ventures, as represented by these three measures. Independence and the level of contribution by associates, could be partially explained by the foreign share in joint venture equity. When this explanation was not satisfactory, the nature
of the associate shed some further light, as probably did the nature of
the process and the techniques involved. Even the locus of operations
and the nature of the labour force appeared to have been influential.

What was more difficult to forecast or interpret, however, was the
effect upon the foreign parent share in joint venture equity if the
nature of business varied. This share was very much the result of an
amalgam of circumstances. At one level of analysis, it depended upon
what the foreign parent company wanted, or would accept, what the local
associates wanted, and what the host government would permit. At another
level, these in turn depended upon the nature of the business and the
point in time at which the original negotiations took place. As a
result, interpretation came back to a discussion of the effects of
bilateral monopoly. Such a discussion was itself limited in its
capacity for definitive interpretation by the obstacle already
mentioned, the lack of an adequate scaling method for classifying
technological complexity.

Along the single dimension of the nature of business, the results
from this sample could be interpreted as follows: Foreign firms most
likely to hold, or most capable of obtaining, a larger share in the
equity of a local joint venture were those in the following groups:

- Tobacco and food,
- Chemicals, including plastics, pharmaceuticals, pesticides
  and fertilisers,
- Metals, including glass and ceramics
- Vehicles, including accessories and components.

It turned out that, with the exception of the first, these were
the technologies which India and Pakistan appeared to need most. The
tobacco industry was probably a special case. It was an exporter and an
earner of both revenue and foreign exchange. These companies had in some cases been established locally for over 40 years and the pattern of their operations was more difficult to disturb. As for the food industry joint ventures in this group, they qualified as badly-needed technology and the foreign parent shares in equity were correspondingly high.

Oil technology and products were also quite obviously highly desirable, but appeared to constitute another special case. The nature of the oil companies' status, together with suspicion of their international oligopoly and transfer pricing practices, tended to stimulate some of the strongest countervailing thrusts by host governments. The Greek-meets-Greek situation of bilateral monopoly was best shown in the encounters of the oil companies (5).

What might be called the less-complicated and more widely-diffused technologies of the engineering and electricals groups, were part of industries in which India and Pakistan were themselves more competent. Even in 1960, The Economist commented upon the improving productivity in a number of engineering works and stated: "Indian railway carriages now cost less than the ex-works cost in Switzerland. Hindustan Machine Tools can now produce and sell in India, at a profit, for about £2,200, a 1,000 mm. lathe of a type that costs £3,000 to import from Europe." (6)

It seemed to be the case that potential foreign investors were both capable of seeing for themselves and were encouraged to see that opportunities for participation in these two industries were rather more limited than in others. This was, to some extent, the case in Pakistan; it was certainly said to be true in India. "In these industries, we need only the very latest results of R and D, plus certain advanced management techniques. India has by now developed a very solid competence and a wide base, especially in engineering." (7).
Tests were carried out to determine whether responses varied significantly according to the nature of business, when this was examined against a group of previously specified criteria for evaluating associates and general proclivity to invest in joint ventures. The only measures from this group which were significantly associated with nature of business, were those involving:

(a) Comments upon the importance and effectiveness of associates.
(b) Readiness to invest in other joint ventures.

Other tests, using measures of actual returns achieved and comparisons between subsidiary and joint venture types of operation, did not appear to be successful, at least not over the available sample data.

British executives were asked whether their companies' associates were considered to be effective in relationship to a specific joint venture*. These responses were then grouped by nature of business, and each individual answer was assigned a value. These values were plus one for a positive, zero for a neutral and minus one for a negative response. An average score was calculated over the values for each group and these average scores were charted in Diagram 4.a** In the diagram, a score of 1.0, as in the case of the engineering group, thus represented a 100% favourable response covering all the associates in that group. A score of zero would have indicated either a generally neutral assessment of a group of associates, or else a bimodal distribution of an equal number of positive and negative responses. The theoretical minimum of minus one would have required a negative consensus of opinion concerning their associates by all the British executives in a given group.

* The actual definition of 'effective' was not specified, since an overall impression was all that was sought in this particular response. A later question was designed to determine the manner in which importance of an associate was decided.

**The relationship between nature of business and the stated effectiveness of associates was marginally significant at the 0.073 level.
Diagram 4.a - Relationship Between the Stated Effectiveness of Associates and Nature of Business

<table>
<thead>
<tr>
<th>Nature of Business</th>
<th>Group Effectiveness Scores</th>
</tr>
</thead>
<tbody>
<tr>
<td>Oil</td>
<td>0.62</td>
</tr>
<tr>
<td>Chemicals</td>
<td>0.38</td>
</tr>
<tr>
<td>Engineering</td>
<td>1.00</td>
</tr>
<tr>
<td>Electricals</td>
<td>0.47</td>
</tr>
<tr>
<td>Vehicles</td>
<td>0.86</td>
</tr>
<tr>
<td>Metals</td>
<td>0.60</td>
</tr>
<tr>
<td>Tobacco, Food</td>
<td>0.40</td>
</tr>
<tr>
<td>All-Industry Average</td>
<td>0.59</td>
</tr>
</tbody>
</table>

It had been expected that these assessments would correspond to the level of responsibility attributed to a particular group of associates and would therefore, vary inversely with the scores shown in Table 4.1 for each group by nature of business. However, a deliberate 'hedge' was also built in, namely that if the associate was considered to be effective in practically all cases, this overall finding could quite reasonably be considered as trivial. In other words, if all firms were satisfied with their associates, this might represent a universally successful selection process, or simply post hoc rationalisation to support the actual choice.
which had been made. A 'trivial' interpretation which would have been consistent with theories concerning the 'freezing' of values through the decision process (3), or efforts to reduce cognitive dissonance following commitment (9).

In fact, 68% of these cases were described as having effective associates. Only in six, out of the whole sample of joint ventures, was the answer a flat "no". Four of these were related to companies in the chemicals group and the other two involved joint ventures in electricals. This negative response corresponded to the earlier measure of associates' responsibility for chemicals, but not for the electricals group. For the latter, these two were cases in which an ineffective (strictly, when unbusinesslike practices had been proved) local partner had had to be replaced.

Only in the tobacco and food group were more neutral than positive answers given, and these were explained by the fact that local associates in these joint ventures were primarily investors. In view of the marginal significance of the relationship and the preponderance of positive answers by all other groups, the hypothesis of triviality could not be disproved. It appeared that most British companies were quite satisfied with the effectiveness of their associates.

A second measure studied was the importance to a joint venture, attributed by British companies to their associates. Responses in this case, were simplified into four categories:

(a) Very important, in some specified manner.
(b) Useful.
(c) Necessary, with a negative connotation.
(d) Useless.

This measure was significantly associated with nature of business*, and the

* At the 0.024 level.
results are shown in Table 4.2. Again, British executives stated that their firms' associates were very important in 61% of the joint ventures and were useful in another 17%. Only six were felt to be useless, two of which were in the oil, and four in the electricals groups. This response had been expected for the oil and associated companies because of the nature and scale of their operations and in conformity with the earlier measure of associates' responsibility. Two of the electricals cases were those described above in this section. In one of the others, the associates were primarily investors and distributors. In the last, the British parent firm had been invited by the host government to take up a large majority holding in a local company which was on the verge of bankruptcy.

Table 4.2 - Nature of Business and Importance Attributed to Associates in Specific Joint Ventures in India and Pakistan.

<table>
<thead>
<tr>
<th>Nature of Business</th>
<th>Importance Attributed to Associates</th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Very Important</td>
<td>Useful</td>
<td>Necessary</td>
<td>Useless</td>
<td>Totals</td>
<td></td>
<td></td>
</tr>
<tr>
<td>No.</td>
<td>%</td>
<td>No.</td>
<td>%</td>
<td>No.</td>
<td>%</td>
<td>No.</td>
<td>%</td>
</tr>
<tr>
<td>Oil</td>
<td>3</td>
<td>7</td>
<td>4</td>
<td>33</td>
<td>4</td>
<td>40</td>
<td>2</td>
</tr>
<tr>
<td>Chemicals</td>
<td>8</td>
<td>19</td>
<td>4</td>
<td>33</td>
<td>4</td>
<td>40</td>
<td>-</td>
</tr>
<tr>
<td>Engineering</td>
<td>9</td>
<td>21</td>
<td>1</td>
<td>8</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Electricals</td>
<td>10</td>
<td>23</td>
<td>1</td>
<td>8</td>
<td>-</td>
<td>-</td>
<td>4</td>
</tr>
<tr>
<td>Vehicles</td>
<td>6</td>
<td>14</td>
<td>1</td>
<td>8</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Metals</td>
<td>4</td>
<td>9</td>
<td>1</td>
<td>8</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Tobacco, Food</td>
<td>3</td>
<td>7</td>
<td>-</td>
<td>-</td>
<td>2</td>
<td>20</td>
<td>-</td>
</tr>
<tr>
<td>Totals &amp; cell% based on row sum</td>
<td>43</td>
<td>61</td>
<td>12</td>
<td>17</td>
<td>10</td>
<td>14</td>
<td>6</td>
</tr>
</tbody>
</table>

(Notes: Percentages do not all add up to 100 because of rounding.)
Of the ten answers in the necessary/negative category, four each were from companies in the oil and the chemicals group, for which the limitations of the associates have already been discussed in this and the last chapters. Two were from firms in the tobacco and food group. All of these appeared to correspond satisfactorily with the ordering, described in the last section, according to the level of responsibilities assumed by associates. Apart from the oil group, and allowing for a marginal 50% in chemicals, associates were described as being important in some specified manner for a clear majority of the cases in all groups.

In order to provide a comparison with the last measure, British executives were also asked whether associates were important to joint ventures in the less-developed countries in general. Variations in the responses to this question were marginally significant according to nature of business*, as shown in Table 4.3.

**Table 4.3** - Nature of Business and Importance Attributed to Associates in Joint Ventures in Less-Developed Countries in General.

<table>
<thead>
<tr>
<th>Nature of Business</th>
<th>Very Important</th>
<th>Useful</th>
<th>Necessary /Negative</th>
<th>Useless</th>
<th>Can't Judge</th>
<th>Totals</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>No.</td>
<td>%</td>
<td>No.</td>
<td>%</td>
<td>No.</td>
<td>%</td>
</tr>
<tr>
<td>Oil</td>
<td>3</td>
<td>14</td>
<td>5</td>
<td>23</td>
<td>5</td>
<td>26</td>
</tr>
<tr>
<td>Chemicals</td>
<td>4</td>
<td>18</td>
<td>3</td>
<td>14</td>
<td>6</td>
<td>32</td>
</tr>
<tr>
<td>Engineering</td>
<td>6</td>
<td>27</td>
<td>2</td>
<td>9</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Electricals</td>
<td>2</td>
<td>9</td>
<td>7</td>
<td>32</td>
<td>6</td>
<td>32</td>
</tr>
<tr>
<td>Vehicles</td>
<td>2</td>
<td>9</td>
<td>4</td>
<td>13</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Metals</td>
<td>3</td>
<td>14</td>
<td>1</td>
<td>5</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Tobacco, Food</td>
<td>2</td>
<td>9</td>
<td>-</td>
<td>-</td>
<td>2</td>
<td>11</td>
</tr>
<tr>
<td>Totals &amp; cell % based on row sum</td>
<td>22</td>
<td>31</td>
<td>22</td>
<td>31</td>
<td>19</td>
<td>27</td>
</tr>
</tbody>
</table>

(Notes: Percentages do not all add up to 100 because of rounding.)

* At the 0.093 level.
There appeared to be a reduction in the overall importance ascribed to associates, as compared with what may have been the special case of India and Pakistan. In six cases, the British respondents felt that they were unable to judge the importance of associates in other countries. Only in 31% of all cases were such other associates described as being very important, while in another 31% they were said to be useful.

For 30% of these cases, associates in the less-developed nations in general were classed as either necessary, in a negative sense, or useless. This reduction in attributed importance was most marked in the chemicals group. Although many of these chemicals companies actually operated through joint ventures in other less-developed nations, they were said to be much more selective than most of the other firms. According to these respondents, this was because of the nature of their business and the difficulty in finding local partners of adequate calibre in countries other than India or Pakistan.

As usual, the oil companies appeared to differ from the others. Associates were considered, by respondents from this group of companies, to be slightly more important in other countries than they were in India or Pakistan. The chief reason given was that the oil companies had run major operations in India for over half a century. Their ranks were studded with O.B.E.s and C.B.E.s*, earned by a lifetime of service there. Since they considered that they themselves knew as much about these two host countries as any local associate, the latter could only offer political expediency. Even though these respondents stated that local partners had little to offer in any underdeveloped nation, they also felt that such

*Order of the British Empire and Commander of the British Empire, Honours awarded for service to the British Commonwealth.
associates might be able to provide some marginal benefits in countries other than India or Pakistan. Benefits, in terms of local knowledge, or of personnel, apart from the obvious political necessity for their participation in very many cases.

The final series of tests in this section examined the readiness of this group of investors to participate in other joint ventures. Respondents were asked whether their companies would participate in further joint ventures in other countries, both developed and less-developed*. There were two chief aims behind this question. One was to try to obtain an indirect overall indication of the effects of participation in the joint ventures of the present sample upon readiness to repeat the experience. Another objective was to determine whether India and Pakistan appeared to constitute a special case for British companies, so far as their readiness to invest abroad in joint ventures was concerned.

For these two types of host country, in turn, the overall percentages of answers were as shown in Table 4.4.

Table 4.4 - Readiness of British Firms to Participate in Joint Ventures in Countries Other Than India or Pakistan.

<table>
<thead>
<tr>
<th>Answer Given</th>
<th>Suggested Location of Joint Ventures</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Other Less-Developed Countries</td>
</tr>
<tr>
<td>Yes we would and we do</td>
<td>45%</td>
</tr>
<tr>
<td>Yes we would</td>
<td>13%</td>
</tr>
<tr>
<td>Summarised as 'it depends'</td>
<td>27%</td>
</tr>
<tr>
<td>No</td>
<td>15%</td>
</tr>
</tbody>
</table>

* Nature of business was significantly related to answers for the less-developed case at the 0.025 level, and for the developed case at the 0.009 level.
The main dissenting groups with respect to investment in other underdeveloped nations were:

(a) The 'selective' chemicals companies, for the reasons already discussed above.

(b) A sub-group of engineering firms, which considered that their operations were not suitable for less-developed countries.

(c) The majority of the companies in the vehicles group, some of them for the same reason as in (b), others for the reason discussed in the last section. These were the firms which judged a country according to whether or not their motor industry customers were already established or preparing to invest in it. Since the motor industry's operations in less-developed countries tended to be limited, so also was the interest of their suppliers.

With respect to investment in the developed countries, the chemicals group had no objections. Here the other dissenting opinions in the case of less-developed countries were joined by 40% of the responses from the electricals group. The latter preferred outright acquisition as the most suitable method of operating in developed nations and their markets.

On the whole, although British firms appeared to be reasonably cautious about joint venture opportunities in less-developed countries, only one in seven (one in five if oil cases were excluded) would not have considered them. In this respect, India and Pakistan did not appear to constitute a special case.
Summary

The structure of joint ventures, in terms of dependence upon a foreign partner, varied considerably according to the nature of business. For groups in which there was a marked predominance of foreign majority or minority equity holdings, these holdings appeared to offer a reasonable explanation for the level of dependence of joint ventures.

Many of the cases in the oil group were mixed ventures which depended upon the technical and managerial skill of the British partner. In spite of the fact that a formal equity majority was held in most of these mixed ventures by a host government agency, the latter did not assume responsibility for operations, merely concentrating upon supervising policy.

In the vehicles group, local associates were said to be highly competent and undertook considerable responsibility for operations, even though these joint ventures were subject to foreign control in policy areas more than were most others. Over a very small sub-sample, it was possible to conjecture that dependence in metals group joint ventures varied with the complexity of the process.

Many of the chemicals cases were 50-50 joint ventures which tended to be relatively independent, with respect to policy determination, from influence by the foreign parent. This may have been the result of a stalemate between partners, and appeared to be further evidence of the existence of problems in this area which may be a general feature of joint ventures involving formal equality of associates.

Approximately two-thirds of the British companies in the sample appeared to be satisfied with the effectiveness and importance of their associates. A few doubts were expressed in relation to associates in the oil and chemicals groups. This agreed with the earlier finding that
associates tended to assume rather less responsibility in these two
groups. Opinions in general were neutral in cases in which associates
were primarily investors.

The importance of associates in other underdeveloped nations was
said to be less, over the sample as a whole, than in the case of India and
Pakistan. An exception to this general assessment arose in connection
with joint ventures in the oil group. The oil companies were even more
familiar with Indian conditions than were the other British firms. As
a result local associates were for them merely a political necessity.

Over one-third of these British companies were involved in joint
ventures in other countries, both developed and underdeveloped. Excluding
oil companies, less than one in five would not have considered joint ventures
in other less-developed countries, while one in four made the same reserva-
tion for developed countries. For the less-developed case, the objections
were usually: (a) unsuitability of the business for such countries,
or (b) lack of local partners of suitable calibre, or (c) absence of
particularly significant customers. In the developed case, (a) and (b)
were not important. Reason (c) was joined by the preference of some
firms for outright acquisition, rather than for setting up joint ventures
in such markets.

The strong preferences expressed by some respondents, notably from
firms in the vehicles group, for associates and the labor force in South
India suggested a subject which would be worth further study, in order to
determine whether the alleged regional differences are in fact significant
for foreign investors.
Notes and References to Chapter Four


5. There is an excellent discussion of the vicissitudes of the oil companies in India in Michael Kidron, Foreign Investments in India, (Oxford University Press; London, 1965), pp. 166-175.


CHAPTER FIVE

ATTITUDES TO CONTROL

Ownership and control strategies are fascinating topics for theoretical discussion. As such, they have been relatively well explored in the literature on international business, foreign investment policy and comparative management. In particular, there are excellent discussions of the significance of control:

(a) in very general terms by Friedmann and Kalmanoff (1).
(b) in considerable detail with respect to U.S. companies by Richard D. Robinson (2), and in rather less detail by Behrman (3).
(c) in a legally-structured context for the Indian case by Kust (4).
(d) in comprehensive detail for the general case of investment in India by Kidron (5), and
(e) in theoretical terms for the theoretical case in a generalised theoretical framework by Farmer and Richman (6).

It is not proposed to recapitulate all these arguments in the present chapter, but rather to examine the results of a specific series of tests dealing with some of the relationships between attitudes to control on the part of British companies and certain aspects of their associated joint ventures in India and Pakistan.

Relationships between these attitudes and the nature of the business have been discussed in a previous chapter. Nature of business is therefore only considered indirectly in this chapter. Attitudes to control were not
significantly related to the reasons for going into a joint venture or for selecting a particular associate. They were however, significantly associated with three groups of the other variables in the general framework of this study:

(a) The ranking of associates in order of general preferability.

(b) Structural characteristics of joint ventures, especially foreign share in the equity of joint ventures, level of responsibility of associates and the independence or dependence of joint ventures in policy areas.

(c) Certain criteria which were set up as part of the study in order to evaluate different aspects of joint ventures, including: return on long-term investment; British parent companies' assessments of the importance and effectiveness of their partners; readiness of British firms to invest in further joint ventures.

Two measures were used to classify attitudes to control. These were the levels of desirability described by British firms with respect to control in terms of:

(1) A majority share in the equity of a joint venture.

(2) Effective control over the operations of a joint venture.

Although basing their opinion upon a very small sample, Friedmann and Kalmanoff commented that: "In the United Kingdom and Germany, virtually all the firms interviewed prefer arrangements in which they have majority control" (?). This was not quite the case among the respondents in this study, although it was true for most of the companies.

The actual definition of what constituted 'effective' control was deliberately left to the interpretation of respondents. In organisation
theory, control involves successful acts of influence, i.e. the controller's influence is strong enough to ensure completion of the desired cycle of behaviour. The power to control "refers to potential acts rather than to transactions actually occurring" (3). Power itself was described by Weber as the probability that one actor within a relationship will be in a position to carry out his own will, despite resistance. What was required here therefore, was an assessment of the extent to which foreign parent companies considered that they should be able to exert such power and control. Detailed definition of the actual areas and the direction in which these were to operate were not of prime concern, depending upon each firm's own peculiar requirements. In simpler terms - effective control was the ability of foreign parent companies to do what they felt they wanted, when they wanted to do it.

These two measures of control were very strongly related to each other*. Effective control was apparently felt to be synonymous with a majority equity holding. This was the general case, in spite of the fact that most companies were well aware of the leverage they could exert upon a joint venture through their own technological advantage, through special conditions written into agreements and, in many cases, through their control over the supply of vital materials and components. Kust has suggested that such a reaction was largely due to the convenience of control through a majority holding, or what he described as an effective majority (9). The responses received in this study certainly do not disprove such a theory.

There appeared to be very little formal recognition, by most of the British companies, of any potential countervailing power against equity

* Significant at the 0.000 level.
control that might be held by local associates, either directly or via host government intervention. This was true despite the argument that "One could anticipate that in fact control could be assured only so long as the policies of the firm coincided with the interests of the host government and of local associates. If conflict arose, control could be lost with or without ownership, contractual relationships, or (foreign) management" (10). Even though this situation appeared to be relevant in India, "A large Indian house is usually able, if it wish, to persuade the licensing authorities of the virtues of economic nationalism" (11). This lack of recognition was the probable reason for the association of effective with majority control. Such an attitude could have been the result of either blissful ignorance or a realistic appraisal of the actual situation in India and Pakistan.

In general, the effects of host government action were felt to be limited to their nuisance value (especially in the areas of high taxation levels, pressures for 'localisation' of personnel and a certain amount of disruption of supply and price levels) if a foreign partner had financial control. Given too, that such a majority position could actually be achieved. However, this view was not universally held. One oil company respondent commented that: "The host government is probably the best local choice (of partner), we must get in well with them as they have eventual authority in any case".

Attitudes to Control and Ranking of Potential Associates.

Although both measures of attitudes to control were tested against attitudes towards different types of associates, the results were only significant for the case of the host government.* In very general terms,

* At the 0.005 level for majority and the marginally significant 0.082 level for effective control.
this association could be summarised as indicating stronger negative attitudes towards potential host government partners by foreign companies stating that control was necessary or desirable. Over 70% of the first and over 65% of the second gave a negative reaction towards host government associates. On the positive side, there were some favourable comments by oil companies. With the exception of these oil joint ventures, which were defined in a previous chapter as a special case, 77% of the positive attitudes towards potential host government partners were expressed by firms to whom effective control was unnecessary or merely acceptable.

There were however, rather clearer relationships between attitudes to control and the actual ranking of potential associates. The significance of these associations varied with the two measures of control and with various types of associate. They were strongest for attitudes to effective control on the one hand and for fellow national and host public or investing interests on the other. In order to provide an overall basis for comparison, a score was calculated from ranks allocated to each type of associate by British companies according to the latter's attitudes to effective control over joint venture operations. Scores and overall ranking between associate types were calculated in the same manner as in the comparisons by the nature of parent business in Chapter Three. (A first place ranking received a score of 1 and a fifth place, a score of 5. Thus again, the lower the score the more preferable the associate.) These figures are shown in Table 5.1.
Table 5.1 - Ranking of Various Types of Potential Associates According to British Company's Attitude to Effective Control of a JV.

<table>
<thead>
<tr>
<th>Stated Level of Necessity for Effective Control</th>
<th>Rank Ordering of Potential JV Associates</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Fellow National</td>
</tr>
<tr>
<td>Weighted Average Score and (overall rank) for groups</td>
<td></td>
</tr>
<tr>
<td>Necessary</td>
<td>2.21 (1)</td>
</tr>
<tr>
<td>Desirable</td>
<td>2.17 (1)</td>
</tr>
<tr>
<td>Acceptable</td>
<td>2.13 (1)</td>
</tr>
<tr>
<td>Unnecessary</td>
<td>3.43 (3)</td>
</tr>
<tr>
<td>All-Group Score</td>
<td>167 (2)</td>
</tr>
</tbody>
</table>

(Note: Significance levels were 0.007, 0.191, 0.168, 0.091 and 0.005 respectively.)

It had been expected that the desire for effective control would affect ranking of potential partners in the following ways. If control was felt to be necessary or desirable, then the company concerned would be most likely to choose the non-participating class of investors or public. This was argued on the grounds that "Effective control by a foreign collaborator without majority ownership is...not difficult to obtain today (1964)... A 40% equity participation, where the Indian collaborator has 30% and the balance is distributed widely, gives the foreign collaborator effective control." (This distribution is favoured by the Indian Government according to Kust.) (12) The Indian Chairman and Managing Director of a large joint venture in the metals group also added to this however, the proviso that: "New Delhi usually prefers the Indian collaborator to be a strong local company and an effective partner."
From the point of view of a British company concerned over control, it had also seemed likely that a reasonable second choice would have been a local private interest. First, because many of these were limited in their own scope of activities to certain functional areas, outside which they would be unlikely to interfere. Second, because of the belief by respondents that such partners could usually be dominated by force majeure if necessary, rather more easily than a company from a developed country or than the host government. Least probable was felt to be the choice of a partner from the last category.

There appeared to be no strong reason why companies to whom control was unnecessary or no more than acceptable, should show a marked preference for any particular type of associate, at least not on the basis of the issue of control alone. On the other hand, it was expected that these companies might well rank host government interests lowest in preferability. Even for foreign companies which were relaxed in their attitudes to control, association with the local government would have been a special case and perhaps felt to be carrying such an attitude rather too far. Behind these predictions was in fact the general assumption that foreign companies would expect the host government to be most likely to interfere in the operation of joint ventures, largely because of potentially conflicting basic goals, philosophies, or even ideologies. This assumption was based upon an extrapolation from the "doctrinaire, free enterprise approach" found in U.S. firms, typified for the general case by one respondent in an earlier major study: "'ixed companies almost always lead to conflict and the influx of political pressure in the business operation." (13)

The ordering shown in Table 5.1 did not appear to verify all of these predictions. Certainly the host government appeared to be the least
attractive alternative for companies to whom control was important. Firms which considered control to be unnecessary seemed to find little to choose between interests from developed nations, the host government, or fellow nationals. They showed a clear preference for local private interests, with the investor category coming a poor second.

Although the measures of attitudes to control were not significantly related to reasons given for actually selecting specific associates, there was an indirect linkage in the evidence which may explain this clear preference for local private partners. As discussed in an earlier chapter, most of the firms which considered control to be unnecessary were the smaller ones. These were also the firms which tended to look for facilities and resources from a local associate. Hence perhaps the ordering shown here - they were most likely to choose a local private interest. In fact, 75% of these companies ranked such a partner as their first choice.

A major deviation from the forecast appeared in the preference shown by the control-conscious companies for fellow national associates. This was especially true for companies which classed control as desirable. In fact, for the group with the strongest predilection for control, the preference for fellow nationals seemed to be only marginally greater than for the predicted investor category. However, fellow nationals were clearly preferred to the second predicted class of local private investors, whether control was considered to be necessary or desirable.

It seems possible that this preference for fellow nationals in cases where there was a strong desire for control may have been explained by a better definition of what was really felt to be involved in control. The prediction was based upon an implicit assumption that concern would be related simply to control over the operations of a joint venture.
fact it would appear that these British companies were also concerned about control over the uncertainty induced by the environment in which the joint ventures operated. If this were so, then preference for fellow national associates appeared to be a reasonable strategy through which to improve this control by reducing the area of uncertainty in a partner/environmental matrix. This would be consistent with the primacy of reducing uncertainty in the foreign investment decision process suggested by Aharoni (14).

Among the group stating that control was desirable were most of the joint ventures involving oil companies. Given the choice, these firms also indicated a strong preference for fellow national partners. This explained the apparently stronger preference for fellow national over other types of associate on the part of this group, as compared with firms which considered control to be necessary. In a similar manner, this group also included a large sub-group of chemicals joint ventures. British parent companies of these joint ventures also showed a preference for local private partners offering facilities and resources. Their responses weighted the group score in favour of this type of potential associate. Hence the group stating that control was desirable also preferred local private participating partners to investors, an ordering which was contrary to that forecast.

Attitudes to Control and Structural Characteristics of Joint Ventures.

If a foreign parent company were greatly concerned over the issue of control of joint operations in which they might be involved, it appeared reasonable to expect that this would be reflected in the structure of a joint venture. In terms of the structural measures used in this study, this concern would be reflected in several ways, but in particular through
a higher level of dependence of joint ventures upon the British parent company. An overall basis for comparison of the effects of attitudes to control upon structure was set up by calculating dependence scores for each of the three main structural variables. Scores and overall rankings were again calculated in the same manner as in the comparisons by nature of parent business in Chapter Four. Dependence was ranked for each structural variable according to the strength of the British parent company's stated need for effective control. Table 5.2 presents the results of these calculations. Again, the higher the score, the greater the dependence of the joint venture upon its British parent.

Table 5.2 - Structural Dependence Scores of Joint Ventures According To Foreign Partners' Desire for Effective Control.

<table>
<thead>
<tr>
<th>Stated Level of Necessity for Effective Control</th>
<th>Number of JVs</th>
<th>Equity Share of Foreign Parent</th>
<th>Associate's Responsibility</th>
<th>JV's Independence in Policy Areas</th>
</tr>
</thead>
<tbody>
<tr>
<td>Necessary</td>
<td>14</td>
<td>3.43 (4)</td>
<td>2.89 (4)</td>
<td>2.86 (4)</td>
</tr>
<tr>
<td>Desirable</td>
<td>28</td>
<td>2.46 (3)</td>
<td>2.86 (3)</td>
<td>2.36 (1)</td>
</tr>
<tr>
<td>Acceptable</td>
<td>15</td>
<td>1.93 (1)</td>
<td>2.13 (1)</td>
<td>2.60 (3)</td>
</tr>
<tr>
<td>Unnecessary</td>
<td>12</td>
<td>2.08 (2)</td>
<td>2.16 (2)</td>
<td>2.57 (2)</td>
</tr>
<tr>
<td>All-Group Average Score</td>
<td></td>
<td>2.48</td>
<td>2.60</td>
<td>2.55</td>
</tr>
</tbody>
</table>

(Note: Significance levels were 0.001, 0.050 and 0.063 respectively.)

The fact that effective control was equated with a majority share in equity naturally suggested that companies requiring effective control would be likely to seek a majority position in any joint venture in which they were involved. To some extent, the actual equity position achieved reflected
the share sought. Differences between levels of aspirations and achievements were likely to show the effects of intervening variables, in particular, the effects upon relative bargaining power of: the nature of the business; size of the foreign company; significance of the project to the economic and social development of the host country. In general however, companies which actively sought control were more likely to achieve it than others to whom the issue was of less concern. An extreme case was quoted in an earlier study: "We just kept on insisting upon 100 per cent ownership for fourteen months until we got it." (15).

Admittedly, the situation was not as simple as the above remark by an executive of English Electric suggested. On the whole however, the evidence of this present study indicated that the attitudes of U.K. companies towards both effective and majority control were significantly related to the actual equity share in joint ventures which they were able to obtain*. Seventy-five per cent of cases in which majority control was said to be necessary and 72% of those in which effective control was necessary involved cases in which the British parent actually held a majority position. At the other end of the scale, companies holding a minority position in JVs accounted for 35% of those which felt that effective control was unnecessary and 33% of those which considered that majority control was no more than acceptable.

Independence of joint ventures with regard to their own authority over policy areas was also likely to be affected by the attitudes towards control of their foreign parent companies. The greater the latter's concern for control over this type of investment, the less the

* Significant at the 0.001 and 0.011 levels respectively.
† Joint ventures.
level of independence which would be expected in an associated joint venture. When attitudes to control were examined against independence of joint ventures, there was some indication that the assumption was valid. Seventy-five per cent of the companies which considered that majority control was necessary were also classed as controlling their joint ventures. For 50%, the control in areas of policy was close*.

A third way in which the predilection for control on the part of the foreign parent company could be expected to affect the structure of a joint venture would be in the level of contribution made by associates. Determination of cause and effect would not be complete however, if an association existed between these two variables. For example, a powerful or highly competent local associate may well have made a considerable contribution to the effectiveness of a joint venture in spite of a foreign partner's desire for control. Alternatively, the latter may have rested secure in the knowledge that it had the potential to exert control if it so wished, while leaving much of the responsibility for the actual operations of a joint venture to a local partner. In general however, it was expected that a strong desire for control would also tend to imply a similar desire to obtain maximum benefit from the ability to supervise operations. If this were so, it would appear in a tendency for the local partners to assume less responsibility, mainly because they would be afforded less opportunity to participate effectively by a control-conscious foreign parent company.

On the whole, the findings in this study supported such an argument. Relationship between the measure of associates' responsibility and the two measures of attitudes towards majority and effective control were

* Significant at the 0.063 level.
significant*. Associates made little or no contribution in over 70% of JVs involving U.K. companies which considered majority or effective control to be necessary. On the other hand, they assumed considerable responsibility in most cases in which the British parent stated that effective control was unnecessary (75% of such cases), or merely acceptable (73%), or that majority control was acceptable (33%).

This finding was not completely consistent with that of Kidron, who stated that: "In practice, whatever the arrangements for allocating functions between the Indian and foreign partners, whatever the distribution of capital between them..., almost invariably, it appears, works management remains in non-Indian hands" (16). In the first place it was not entirely clear what definition of "works management" was used. In view of an earlier statement concerning the importance of quality control in the paragraph from which the above excerpt was quoted, "works management" appeared to be essentially management of production and quality control. Secondly the measure of associates' responsibility in the present study covered a much broader scope. Production and the technical or engineering functions were only two out of the eleven functional areas included in this measure. Even for these two areas however, the figures did not appear to agree with those of the earlier study. The breakdown of the raw data in these areas was as follows:

Table 5.3 - Associates' Responsibility for Production, Technical And Engineering Functions in Joint Ventures.

<table>
<thead>
<tr>
<th>Functional Area</th>
<th>Level of Associate's Responsibility</th>
<th>Cases</th>
<th>%</th>
<th>Cases</th>
<th>%</th>
<th>Cases</th>
<th>%</th>
<th>Total Cases</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Full</td>
<td></td>
<td></td>
<td>Joint</td>
<td></td>
<td>None</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Production</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Technical &amp; Engineering</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

* Significant at the 0.001 and 0.050 levels respectively.
The term "non-Indian hands" was also misleading, although one suspects that this was rather a case of splitting hairs in criticising an author who was obviously working on a very broad canvas. In fact the figures shown above understated the number of occasions when these two areas were actually in Indian hands, hands which were in the employ of the foreign partner, and therefore classified here in the "none" category (in that ultimate responsibility lay with the British partner).

The underlying hypothesis examined in this section was that the level of concern over control on the part of foreign parent companies would be directly related to the level of dependence of joint ventures in which they were involved. Such concern would in fact lead to greater dependence, except when other factors interfered with this tendency. The results of the three groups of tests related to structural characteristics of joint ventures did not disprove this hypothesis. Nor was the direction of causation proved, since:

(a) A strong desire for control could conceivably have reflected a wish to perpetuate the status quo, in which dependence may have arisen for some other reason than a foreign partner's desire for control.

(b) Both a desire for control and other factors could have led to dependence, but these others, especially factors affecting relative bargaining power, could have been the major determinants.

The first of these two alternatives seemed to have been unlikely. It would have implied that control may not have been sought deliberately. In fact, the question of control over investment was too basic an issue in over 60% of the cases discussed for it to have been other than a specific objective. The second alternative was probably true, but was not
sufficient to refute the hypothesis. Even though bargaining power may have made control possible, it did not necessarily explain why control was actually assumed, at least not beyond the stage when control could be relaxed without jeopardising the effectiveness of a joint venture. There was no suggestion by any of the British companies citing control as necessary that, if achieved, it might be relaxed in the future - except under duress. The only suggestions of this nature came from firms which were more relaxed over the issue of control, typified by the following statement by a parent company director in the vehicles group who had actually set up two operations in India: "Our policy over control is fairly flexible. In less-developed countries, it depends upon our partners. Control is useful in early days, in order that the new operation can be put into shape as soon as possible. In the long run it is better for the country if local interests have control over local operations. This reduces the impact of the conflict of interests which is always there between local partners, the host country, the foreign investor and, to some extent, the latter's parent government."

Analysis of the figures in Table 5.2 summarises the results of the tests in this part of the study. To simplify analysis, the four categories of attitudes to effective control can be grouped into two sections. The "necessary" and "desirable" responses constituted the group of companies which considered that control was important. "Acceptable" and "unnecessary" responses indicated a lower level of concern. With one exception, there was a clear difference between these two sections. Dependence was consistently greater where control was important and less when the attitude to control appeared to be more relaxed.

The exception arose in the low level of dependence in policy areas for joint ventures associated with companies citing control as desirable.
It was explained by the presence in this group of responses on behalf of oil interests. Eighty-five per cent of the responses from such interests suggested that control was desirable, but at the same time, just over half of their joint ventures in this sample involved host government partners. These partners took considerable interest in policy issues, even though their contribution was not significant in other respects. Hence the dependence of these mixed ventures upon the foreign partner was lower than the latter would have preferred along this dimension.

A general conclusion which could be drawn from this evidence was that British companies appeared to have the ability to achieve control in joint ventures when the issue was felt to be important. This ability is shown in Table 5.4. Such companies were usually able to hold an equity majority position when it was considered necessary, in spite of host government policies to the contrary. This study was not organised to provide details of firms which failed to invest in these host countries because they were unable to obtain a majority share in a joint operation, or because they were unable to invest in a 100% owned subsidiary. With this reservation, the apparent ability to achieve control when necessary to a firm's own interests, even though two of this sub-group were small and one was medium-sized, seemed to be evidence against the thesis of bilateral monopoly. In particular, it appeared to argue against the idea that the joint venture decision was governed specifically by relative bargaining power in terms of technological and economic desirability to the host nation. (17)
Table 5.4 - Relationships Between Foreign Parent Companies' Aspirations and Achievements Concerning Effective Control (As Indicated by JV Dependence).

<table>
<thead>
<tr>
<th>ASPIRATIONS</th>
<th>ACHIEVEMENTS</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Foreign Share in JV Equity</td>
</tr>
<tr>
<td>Foreign Partner's Stated Attitude</td>
<td>Majority</td>
</tr>
<tr>
<td>to Control</td>
<td></td>
</tr>
<tr>
<td>Majority Control Necessary</td>
<td>75</td>
</tr>
<tr>
<td>Majority Control Desirable</td>
<td>24</td>
</tr>
<tr>
<td>Effective Control Necessary</td>
<td>71</td>
</tr>
<tr>
<td>Effective Control Desirable</td>
<td>15</td>
</tr>
</tbody>
</table>

(Note: Figures are percentages of total cases in the category in the left-hand column, not of the total cases in the sample.)

Attitudes to Control and Evaluation Criteria Used in the Study.

When British parent companies' attitudes to majority control were examined against the measure of return on long-term U.K. investment in a specific joint venture, there was some evidence that higher levels of return had been obtained from investments by companies with a more relaxed attitude to control. Details of returns were only available for 38 joint ventures, but the relationship was significant* even over this sub-set of levels of return were grouped into three classes. These were defined as follows, together with the percentage rate of return on investment, net of host country taxation, in each category:

* At the 0.009 level.
Low = 10% and under
Medium = 11% to 20%
High = Over 20%

Over 70% of cases in which the British parent considered majority control to be no more than acceptable were in the high return class. The remainder were in the medium class. Fifty per cent of the joint ventures earning a high return were those in which the British parent stated that control was acceptable. Of the cases in which the foreign parent considered that majority control was necessary or desirable, 30% were in the low and 50% in the medium return classes. The association between these two variables is outlined in Diagram 5.a below.

Diagram 5.a. - Relationship Between Foreign Parent Predilection for Control and Return on Joint Venture Investment

This relationship appeared to rebut some of the arguments generally put forward for control over this type of investment. In particular it cast some doubt upon the theory that control was necessary in order to improve the operational effectiveness of a joint venture, from which would be expected to come a better rate of return. While this rebuttal was valid to some extent, it was also probable that other considerations had a signi-
significant bearing upon the relationship. In particular, the nature of business and the overall objectives of the foreign parent company were likely to have been major determinants of the level of return on a specific investment. The data were not sensitive enough to indicate the effects of these other variables. In actual fact, the only other relevant evidence in this study appeared to support the argument against control. Among the tests involving size of parent companies, it was discovered that smaller foreign companies appeared to obtain the highest returns on investment in joint ventures in India and Pakistan. These companies were also more relaxed in their attitudes to control.

In addition to the return on long-term investment, several of the more subjective measures of evaluation (essentially based upon foreign investors' levels of satisfaction) were also significantly associated with parent companies' attitudes to control. Among these were the foreign companies' comments on their associates, in terms of both effectiveness and importance, and the readiness of British parent firms to undertake further investments in joint ventures.

The sensitivity of the measure in which respondents were asked to comment upon the effectiveness of the participation of their associates was limited by the high proportion of "yes" answers (68%). The relationship between this measure and attitudes to effective control was marginally significant*. Subject to these two considerations, the relationship agreed with expectations. Over 80% of the cases in which associates were said to be ineffective and a similar percentage of the neutral responses involved parent companies which felt that effective control was

* At the 0.097 level.
necessary or desirable. On the other hand, only one negative and three neutral responses were given out of twenty-seven cases in which British firms stated that control was unnecessary or merely acceptable. The pattern of this relationship suggested a kinked curve, as indicated in Diagram 5.b.

Diagram 5.b. - Relationship Between Foreign Parent's Predilection for Effective Control and Effectiveness of Associates

Such a kink in the above curve was probably explained by the high proportion of chemical companies in the group stating that control was desirable. Chemical companies also tended to look for local partners which would be effective participants in a joint venture. If they were successful in this search, they were also likely to state that their associates were effective.

Results of the tests in which British parents' attitudes to control were examined against their comments on the importance of their associates to a joint venture were consistent with the last relationship above, as would be expected. The 'importance of partners' variable was significantly related to both attitudes to majority and attitudes to effective control*.

Again, there was a high proportion (60%) of responses stating that associates

* At the 0.037 and 0.015 levels respectively.
were important in some specified manner. Again, the importance of associates in chemicals joint ventures caused a kink in the trend of the relationship. The actual cross-tabulation of responses, grouped by U.K. parent firms' attitudes to effective control, appears in Table 5.5.

Table 5.5 - Relationship Between British Parent Companies' Attitudes to Effective Control and Their Comments on Associates' Importance to the JVs in This Study.

<table>
<thead>
<tr>
<th>Stated Level of Necessity for Effective Control</th>
<th>Importance of Associates to This JV</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Important (Specified)</td>
</tr>
<tr>
<td>Necessary</td>
<td>6</td>
</tr>
<tr>
<td>Desirable</td>
<td>13</td>
</tr>
<tr>
<td>Acceptable</td>
<td>13</td>
</tr>
<tr>
<td>Unnecessary</td>
<td>10</td>
</tr>
<tr>
<td>Column Total</td>
<td>42</td>
</tr>
</tbody>
</table>

(Note: Figures represent actual numbers of cases in each category.)

In this case, Table 5.5 can be divided into four quadrants to emphasize the extremes of the trend. This reveals the fact that 87% of the negative responses were in the northeast quadrant and therefore associated with parent companies stating that effective control was necessary or desirable. At the same time, 92% of the responses by British companies which considered that control was unnecessary or merely acceptable were in the southwest quadrant, associated with positive opinions concerning partners. In fact 35% of these responses were in the far west of this quadrant, indicating that partners were important in some specified manner to the joint venture.
The northwest quadrant explained the kink mentioned previously which compares with that in Diagram 5.b (with the curve back-to-front). It included 12 joint ventures of British companies in the chemicals and associated interests group, 7 involving oil and 3 involving vehicles group companies. All of which stated that control was desirable. It also included 5 joint ventures associated with companies in the electricals group considering that effective control was necessary.

The only two cases in the southeast quadrant were those described in the last chapter in which ineffective partners had to be replaced.

Attitudes to control were also tested against the stated importance of associates to joint ventures in less-developed countries in general. The results were consistent with those from other tests, and conformed to expectations. As in the last test described above, there was a kinked trend in the relationship*. Again, the curve ran from a strong desire for control, coupled with a low opinion of associates' importance at one extreme, to a relaxed desire for control and a high assessment of associates at the other. As was expected from the tests involving the nature of parent company business described in the last chapter, there was also a reduction in the importance ascribed to associates in other host countries. Table 5.6 shows these responses classified by the felt need for effective control.

Again, the table could be divided into four quadrants, this time ignoring the last column, since the "can't judge" responses did not add to the interpretation. The overall reduction in importance of associates would then be indicated by the shift towards the centre, towards the intersecting lines, of responses in the two western quadrants.

---

* Significant at the 0.024 level for effective and the 0.004 level for majority control.
Table 5.6 - Relationship Between British Parent Companies' Attitudes to Effective Control and Their Comments Upon the Importance of Associates to JVs in Less-Developed Countries in General.

<table>
<thead>
<tr>
<th>Stated Level of Necessity for Effective Control</th>
<th>Importance of Associates to JVs in LDCs in General</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Important (Specified)</td>
</tr>
<tr>
<td>Necessary</td>
<td>1</td>
</tr>
<tr>
<td>Desirable</td>
<td>6</td>
</tr>
<tr>
<td>Acceptable</td>
<td>8</td>
</tr>
<tr>
<td>Unnecessary</td>
<td>7</td>
</tr>
<tr>
<td>Column Total</td>
<td>22</td>
</tr>
</tbody>
</table>

(Note: Figures in cells represent the actual number of cases in each category.)

A final series of tests in this section of the study was carried out in order to determine whether attitudes to control on the part of British parents appeared to have any bearing upon their willingness to invest in other joint ventures. Attitudes to control were significantly related* to readiness to invest in each of the three locations specified in separate tests, i.e. (a) Further joint ventures in India or Pakistan (b) Other joint ventures in other less-developed countries (c) Other joint ventures in the developed countries.

Such tests were also expected to indicate whether this readiness varied significantly between different kinds of host country. Readiness to invest in other joint ventures would be a direct reflection of the British parent company's general policies on investment. Indirectly, it was also likely to be affected by the experiences of these firms with the particular joint

* These relationships were significant at the following levels:

<table>
<thead>
<tr>
<th>Measure of Attitudes to Control</th>
<th>British Parent's Readiness to Invest in Other JVs</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>In India/Pakistan</td>
</tr>
<tr>
<td>Effective Control</td>
<td>0.000</td>
</tr>
<tr>
<td>Majority Control</td>
<td>0.001</td>
</tr>
</tbody>
</table>
ventures under study, especially in the case of those British companies which were not already involved in similar operations in each of the three investment locations specified. This last point would also be expected to be particularly relevant with respect to attitudes towards possible further investment in India or Pakistan.

Responses were summarised into two categories according to attitudes to effective control expressed by U.K. firms. "Necessary" and "desirable" were re-classified as "concerned"; "acceptable" and "unnecessary" as "relaxed". The results appear in Table 5.7.

**Table 5.7 - Relationships Between Attitudes to Effective Control and Readiness of British Firms to Invest in Other JVs.**

<table>
<thead>
<tr>
<th>Locus of Investment</th>
<th>Attitudes to Effective Control</th>
<th>Response Categories Indicating Level of Readiness</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Yes We Would And We Do</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Cases (%)</td>
</tr>
<tr>
<td>This host Country, (India/Pakistan)</td>
<td>Concerned</td>
<td>22 (51)</td>
</tr>
<tr>
<td></td>
<td>Relaxed</td>
<td>10 (37)</td>
</tr>
<tr>
<td></td>
<td>Column Total</td>
<td>32</td>
</tr>
<tr>
<td>Other Less-Developed Countries</td>
<td>Concerned</td>
<td>26 (61)</td>
</tr>
<tr>
<td></td>
<td>Relaxed</td>
<td>5 (19)</td>
</tr>
<tr>
<td></td>
<td>Column Total</td>
<td>31</td>
</tr>
<tr>
<td>Developed Countries</td>
<td>Concerned</td>
<td>28 (65)</td>
</tr>
<tr>
<td></td>
<td>Relaxed</td>
<td>7 (26)</td>
</tr>
<tr>
<td></td>
<td>Column Total</td>
<td>35</td>
</tr>
</tbody>
</table>

(Notes: Cell percentages are based upon row sums. Percentages do not all add up to 100 because of rounding.)

Certain figures stood out in Table 5.7. A high proportion of "concerned" companies were already involved in other joint ventures in all three groups of host countries. This proportion increased slightly when the investment location was in a developed country. When the case changed to that of firms
which were not involved in other joint ventures in the area in question, a
tendency on the part of "concerned" companies to prefer developed countries
was even more marked. Most of these firms which were not so involved would
not even have considered joint ventures in less-developed countries, or
other joint ventures in India or Pakistan. Two-thirds of them would have
considered such operations in developed countries.

This distinction suggested that developed countries were possibly felt
to be safer milieux for investment by companies which were concerned over
control. Such an argument would have been consistent with that mentioned
earlier in this chapter, namely that the control over which these firms
were concerned was, at least in part, control over the investment environ-
ment. To the extent that this environment was similar to that of a foreign
investor's parent country, it was possibly felt to be either easier to
control, or less threatening to foreign control over a joint venture. An
International Survey of Business Opinion and Experience published in 1966
adds support to this argument for the general case: "The very significant
differences in customs and language, management ability, and long-range
business and investment objectives are cited as primary reasons for re-
quiring a majority position in a joint venture in an underdeveloped area...
(but)... In the countries ruled by political and economic instability,
(even) a majority position does not seem very advantageous. The privilege
of free enterprise, which is an essential condition of a majority partici-
pation, is unsafe under these circumstances." (18).

With regard to the readiness of firms in this sample to invest in
further joint ventures in less-developed countries, including India and
Pakistan, a higher proportion of "relaxed" British companies were prepared
to carry out such investment, while a higher percentage of "concerned"
companies were not. Figures in Table 5.7 suggested that this situation was reversed to some extent for the case of developed countries, in which 33% of "relaxed" companies were not prepared to consider a joint venture. This phenomenon was due to a reversal in the policies of these companies, rather than a dislike of investment in developed nations. In fact, the reversal was accounted for by the group of electricals companies described in the last chapter, which preferred outright acquisition as their investment strategy in such countries.

Summary.

The results of the tests described in this chapter were as follows: Concern over control probably involved the felt need to reduce the area of uncertainty in overseas operations as well as the desire to dictate the course taken by a joint investment. As a result, fellow national partners tended to be favoured as potential associates by companies concerned over control. Where control was felt to be less important, local private partners were preferred because of the likelihood of their positive contribution to a joint venture within the political, economic and social desirability constraints of host countries.

In general, firms which felt strongly about control appeared to be capable of achieving it in most cases, even though it was recognised that the desire for control would appear to have been only one of the factors likely to have contributed to such achievement. Whether or not they actually held a majority share in the equity of a joint venture, such companies appeared to permit their associates to undertake less responsibility for the operations of a joint venture. They also maintained a closer supervision in areas of policy, allowing joint ventures limited
independence in these areas. An exception to this last case occurred in mixed ventures, most of which were associated with oil interests, in which host governments tended to exert their countervailing power in policy areas. On the other hand, the dependence upon foreign partners appeared to be less, in terms of both the level of responsibility undertaken by associates and the joint venture's autonomy in policy areas, when British companies were more relaxed in their attitudes to control.

There was some evidence in this study that the profitability of joint ventures was inversely related to the level of concern over control of the foreign partner. This suggested that one of the most important justifications often given for seeking foreign control may not be valid.

Most of the British companies interviewed gave a favourable assessment of the importance and effectiveness of their associates. Within this general euphoria however, there was a tendency for the level of favourability assigned to be inversely related to the strength of a British parent company's desire for control. There was clearly a danger here that such assessments were the second part of self-fulfilling prophecies, or were the result of corporate attempts to reduce cognitive dissonance. With this reservation however, the evidence suggests that there may be a linked progression along the following lines:

From —— Relaxed attitudes to control on the part of foreign partners,
To —— Greater assumption of responsibility by local associates,
To —— More effective contribution by these local associates,
To —— A greater return upon investment in a joint venture,
And —— A more favourable assessment of local associates by foreign partners,
And —— A greater readiness by such foreign partners to invest in further joint ventures in less-developed countries.
Notes and References to Chapter Five


14. Yair Aharoni, The Foreign Investment Process, (Division of Research, Graduate School of Business Administration, Harvard University; Boston, 1966) p. 37.


Two decisions were central to this study. One was the actual decision to go into a joint venture. The second involved the selection of associates and is discussed in the next chapter. Emphasis upon these two issues does not imply that they were necessarily the most important considerations in this type of foreign investment situation, merely that they were of most interest in the present context. Of particular importance in general terms would have been the original decision to invest abroad, more specifically, to invest in India or Pakistan. Before continuing with the discussion of the joint venture decision itself, some comments are made on the reasons given by this group of respondents for their firms' investments in these host countries and on the background to such investment.

The Background to Foreign Investment

It could be argued with considerable justification that any decision to invest in Pakistan or India, especially in the latter, was in effect a decision to invest in a joint venture (1). Starting from the first days of Independence in 1947, both countries showed a very wary concern over the possible substitution of economic for political imperialism. Coupled with this concern were the dual decisions to seek to develop states based upon Socialist philosophies of distribution and responsibilities. These philosophies were more apparent in the public statements of Nehru and the Indian Congress party leaders, but they also appeared to be part and parcel of the early orientation of Pakistani leaders under Jinnah. Both nations immediately issued statements of industrial policy which firmly circumscribed the freedom of foreign investors.
In 1948, the Indian Policy Resolution published in that year stated that: "the major interest in ownership and effective control should always be in Indian hands" (2). The Industrial Policy Statement issued by the Government of Pakistan in the same year decreed that foreign investment would be permitted, provided that it: "claims no special privileges, and that opportunities for indigenous capital are provided and monopolies avoided" (3). In interpretation, this meant that Pakistani nationals should have the chance to subscribe to at least 30% of the equity in all companies, and at least 50% in those in a special list of industries. The list included: cement, coal, cotton, spinning and weaving, fish canning and fish oils, electric power generation (excluding hydroelectric), heavy chemicals and dyestuffs, minerals, glass and ceramics, preserved and prepared foods, shipbuilding, power alcohol, tanning and leather, sugar (4).

The difference in the level of freedom permitted to foreign investors reflected the relative initial endowments of the two new nations after Partition. Pakistan was left with a shortage of administrators, entrepreneurs, industrial plant and resources. It was not therefore, in a position to impose the same restrictions upon desperately-needed foreign investment as was India, which had benefitted from the major share of the above factors and had greater foreign exchange reserves.

India's sinoidal flirtations with foreign private investment have been well-recorded, in particular in Kidron's comprehensively annotated account (5). Pakistan's attitudes have not been as thoroughly documented, but have been described in less detail by Papanek (6). Of chief interest here is the fact that by the second half of the 1950s, both nations were in severe foreign exchange difficulties and therefore predisposed to lower the entry fees to foreign investors.
In the Pakistan Government's Industrial Policy Statement of 1958, the new Ayub regime formally reduced the insistence upon local equity participation to the extent that it merely "expects that the required local expenditure will be met from local equity capital". The only reservations were made for:

(a) Oil refining, where "substantial participation of Pakistani capital in equity" was required,

(b) Trade and banking, which were distinguished from industry, and in which Pakistani interests were expected to have control, in both equity and practical terms,

(c) A special list of activities reserved for the Pakistan Government: atomic energy, rail and air transport, telecommunications, arms and ammunition (?).

India appeared to regret the effects of the tone of the 1948 Resolution almost immediately and was endeavouring to make the appropriate noises towards foreign investors even by 1949 (8). It was not until 1961 however, that a formal welcome appears to have been placed on record in the standing orders related to foreign investment. A list of industries in which the investment of foreign private capital in joint ventures would be considered was published in an official Press Note in that year. (This list appears in Appendix C at the end of this chapter.)

Together with the list was the comment that: "The fields in which foreign capital is ordinarily not needed have also been listed. This list includes banking, trading, and commercial activities, insurance, and plantations..., the industries listed in Schedule A of the IPS of 1956. In special circumstances however, exceptions may be made where, after full consideration, this is found to be in the public interest...While Indian majority holding would be generally welcome, the ratio of foreign to
Indian capital that is to be permitted in any case have necessarily to be judged on "merits" (9).

For India therefore, the investment decision has usually been a joint venture decision. Both Kust and Kidron have described cases where fully-owned subsidiaries have been permitted (10), but these were few and involved companies such as I.B., which had highly desirable benefits to offer, including advanced technology and foreign exchange-earning potential through exports, as well as import substitution. In Pakistan, the situation was not so clear-cut. Joint ventures constituted an option which was strongly desired by the host government, but not so strongly insisted upon as in the India case.

A Trend in Attitudes Towards Foreign Investment.

In both India and Pakistan, there has been a relaxation over time in the terms of entry for foreign investors. This has been manifested chiefly in changing policies towards composition and control, combined with an increasingly pragmatic interpretation of such policies "on the merits" of specific cases. The evidence appears to suggest that there may be a trend in the development of the situation in these two nations which could become a guide to long-term policies with respect to this type of investment in less-developed countries. Generally, such a guide would be relevant both to the formulation of investment strategies on the part of internationally-operating companies, and to the development of optimum policies towards foreign capital by host nations.

Outlined in brief, such a trend in the investment environment could be said to pass through three main stages:

(1) A new nation fears the dangers of economic imperialism by investors from developed nations. At the same time, there is a reaction from previous domination, even exploitation, by an
elite group, which may have been a foreign colonial power or a now-displaced local elite. This leads to deliberate fostering of a different pattern of distribution of benefits and responsibilities, either along Socialist or egalitarian lines, or else in favour of a different section of the society. During this stage, foreign private direct investment may be suspect, and therefore restricted, on two grounds. First, it is private, in an environment which may be exploring the possibilities of State intervention, at the very least, because of the needs of a new regime to establish centralised control over the society and its economy. Second, it is foreign and powerful in both economic and political terms — a dual threat to newly-won sovereignty (11). This could be described as a stage of Unilateral Antagonism.

(2) As and when the nation becomes increasingly concerned over the primary problem of stimulating its own economic development, certain patterns emerge. Foreign exchange may become a scarce resource as development calls for vastly increased imports, so that both foreign capital and technology are needed to overcome bottlenecks in development. Alternatively, in the general case, foreign exchange may be available through the revenues obtained from foreign-owned extractive enclaves (12). However, much of the wider range of technological resources necessary for economic development over a broader front are only available, or can only be exploited, as a corporate asset of foreign investors (13). In either case, the conditions of entry for such technology and capital are likely to be relaxed, while
still being fairly rigidly constrained. At this stage, both foreign investors and capital-importing governments may have considerable doubts over the mutuality of their interests. It is a stage of Mutual Suspicion.

(3) If the foreign investment is successfully absorbed and perceived social benefits to the host country exceed social costs, and as the needs of development create their own self-generating momentum (14), this relaxation continues. Stability and responsible behaviour by the local government may stimulate a congruent reaction on the part of further foreign investors. This is apparently the stage which may have been reached by India and Pakistan, even though there may be doubts about the internal political stability of the latter (15). One could describe it as a stage of Joint Acceptance.

Where the trend will end is not clear. It seems reasonable to assume however, that satisfactory past experience with foreign private investment, future needs for its continuance and growing economic and political maturity may all contribute to the logical extension of the relaxation mentioned above. Foreign investors may be permitted entry in any form of operation which they desire. Insofar as local collaboration and participation are felt to be desirable or even necessary, they may well be promoted through discriminatory fiscal and financial incentives, rather than through legislative prohibitions. As far as foreign investment in the host country is concerned, this would be a stage of Sophisticated Integration.
Reasons Given for Investing in India and Pakistan.

Motivation towards overseas investment can be described in terms of economic, financial or psychological primacy (16). Economic abstraction would suggest an ultimate explanation that investment occurs where the net discounted return to capital is greatest. If this arises overseas, then that is where investment will be located. Similarly, a financial interpretation would depend upon reinvestment of surplus funds outside a market where saturation limits potential levels of return; combined possibly with arguments based upon advantages resulting from portfolio diversification.

According to the complex of disciplinary approaches subsumed under organisation theory, investment can be interpreted as maximising, or more accurately perhaps, "satisficing" (17), utilities related to the aspirations, needs or goals of individuals, groups or social systems. One could presumably also consider motivation in terms of the political dimension of maximising national and international security.

These are dimensions and depths of interpretation which are undoubtedly important and probably valid in explaining particular aspects of motivation towards foreign investment. At a second level of primacy however, they can in turn be incorporated in specific response phenomena in the form of stated business objectives. In the present study, executives were asked to interpret the reasons for their companies' investments in India and Pakistan in terms of such objectives. Basic underlying motives were not examined as such in detail.

At this level, the domain of possible reasons for investing abroad is well-established in the literature of the field (13). These reasons were classified into eight major headings and British respondents were
presented with a multiple-choice question embodying nine alternatives (a final catchall category having been added). These were:

1. Developing a new market, including geographical diversification of the company’s operations.
2. Future protection for existing markets.
3. Overcoming specific tariff barriers.
4. "atching the investment or operations of competitors in a given area.
5. Capitalising upon specialised corporate assets, especially patents, licenses and equipment.
6. Lower cost conditions, in particular labour costs in manufacture and transportation costs.
7. The need to obtain raw materials, facilities, or resources.
8. Incentives offered by the host government, its attitudes towards foreign private investors and political stability.
9. Other reasons (the only responses received in this category involved subjective preference for the host country on the part of the decision-maker.)

Executives were also asked to order up to four of these alternatives in terms of their significance to the decision made by their firms. The responses are shown in Table 6.1. Because of the preponderance of first choice responses in two categories, this variable was not tested against most others in the framework of the study. Even over four rounds, only four reasons appeared to stand out. Because of the similarity in effect between efforts to protect markets and efforts to overcome tariff barriers, it would perhaps be more accurate to consider these as three reasons. Two of these three were related to what was felt to be the null hypothesis of market considerations.
Table 6.1 - Reasons Cited by British Parent Companies for Their Investment in India or Pakistan.

<table>
<thead>
<tr>
<th>Reason</th>
<th>Order in which reason was cited</th>
<th>Total Responses</th>
<th>Possible number of cases in which the response was not cited</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td>New Market/Geographical Diversification</td>
<td>36</td>
<td>11</td>
<td>3</td>
</tr>
<tr>
<td>Protecting existing Market</td>
<td>30</td>
<td>9</td>
<td>5</td>
</tr>
<tr>
<td>Overcoming Tariff Barriers</td>
<td>1</td>
<td>14</td>
<td>6</td>
</tr>
<tr>
<td>Matching Competitors</td>
<td>-</td>
<td>4</td>
<td>1</td>
</tr>
<tr>
<td>Using Patents/Licenses/Equipment</td>
<td>-</td>
<td>10</td>
<td>11</td>
</tr>
<tr>
<td>Lower Cost Conditions</td>
<td>-</td>
<td>1</td>
<td>-</td>
</tr>
<tr>
<td>To Obtain Materials/Facilities/Resources</td>
<td>1</td>
<td>4</td>
<td>7</td>
</tr>
<tr>
<td>Host Govt. Incentives/Political Stability</td>
<td>2</td>
<td>2</td>
<td>4</td>
</tr>
<tr>
<td>Other Reasons</td>
<td>1</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Total Responses</td>
<td>71</td>
<td>56</td>
<td>38</td>
</tr>
</tbody>
</table>

Of general interest were the findings that lower cost conditions were not felt to have been significant in 70 cases, nor host government incentives in 62. The need to match competitors was not recognised, or at least, not admitted as a motivation, in 63 cases. Although it was referred to in connection with 22 joint ventures, the exploiting of patents and equipment was never said to be a primary reason for investment. All of these were objectives which had been described as being of basic importance.
in the decision matrices of investors, according to the theories of foreign investment mentioned above. The evidence here suggested that, while they may have been of importance, there was some doubt as to their primacy. For these companies, primacy seemed to have been reserved for market development and protection.

The Joint Venture Decision.

Assuming that a decision to invest in a given country had been made and that this could be distinguished from the decision to go into a joint venture, what were the reasons for adopting the latter form of investment? The possible answers to this question were arranged into seven categories which appeared to cover the range of major reasons likely to have affected the decisions of British companies investing in India or Pakistan. These were as follows:

(1) Explicit pressures by the host government. More specifically, a definite ruling by an agency of the government that a given project would have to take the form of a joint venture.

(2) Implicit pressure by the host government. This covered cases in which a British firm would have preferred to invest through a fully-owned subsidiary or branch, but did not do so, either because of the suspicion that such a procedure would not be permitted, or for fear that discriminatory action might be taken against an investment of this type.

(3) The desire to spread the risk of the venture. Two possibilities were included in this category. First was the desire to share 'normal' business risks, second was a policy of sharing the risk created through the unpredictability of the environment, in particular along the dimensions of national political and economic uncertainty.
The need for local facilities and resources which could best be obtained through association with a local interest. In particular, these covered: knowledge of local custom and practice and legal intricacies; influence with local authorities; capital and physical resources; technical and administrative personnel; access to a reasonably competent labour force; marketing facilities.

Associate's project. The opportunity to participate in an attractive project which was already under the control of local interests, and where competition was proscribed or not considered to be feasible.

Local identity. Better access to the benefits accruing to a locally identified operation or one involving local participation. These included access to local government- or institutionally-directed capital and preferential treatment in terms of taxation, tariff protection, or import quotas.

Other reasons. It had been expected that occasional cases would be reported in which the joint venture form had been chosen for rather different reasons. In an earlier study of the experiences of a small group of U.S. companies involved in joint ventures in Southwest Asia and Iran (19), two motivations had been described which were unusual in that sample. The first involved Kaiser Industries, which company stated, in connection with its interest in Hindustan Aluminium, that the U.S. parent's policy was to take a minority position in joint operations in less-developed countries, preferably between 25% and 30% of the voting equity. This strategy was based upon two reasons. First, it provided a tangible gesture to host countries that Kaiser was seriously concerned over
its contribution to national development but was not seeking a dominating position. Through such a practice, a foreign investor was expected to be reasonably secure in these host countries because of the local good-will generated. Second, Kaiser was seriously concerned about national development in these countries, as part of the corporate philosophy dictated by its founder. "The desire to contribute by establishing a new industry" was also described as an important motivation for overseas investment in a study by Harry Robinson (20).

A second 'other reason', put forward by Sun Oil Company, was that joint ventures with suitable and reliable partners, as in the case of its own participation in one of the Iranian oil consortia, enabled a company to spread its corporate capital over a wider range of interests and markets. Both of these special considerations appeared to be very reasonable, if rare, and provision was made for their possible occurrence in this sample. In fact, neither appeared to have appealed to British firms as a specific primary justification for joint venture investment in India or Pakistan - even though some of the relationships of the U.K. oil companies in consortia in these two countries were similar to those of the Sun Oil group in Iran.

The question of why the joint venture form was chosen was presented to British respondents in multiple choice format and they were again asked to order as many reasons as had been directly relevant to their firms' decisions. Table 6.2 summarises the reasons given.
Table 6.2 - Reasons Cited by British Firms for Choosing the Joint Venture Form of Investment in India or Pakistan.

<table>
<thead>
<tr>
<th>Reason</th>
<th>Order in which reason was cited</th>
<th>Total Responses</th>
<th>Weighted Score</th>
<th>Possible No. of Cases in which this response not made</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>(out of 69)</td>
</tr>
<tr>
<td>Explicit Host Govt. Pressures</td>
<td>19</td>
<td>4</td>
<td>-</td>
<td>23</td>
</tr>
<tr>
<td>Implicit Host Govt. Pressures</td>
<td>11</td>
<td>7</td>
<td>12</td>
<td>30</td>
</tr>
<tr>
<td>Spreading the Risk</td>
<td>6</td>
<td>13</td>
<td>3</td>
<td>27</td>
</tr>
<tr>
<td>Need for Local Facilities/Resources</td>
<td>27</td>
<td>18</td>
<td>6</td>
<td>51</td>
</tr>
<tr>
<td>Associate's Project</td>
<td>6</td>
<td>3</td>
<td>3</td>
<td>12</td>
</tr>
<tr>
<td>Local Identity</td>
<td>2</td>
<td>10</td>
<td>12</td>
<td>24</td>
</tr>
<tr>
<td>Other Reasons</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Total Responses</td>
<td>71</td>
<td>60</td>
<td>36</td>
<td>167</td>
</tr>
</tbody>
</table>

In order to obtain a basis for overall comparison of the relative importance of each of the reasons given to the group of companies as a whole, a rough weighting scale was used. Each time a reason was cited by a respondent as first in significance, it was multiplied by 3, as second it was multiplied by 2, and as third, by 1. These weighted values were then summed over each category to give a total weighted score for that reason. The chief effect of these calculations was to emphasise the importance of explicit pressures by the host government. In cases where such pressures had been encountered, they were usually the major determinant of a joint venture.
Whatever ranking system was used, whether by first choice responses, raw totals over three rounds, or weighted overall scores, the most important single reason appeared to have been the need for local facilities or resources. This order was only altered when both reasons associated with types of host government pressures were combined into a joint score, in which case this became the most important motivation, but only marginally more so than facilities and resources. In view of the official insistence upon local participation in any operations in India and the preference for such participation in Pakistan, it had been expected that foreign investors would feel these pressures almost universally. In over 22% of these cases, they did not appear to have been of any significance, while in over 57% they had clearly been of subsidiary importance in influencing the decision to go into a joint venture.

Of secondary importance too, were the issues of spreading the risk and of obtaining the benefits of local identity. The former was of primary importance in only 9% of the joint ventures under study, while in 60% of these cases it did not appear to have been considered at all. This was rather surprising in view of the importance often ascribed to risk-avoidance schedules in the literature on overseas investment policies and decisions (21). Local identity appeared to have been even less of an attraction. It was only mentioned as a primary reason in 2, and was not even considered in 45, out of 71 joint venture projects. Again, this had been described as an important motivation towards joint ventures in theory (22).

A possible explanation of these apparent contradictions may well have been the special nature of the relationships between British interests and these two host countries. This argument was certainly supported by
comments made in discussion. It was also supported by the large proportion of U.K. firms in the sample which had long experience of the Indian market and which employed executives at higher levels who had lived and worked in India for many years. Only in 11 cases had nobody in the British parent company been familiar with Indian or Pakistani conditions prior to the consideration of a joint venture. In over 60% of the sample, this familiarity had arisen because one or more individuals had been previously stationed in these nations, either in the employ of the British company reported in the sample, or for some other reason (i.e., employment in the Indian Civil Service, the armed forces, or with another company).

These companies and executives felt that they themselves already possessed something of a local national identity and status. They knew the countries and their markets well, and were themselves well-known. Thus not only was much of the uncertainty of the local investment environment reduced, but it was even felt to be familiar. To the extent that risk, in foreign investment terms, was a compound of business risk and environmental uncertainty, these particular host countries were probably not felt on either count to be very high risk areas by these respondents—at least, not at the time when the investments were made.

For the analysis of relationships between reasons given for going into joint ventures and other variables in the framework of the study, the alternatives listed above were combined into four categories. Explicit and implicit pressures and the spreading of risk stood as in the original classification. All other reasons were included under the convenience of local facilities and resources. It was felt that, at a slightly broader level of definition, this category could be interpreted as including facilities and resources embodied in an existing local operation, or alternatively,
the advantages implied in local identity. The actual measure used to represent the motivation of British parent firms was the first and most important reason cited for going into a specific joint venture, ("The Joint Venture Reason", or "Reason for Going into a Joint Venture").

This measure turned out to be rather limited in terms of its significant association with other variables. It bore little relationship to the criteria used to evaluate joint ventures in the context of the study, and virtually none to structural variables or attitudes to control. The associations with nature of business and age of joint venture were marginally significant. Those with size of joint venture and U.K. parent (the latter having been discussed in Chapter Two), or with reasons for selecting a specific associate, were highly significant.

**Variations Over Time in Reasons for Going Into Joint Ventures.**

Four age bands were established for classifying joint ventures along the time dimension. These were defined as follows, according to the year in which the joint venture was set up and the number of cases in each subgroup:

(a) Pre-Independence (1947) - 6 cases  
(b) 1948 to 1957 - 20 cases  
(c) 1953 to 1962 - 25 cases  
(d) Since 1962 - 13 cases

1947, the year of Independence for both countries, was an obvious cutting-point; 1958 was the year in which foreign exchange reserves virtually ran out, and which was described as a turning-point in India by Kidron (23). It was also the year in which the Ayub regime came into effective operation in Pakistan; 1962 was another year of foreign exchange crisis. It was also the year of the Third Plan in India, and of an important general election in which many members of the state capitalist wing lost their seats (24).
Finally it was the time of the Sino-Indian conflict which jolted India in its neutralist stance.

The relationship between the age of joint ventures and reasons why they were established suggested a definite progression over time. This was plotted as a U-shaped curve in Diagram 6.a, and seemed to lend itself to a predictable interpretation in the light of the historical development of the host economies.

### Diagram 6.a Relationship Between Age and Pressure to Go Into a Joint Venture

<table>
<thead>
<tr>
<th>Year in which JV was set up</th>
<th>Proportion of JVs in which the decision to use the JV form was made without host government pressures (As reported by Executives in 1967)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Before Independence (1947)</td>
<td>100</td>
</tr>
<tr>
<td>1948</td>
<td>80</td>
</tr>
<tr>
<td>1953</td>
<td>60</td>
</tr>
<tr>
<td>1958</td>
<td>50</td>
</tr>
<tr>
<td>Since 1962</td>
<td>40</td>
</tr>
</tbody>
</table>

Before Independence and Partition, there was little Indian Government pressure on foreign investors to enter into local joint ventures rather than fully-owned subsidiaries or branches. Because of this, the chief motivation for such investors to enter into joint ventures was either the desire to spread the risk in investment, or alternatively, the convenience of certain local resources or facilities. However, there appeared to have

* Significant at the marginal 0.081 level.
been little risk envisaged by British companies in connection with investments in India before 1947 and no firms in fact mentioned such risks as a reason for going into a joint venture. Five out of six joint ventures in the earliest group were set up as such because of the convenience of local facilities or resources. The sixth was originally established prior to World War II, but did not go into operation in its present form until after 1947, by which time there was Government of India pressure to take in a local associate.

In the first years after Independence, two factors, as discussed earlier in this chapter, militated against anything but joint ventures, so far as the authorities in these two host countries were concerned. First was the economic nationalism of the two newly-independent states. Second was the relatively healthy condition of foreign exchange reserves, which made it possible for local industrialists to import as required, materials, components and, to some extent, technology. Only 4 of the 20 joint ventures in this sub-group were set up in Pakistan, where the national political and economic viability as a locus for investment still appeared to be very much in doubt at that time.

The changed conditions after Independence meant that some U.K. firms began to see India and Pakistan as a possibly risky environment. The desire to spread the risk of investment was mentioned as a primary consideration in 15% of the joint ventures set up in this second period. Another 20% were established because of the British parent company's need for local resources and facilities. Sixty-five per cent of the joint ventures set up in the first ten years after Independence were said to have been formed as such primarily because of explicit host government pressures.
By the 1958 to 1962 stage, both nations were in foreign exchange difficulties. In both there appeared to have been some relaxation of explicit pressures upon foreign investors. At least these pressures were not felt to be quite as significant as they had been earlier in the decision matrices of the British firms in this sample. Only 48% of the joint ventures which they established during this period were said to have been forced upon them by such pressures. Risk sharing was still a consideration, but of rather less importance overall, accounting for only 12% of cases. Forty per cent of the joint ventures set up in this period were stimulated by the foreign partner's need for local facilities or resources.

Since 1962, the impression of risk appeared to have subsided to pre-Independence levels. None of the joint ventures in the last age-band were said to have been set up primarily in order to spread the risk of investment. Host government pressures also appeared to have continued to relax. They were a major consideration for only 44% of the last group of joint ventures and in the majority of these cases the pressures were implicit, rather than explicit as defined above. During these years, motivation appeared to have become positive rather than compulsory, in the sense that 56% of the joint ventures in this group were the result of a U.K. firm's need for local facilities or resources. An additional factor contributing to this change over the last few years, was the British Government's tightening up on overseas investment by U.K. nationals. As a result, local capital had become an increasingly attractive and important resource for British firms investing abroad.

Size and Nature of Operations and Reasons for Going into a Joint Venture.

Several measures of joint venture size were incorporated in the study, but the best data were obtained for size in terms of the capital represented
by voting equity. This variable in fact showed a high positive correlation, over the range of common data entries, with joint venture size as measured in assets or total capital employed*. It therefore seemed reasonable to discount the possible effects of variations caused by different debt:equity ratios and to use this basic capital measure as representative of the scale of operations involved. Four categories were defined:

<table>
<thead>
<tr>
<th>Voting Equity Capital in $ Millions</th>
<th>Category</th>
<th>Number of JVs</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.0 and under</td>
<td>Very small</td>
<td>26</td>
</tr>
<tr>
<td>1.1 to 5.0</td>
<td>Small</td>
<td>24</td>
</tr>
<tr>
<td>5.1 to 10.0</td>
<td>Medium</td>
<td>11</td>
</tr>
<tr>
<td>Over 10.0</td>
<td>Large</td>
<td>9</td>
</tr>
</tbody>
</table>

This measure was significantly related to the reasons given by British firms for going into a specific joint venture**, in the manner shown in Table 6.3.

Table 6.3 - Size of Project and Reasons for Going Into Joint Ventures.

<table>
<thead>
<tr>
<th>Reason for Going Into Joint Venture</th>
<th>Size of Joint Venture</th>
<th>Number of cases &amp; (cell %) based on column sum</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Very Small</td>
<td>Small</td>
</tr>
<tr>
<td>Explicit host gov't. Pressure</td>
<td>6 (23)</td>
<td>5 (21)</td>
</tr>
<tr>
<td>Implicit host gov't. Pressure</td>
<td>6 (23)</td>
<td>3 (13)</td>
</tr>
<tr>
<td>Spreading the risk</td>
<td>-</td>
<td>3 (13)</td>
</tr>
<tr>
<td>Need for local Facilities/Resources</td>
<td>14 (54)</td>
<td>13 (53)</td>
</tr>
<tr>
<td>Total &amp; (% based on row sum)</td>
<td>26 (37)</td>
<td>24 (34)</td>
</tr>
</tbody>
</table>

* r = .913 and r = .874 respectively, both significant at 1% level for size of N.
**At the 0.042 level for Chi-Square.
It had been expected that this relationship would show a trend in the concentration of cases along a diagonal running from southwest to northeast in Table 6.3. In other words, that smaller joint ventures would have been set up because of the British parent's need for local facilities and resources, while larger ones would have involved local participation forced upon the foreign partner. This in turn, was due to the earlier findings mentioned in Chapter Two, concerning the positive correlation between the size of British parent companies and size of associated joint ventures. Coupled with this was the tendency for larger parents to feel forced into a joint venture, while smaller firms sought local facilities or resources.

The lower end of the diagonal conformed to these expectations. Over 53% of each of the two smaller groups of joint ventures were set up because of the reason predicted, while 80% of the cases in which this reason was cited as the primary consideration involved smaller joint ventures. At the other end of the diagonal however, the trend was not quite so clear. Although 55% of the medium-sized joint ventures were set up following explicit pressure, two-thirds of the largest were established by British firms seeking local facilities or resources. At the same time, two-thirds of the joint ventures set up because of host government pressures were in the two smaller categories.

The nature of business of joint ventures and the reasons given by British parent companies for setting them up were related, but only at a remotely significant level*. This significance was not improved when the second and third reasons detailed in Table 6.2 were incorporated in an overall measure of reasons for a joint venture and then tested against the nature of business. Table 6.4 shows the actual cross-tabulation, by nature of business of the primary reason cited by foreign partners for setting up joint ventures.

* At the 0.143 level.
Table 6.4 - Variations by Nature of Business in Reasons for Going Into
Joint Ventures.

<table>
<thead>
<tr>
<th>Nature of JY Business</th>
<th>Reasons for Going Into Joint Venture</th>
<th>Host Govt. Pressure</th>
<th>Spreading the Risk</th>
<th>Convenience of Local Facilities/Resources</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Explicit</td>
<td>Implicit</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Oil</td>
<td></td>
<td>No.</td>
<td>%</td>
<td>No.</td>
<td>%</td>
</tr>
<tr>
<td></td>
<td></td>
<td>6</td>
<td>50</td>
<td>1</td>
<td>8</td>
</tr>
<tr>
<td>Chemicals</td>
<td></td>
<td>4</td>
<td>24</td>
<td>18</td>
<td>1</td>
</tr>
<tr>
<td>Engineering</td>
<td></td>
<td></td>
<td></td>
<td>2</td>
<td>22</td>
</tr>
<tr>
<td>Electricals</td>
<td></td>
<td>6</td>
<td>43</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Vehicles</td>
<td></td>
<td>2</td>
<td>22</td>
<td>3</td>
<td>33</td>
</tr>
<tr>
<td>Metals</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tobacco and Food</td>
<td></td>
<td>1</td>
<td>25</td>
<td>2</td>
<td>50</td>
</tr>
<tr>
<td>Totals</td>
<td></td>
<td>19</td>
<td>27</td>
<td>11</td>
<td>15.5</td>
</tr>
</tbody>
</table>

(Note: Percentages do not all add up to 100% because of rounding.)

There were few striking variations and tendencies in this relationship, as indicated by the low level of significance. Host government pressures did not appear to have directly affected joint venture projects in the metals group at all. Nor were they apparently very important in engineering. These pressures were fairly significant for the tobacco and food group, but over a very small sub-group. These last three cases had involved British parent companies which had wanted to set up or to continue to operate through, fully-owned subsidiaries, but which had been forced to include local associates. They had therefore, chosen local investors and the general public, rather than active participating partners. For most groups there was a relatively even split between forced joint ventures and cases in which local participation had been a positive attraction.
Reasons for Going Into a Joint Venture and Selection of Associates.

If the reasons which had caused foreign companies to invest through the joint venture form were known, it was expected that the choice of a specific type of associate could, to some extent, be predicted. When a joint venture had been set up because of explicit pressures by the host government, it appeared likely that the choice of an associate would also tend to be forced upon the foreign partner. To a lesser extent, this might also have been true when the pressure had been implicit.

In either of these two cases, the pressure could have been direct, or it could have been exerted upon the choice of associate in an indirect manner. This latter situation would have arisen, for example, if the host government had granted an exclusive license to a particular local firm when the latter made strong enough representations for this advantage and when it was sufficiently competent to justify preference. This double-force situation was also expected to apply where mixed ventures had been established, especially in areas of activity pre-empted by the local government.

It also seemed possible that implicit pressures were associated with the element of fear, fear on the part of foreign investors that discriminatory action might have been taken against them unless they went into a joint venture. If this were true, they were also likely to feel the need for local status, so as to reduce their unfavourable 'visibility', and would tend to choose an associate accordingly. Status also seemed likely to have been an attraction in a local partner if a foreign company was particularly concerned over the potential risk in a proposed investment. An alternative strategy for minimising risk would have been to reduce the area of uncertainty which was part of the risk in foreign investment by choosing an associate, wherever possible, who was already known.
Finally, it seemed to be obvious that if a joint venture had originally been sought because of the foreign investor's need for local facilities or resources, then a particular associate would be selected for the same reason. In order to test all of these assumptions, reasons for going into a joint venture were examined against the primary motivation cited in the selection of specific associates. The relationship between these two variables was significant* and is shown in Table 6.5.

Table 6.5 - Variations in Criteria for Selecting Associates According to Reason for Going Into a Joint Venture.

<table>
<thead>
<tr>
<th>Reason for Going Into Joint Venture</th>
<th>Reasons for Selecting a Specific Associate</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Forced Choice</td>
</tr>
<tr>
<td></td>
<td>No.</td>
</tr>
<tr>
<td>Explicit host govt. pressure</td>
<td>8</td>
</tr>
<tr>
<td>Implicit host govt. pressure</td>
<td>19</td>
</tr>
<tr>
<td>Spreading the risk</td>
<td>-</td>
</tr>
<tr>
<td>Need for local facilities/resources</td>
<td>3</td>
</tr>
<tr>
<td>Totals</td>
<td>12</td>
</tr>
</tbody>
</table>

Most of the above assumptions appeared to have been reasonably accurate. Over 70% of the cases in which an associate was selected for the contribution of facilities and resources had been joint ventures sought for the same reason. The figures in Table 6.5 appeared to suggest that in less than 50%

* At the 0.035 level.
of the cases when facilities or resources stimulated a joint venture did they also lead to the selection of a given associate. In fact, however, in another 25% of these cases, they led to the choice of an associate ostensibly because of favourable past association. While such association was cited by this sub-group of British parent companies as the main reason for selecting a particular partner, in most cases the past association had arisen because a local licensee or distributor had available certain facilities or resources which were later sought in a joint venture.

Although the relationship between the forced choice categories in the two decisions was not as marked as expected, British firms felt that they had no choice of partner in 42% of the joint ventures which had been explicitly forced upon them. This relationship held true chiefly for mixed ventures. In other cases when a joint venture had been compulsory, the compulsion did not appear to have extended to the selection of associates.

This last situation also applied to joint ventures set up because of implicit pressures, only one of which had also involved a forced choice of partner. Implicit pressures leading to joint ventures also led to the selection of associates because of their status in only 36% of cases. Another 36% of the joint ventures caused by this type of pressure involved partners chosen on the grounds of favourable past association. Again, this selection criterion tended to hide the fact that some of these past associates were also able to provide the status desired.

The number of times that risk-reduction had been a primary motivation for entering into a joint venture was very small. With this reservation about the importance of the finding, in 50% of such cases a partner had been chosen because of favourable past association. This appeared to have been part of the alternative strategy for minimising foreign investment risks
described above. Local status did not appear, from these results, to have been an important attribute in the eyes of risk-conscious British companies. However, in this respect, the sub-sample size was probably too small to indicate whether or not this result was significant.

Bilateral Monopoly and Reasons for Going Into Joint Ventures.

Reasons given by foreign companies for their involvement in joint ventures abroad are, in part, a reflection of the effects of bilateral monopoly (25). The general line of argument in this sub-set of monopolistic competition is roughly as follows. Terms under which foreign private direct investment occurs are the product of bargaining, chiefly between a potential foreign investor and the host government. Results of such bargaining depend upon the relative advantages held by each side, basically in terms of the attraction to the other party of what is offered. Essentially this is a confrontation between a monopolist and a monopsonist. Its nature alters over time as the learning processes of both sides and the re-distribution of endowments cause changes in relative advantage.

In theory, this advantage tends to turn towards the host government. Initially, many of these administer badly endowed underdeveloped nations. At this stage, the advantage lies with foreign investors which are in a position to offer much-needed technological know-how, capital (especially foreign exchange), and often, international marketing facilities. To the extent that these factors are not available elsewhere, their owners are in theory able to dictate the conditions of entry. Specifically, they would not be expected to feel forced into collaboration with local interests, except on their own terms.
As soon as foreign investment is committed, the balance of advantage begins to shift, at the very least, because of the financial and organisational costs to the foreign company of disengagement. Gradually the extent and the degree of commitment tends to increase, while markets and local economic and technological know-how develop. One should perhaps exclude here the case of export-oriented industrial enclaves. These may remain insulated from the economy of the host country, importing capital, technology, even on occasion, labour, generally using local labour and natural resources and selling their products abroad (26). In fact, it is precisely against this enclave type of operation that modern less-developed nation governments are most concerned in exerting what powers they possess, as for example the international oil and copper companies are discovering.

As this development occurs, the foreign-owned factors become substitutable, so that their significance and peculiar advantages decrease. Kindleberger summarises the situation as a non-zero-sum game: "the solution to which is indeterminate...both parties can win, both parties can lose, or one may win more than the other loses. As in other non-zero-sum games - love, war, or raising children - the balance of advantage will shift with time and circumstances" (27). Henceforth, the local government is in a stronger position to insist that a greater share of the benefits should accrue to the host country. In particular, it is better able to enforce local participation, with the result that more foreign investors are likely to be forced into joint ventures.

To what extent did the reasons given for setting up the joint ventures in this study fit in with this general argument? There was obviously some support for the theory of bilateral monopoly in that U.K. parent firms were
forced, either explicitly or implicitly, into 42% of these joint ventures by host government pressures. However, in view of the formally stated policies of these governments concerning local participation, such pressures would have been expected in a preponderance of cases. In fact, joint ventures were sought by British firms in 53% of the cases for positive reasons which were apparently of their own volition. For these cases, bilateral monopolistic advantages did not constitute an issue and did not dictate the course of the investment decision.

Variations in motivation towards joint ventures according to the time when they were set up seem to indicate that their creation could be partially explained in terms of bilateral monopoly. At the times when host governments appeared to have been most strongly concerned over local participation, the majority of joint ventures were said to have been set up because of governmental pressures. As this concern appeared to decrease, so did the proportion of compulsory joint ventures. There seemed to be however, a U-shaped trend in the relationship between the proportion of joint ventures undertaken for voluntary reasons and the date when they were set up (as shown in Diagram 6.a). This did not appear to agree with the trend in this relationship which would have been suggested under conditions of bilateral monopoly. According to the latter, such a curve would have been expected to show a decrease in the proportion of voluntary joint ventures over time, as the relative advantage of host countries increased and that of foreign investors declined.

Two alternative reasons could have explained this apparent inconsistency. In keeping with the basic premises of the theory, it could be argued that the eventual shift in advantage had not yet arrived. Because of the increase in foreign exchange problems caused by the development of these economies, their relative advantage could be said to have actually
declined. Combined with this might be the suggestion that changes in the endogenous requirements of foreign investors led them to seek joint ventures in increasing proportions for their own reasons. This interpretation is not entirely satisfactory. At best it implies that the theory should be refined in terms of the changes suggested over time.

Without denying the possible validity of the argument above however, a different alternative explanation is favoured here. This is based upon what was described as the third stage in the trend of host government attitudes towards foreign investors. It would suggest that favourable past experience, economic development, and increasing economic and political sophistication tend to cause increased substitution of the carrot for the big stick on the part of governments of developing nations. The existence of these factors in turn contributes to an increase in the tendency of foreign investors to seek joint ventures in such countries for positive reasons.

If conditions of bilateral monopoly were important determinants of decisions to go into joint ventures, it would also be important to define the situations in which such conditions were likely to have arisen. It would be expected that these conditions would tend to increase directly in importance with the significance of the proposed new investment to the host economy. This significance could be measured fairly simply along two dimensions:

(1) The size of the investment relative to the host economy - in absolute terms, the larger the project, the more likely it would have been that countervailing powers of host governments were aroused.
(2) The nature of the business involved - the less advanced the technology incorporated in the project, the more likely that a foreign investor would have been forced into a joint venture.

In terms of the variables and tests described in this chapter, the larger the size of the basic capital investment in a joint venture, the greater the likelihood that the British parent company would have reported that it was forced into this form of investment. The results relisted in Table 6.3 did not agree very closely with this hypothesis. Most of the compulsory joint ventures were in the smaller groups, while most of the large joint ventures were set up to obtain local resources or facilities. This did not indicate that there was necessarily any greater intrinsic bargaining power associated with the larger projects. Size of joint venture was significantly and positively correlated with parent size and larger parent firms tended to feel forced into joint ventures. There was not really any strong support for the bilateral monopoly thesis from these results. They seemed to suggest however, that if size was an important determinant, then it was the size of the foreign investor, rather than that of the joint venture which was significant. This in turn implied that the actual operation of conditions like those of bilateral monopoly may have been basically stimulated by fears of economic imperialism.

To the extent that certain industries may have had more to offer an underdeveloped nation on technological grounds, pressures to enter into a joint venture should have varied according to the nature of business. In the light of the earlier comments in Chapter Three, such pressures should have been felt more by firms in the engineering and electricals groups, less
by chemicals, vehicles, and possibly metals group companies. The findings shown in Table 6.4 did not conform to such a pattern, except for joint ventures in the metals group and perhaps marginally in the tobacco and food joint ventures. Responses concerning engineering joint ventures were actually the reverse of what might have been expected in line with this argument.

A possible explanation was suggested by Kidron, namely that, whatever the industry, all foreign investors in India were technically the leaders in their fields (28). This was probably true, but they did not always bring their more advanced products and processes into the country with them. In spite of the Government of India's expressed desires, many of the companies in this sample had been interested in extending the profitable life of patents, processes and equipment which were well-established or even semi-obsolescent in developed markets.

The evidence in this study does not refute the thesis that conditions of bilateral monopoly determine the terms of foreign investment. Nor does it support such a thesis very clearly. Certain modifications and additions are perhaps implied. On the side of host governments, the extent to which they assert any theoretical monopsonistic advantage is likely to be governed by the level of their fear of economic imperialism and their degree of commitment to political and economic nationalism. So far as foreign investors are concerned, conditions of bilateral monopoly do not seem to create an issue for many companies, in particular not for smaller firms and those which seek local facilities and resources in any case. Finally, increased sophistication of host governments and changing corporate investment policies are perhaps likely to make interpretation in terms of bilateral monopolistic advantage largely irrelevant.
APPENDIX C - List of Industries in Which the Government of India Would Consider the Investment of Private Foreign Capital in Joint Ventures:

1. Iron and steel structurals;
2. Iron and steel castings and forgings;
3. Iron and steel pipes;
4. Special steels;
5. Non-ferrous metals and alloys;
6. Boilers and steam generating plants;
7. Equipment for transmission and distribution of electricity;
8. Furnaces;
9. Marine diesel engines;
10. Industrial machinery, including major items of specialised equipment used in specific industries, and general items of machinery used in several industries such as equipment required for various unit processes;
11. Ball, roller and taper bearings;
12. Speed reduction units;
13. Machine tools;
14. Tractors, earth-moving and construction machinery;
15. Plastics;
16. Industrial and scientific instruments;
17. Fertilizers;
18. Organic chemicals;
19. Fine chemicals and intermediates;
20. Industrial explosives;
21. Industrial gases;
22. Agricultural chemicals such as insecticides;

23. Dyestuffs and drugs, including the production of basic intermediates;

24. Newsprint;

25. Pulp;


(Source: Government of India, Press Note, 8th May, 1961.)
Notes and References to Chapter Six


4. ibid.


8. Prime Minister of India, Policy Statement to Parliament on Foreign Capital, 6 April, 1949.


10. Kust, op. cit., pp. 146-150; Kidron, op. cit., Table 16 facing p. 286, also pp. 188-223.

11. These ideas owe a certain amount to those discussed in "ax F. "illikan and Donald L. Y. Blackmer (eds), The Emerging Nations: Their Growth And United States Policy, (Little, Brown; Boston, 1961), which are, in turn, indebted to those of W. W. Rostow, E. E. Hagen, D. Lerner and P. N. Rosenstein-Rodan, amongst others.


14. This term may be original, the ideas have been discussed in W. W. Rostow, *The Stages of Economic Growth: A Non-Communist Manifesto*, (Cambridge University Press; London, 1960).


16. The theories in this field are comprehensively discussed in Yair Aharoni, *The Foreign Investment Decision Process*, (Division of Research, Graduate School of Business Administration, Harvard University; Boston, 1966), especially ch. 10.


18. See, for example, Aharoni, *op. cit.*

19. Unpublished study of U.S. joint ventures in India, Pakistan and Iran carried out in 1965 by the author of this study.


23. Kidron, op. cit., pp. 120, 127, 140-143.

24. ibid. p. 152.


"Regardless of the type of business, all investors, whether foreign or local, take a partner into a joint venture for the purpose of gaining from that partner some skill or resource that they lack...it might be that the presence of the local partner is justified simply because...restrictions in the host country are based on the assumption that 100% foreign ownership is undesirable." (1) One of the major weaknesses of much of the existing published information on joint ventures is lack of definition of the manner in which associates are selected. There seem to be two chief approaches to defining and grouping the reasons for such selection.

In the first, possible reasons for going into a joint venture are simply transposed into those for selecting a specific associate. These possibilities are listed in generalised comprehensive terms. A relevant case is cited and the reason is then added to the list as validated. This leads eventually to categorisation which is of little more typological value than the quotation above and which is equally, patently uncontradictable. Although such a method of classification is obviously comprehensive in general terms however, it can be questioned on the grounds of the validity, for a specific case, of the basic transposition. The evidence discussed in Chapter Six of the present study suggested that the two reasons and the two decisions were not necessarily identical. A basic justification for a joint venture was not always the reason given for selecting a specific associate. This in turn suggests that the two decisions should be distinguished, in the knowledge that they are often very strongly related.
A second method of classification is even more general in nature than the first, but probably has greater ultimate potential usefulness. In this method, motives are examined initially in psychological terms and are classified as generalised or specific (2). Under the first sub-group come factors which can be summarised as socio-psychological or socio-cultural compatibilities. Specific motives are then discussed in terms of political or economic reasons. This approach seems to have considerable promise, but so far is lacking in execution, chiefly because:

(a) Compatibilities are not adequately classified. They have not been examined in sufficient depth, nor are measures suggested whereby their useful application can be tested.

(b) Discussion of the specific motives tends to descend to the level of generality criticised in the first method of classification above. It also shows the same lack of distinction between motivation towards a joint venture and reasons for selecting a particular associate.

(c) The relationships between compatibilities and specifics have not been adequately explored, in particular, their relative primacy and interdependence.

These are strong criticisms and to some extent, may be unfair. Studies of joint ventures involve the discussion of effects along several dimensions and cover a number of associated decision processes. There is also considerable temptation to add to descriptive knowledge, in the form of case, country, area or market information, at disproportionate length. The selection of associates only involves one of these decisions. It seems however, that it is considered internationally to be a decision of major importance. The following comments were typical of many others made during the course of this study and an earlier series of discussions with U.S.
executives (3). They were made in answer to a group of questions asking respondents to comment on their associates: (Nature of business of the respondent is shown in brackets.)

"Good partners are the most important factor in joint ventures, once the supply of necessary raw materials is arranged" - (Metal processing).

"Local partners are always all-important. Localisation demands are universal and local selling is very difficult for foreigners" - (Vehicle producer).

"Our partners are vital to this operation - they provide the senior man and significant political and commercial know-how" - (Vehicle components).

"Absolutely vital. Local conditions and Government's attitude demand local associates" - (Tobacco).

"Vital, they run the operation most effectively as well as being politically necessary" - (Electrical equipment).

"Our local partners are vital. Without them, this joint venture would have failed. In general, the importance depends upon why they are chosen, their attitude, approach and qualifications in each case" - (Chemicals).

In 1965, a Vice President of Foremost International made a very similar summing-up in an earlier interview:

"Local partners are always the key to success in joint ventures abroad. One has to select a foreign (i.e., local) partner rather in the same way as a bride. The normal financial and personnel checks cover some of the ground, but the final assessment is always dependent upon subjective considerations."
The validity of these comments appeared to be supported by the relationship between associates’ contributions and the profitability of joint ventures discussed in Chapter Five. If they were valid, then there seemed to be a strong argument for research which would provide an adequate system for categorising reasons and predicting the results of their occurrence or application. As a first approximation, this study attempted to distinguish selection of associates from motivation towards a joint venture and to interpret some of the dimensions associated with this selection. The analysis of motivation was only carried out at the level of stated business objectives for each of the two decisions. Classification however, was defined so that interpretation could be based upon measurable differences, rather than purely upon cumulative conjecture. It was recognised that future research would be desirable in order to refine further the measures and classifications which are used. It was also recognised that such research in depth into socio-cultural and psychological aspects of motivation would form the basis for a major study in its own right.

Separability of the Selection of Associates

An assumption was made that three major decisions could be distinguished in connection with joint ventures:

1. The decision to invest, in particular, to invest in a given host country.
2. The decision to invest through the joint venture form.
3. The decision to associate with a specific partner.

There was also an implicit assumption that these decisions tended to arise in the sequence listed and that dependence would exist in the reverse order.
Both the time and the dependence ordering could theoretically be altered. Thus the joint venture decision, even the original decision to invest, might have depended upon an original contact with, or stimulus by, a compatible potential associate. In order to try to control for such a reversal, the way in which the initial contact between partners occurred was examined and also the initiation of the original approach to set up a joint venture. The frequency and distribution of responses for each of these two variables appear in Table 7.1 and 7.2.

Table 7.1 - Origin of First Approach to Set Up a Joint Venture

<table>
<thead>
<tr>
<th>Origin of Approach</th>
<th>Number of JVs</th>
<th>% of Sample</th>
</tr>
</thead>
<tbody>
<tr>
<td>British parent company or its representative</td>
<td>41</td>
<td>53</td>
</tr>
<tr>
<td>Associate or its representative</td>
<td>27</td>
<td>33</td>
</tr>
<tr>
<td>Third party</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>Totals</td>
<td>71</td>
<td>100</td>
</tr>
</tbody>
</table>

The first approach with a proposal to set up a joint venture was made by the associate, rather than the British parent, in 38% of cases and by a third party in a further 4%. Theoretically, the reversal of dependence and order of occurrence mentioned above could have happened in any of these 30 cases. However, when respondents were asked how the initial contact with, or consideration of, the chosen associate had originated, a different picture emerged.
Table 7.2 - Origin of Initial Contact With Chosen Associate

<table>
<thead>
<tr>
<th>Method/Origin of Initial Contact</th>
<th>Number of JVs</th>
<th>% of Sample</th>
</tr>
</thead>
<tbody>
<tr>
<td>U.K. firm was known to be interested and was approached by the associate</td>
<td>13</td>
<td>18</td>
</tr>
<tr>
<td>Associate was known to be interested and was approached by the U.K. firm</td>
<td>14</td>
<td>20</td>
</tr>
<tr>
<td>'Cold canvass' - U.K. firm contacted by associate</td>
<td>11</td>
<td>15.5</td>
</tr>
<tr>
<td>'Cold canvass' - Associate contacted by U.K. firm</td>
<td>17</td>
<td>24</td>
</tr>
<tr>
<td>Partners put in touch by a private third party</td>
<td>1</td>
<td>1.5</td>
</tr>
<tr>
<td>Partners put in touch by host Govt.</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>Initial contact made at personal level</td>
<td>6</td>
<td>3.5</td>
</tr>
<tr>
<td>Partners already JV associates</td>
<td>6</td>
<td>3.5</td>
</tr>
<tr>
<td>Totals</td>
<td>71</td>
<td>100</td>
</tr>
</tbody>
</table>

Thirteen cases in which the British partner had been approached arose after it was known to be interested in a joint venture. Three more were set up after the host government put a British firm which was interested in a joint venture in touch with a partner. In another, the same function was performed by a private intermediary. In two more, an existing joint venture partner suggested a further investment in a new operation to the British parent*. Only in 11 cases (15.5%) was a 'cold canvass' of a U.K. firm made (i.e., when it was not already known to be interested in investment).

* These two cases were not placed in a special category. They were included in the 6 cases in Table 7.2 in which initial contact arose through an existing joint venture between the same two partners.
Even in these cases, it was not possible to state that the U.K. parent had not already considered the possibility of a joint venture.

It seemed reasonable therefore, to assume that:

(a) The selection of associates constituted a separable decision in the majority of cases, and

(b) That it tended to occur after a foreign investor had decided, at least to consider a local investment, and possibly a joint venture.

(c) Investment and joint venture decisions very rarely originated from the appearance of a potential partner with an attractive proposition.

(d) The three preceding assumptions did not however, detract from the interdependence of the three decisions, they merely indicated a justification for separate analysis of the selection of joint venture associates.

Reasons For the Selection of Specific Associates

Possible reasons for selecting an associate, from the point of view of the foreign partner, were grouped into six categories as follows:

(1) Forced - Cases in which the choice had been forced upon the foreign investor, either because of explicit host government direction, or indirectly, because the associate had pre-empted an exclusive license.

(2) Facilities - Convenience to the foreign partner of local facilities under the control of the associate. Among these were: 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.
(3) **Resources** - Convenience of local sources of managerial and technical personnel, materials or components and local capital contributed by the associate.

(4) **Status** - Status and capability of the associate in dealing with local authorities and public relations. This sub-set also included status defined in terms of general financial and business soundness and standing.

(5) **Past** - Favourable past association with the associate when the latter had been an agent, licensee, major customer, or partner in a previous joint venture. The category included special cases in which there had been strong personal contacts between individuals in the British and local parent companies, or even individuals who were common to both.

(6) **Identity** - (and others) - Cases in which a partner was chosen chiefly to obtain local identity, often through association with a potential 'sleeping partner'. (No other reasons were actually specified by this group of executives.)

Respondents were asked to order one or more of these reasons, according to their importance in the selection of a particular associate. The answers were again weighted (in the same manner as for reasons given for going into a joint venture in Chapter Six) to provide an overall basis for comparison as presented in Table 7.3.
Table 7.3 - Reasons Cited by British Parent Companies for Their Selection of a Specific Joint Venture Associate.

<table>
<thead>
<tr>
<th>Reason</th>
<th>Order in Which Reason Was Cited</th>
<th>Number of Cases</th>
<th>Total Responses</th>
<th>Weighted Score</th>
<th>Possible No. of Cases in Which This Response Was Not Made</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>First</td>
<td>Second</td>
<td>Third</td>
<td>(Out of 71)</td>
<td></td>
</tr>
<tr>
<td>Forced</td>
<td>12</td>
<td>4</td>
<td>2</td>
<td>13</td>
<td>46</td>
</tr>
<tr>
<td>Facilities</td>
<td>11</td>
<td>19</td>
<td>12</td>
<td>42</td>
<td>33</td>
</tr>
<tr>
<td>Resources</td>
<td>13</td>
<td>13</td>
<td>17</td>
<td>43</td>
<td>82</td>
</tr>
<tr>
<td>Status</td>
<td>11</td>
<td>15</td>
<td>19</td>
<td>45</td>
<td>32</td>
</tr>
<tr>
<td>Past</td>
<td>20</td>
<td>14</td>
<td>3</td>
<td>37</td>
<td>91</td>
</tr>
<tr>
<td>Identity</td>
<td>4</td>
<td>4</td>
<td>3</td>
<td>11</td>
<td>23</td>
</tr>
<tr>
<td>Totals</td>
<td>71</td>
<td>69</td>
<td>56</td>
<td>196</td>
<td></td>
</tr>
</tbody>
</table>

The primary reason cited most frequently was favourable past association. Four out of the other five reasons appeared to be approximately equal in importance as primary motivations. Although the forced-choice situation was usually felt, when it had existed, to have been a basic reason for choosing a particular partner, in an unexpectedly high proportion of cases (33 1/3%), it was described as a subsidiary reason. There was however, an explanation for this reaction. For some of these British firms the fact that they had no other choice of partner was not considered to be as important to the selection decision as other, more positive, contributions which an associate was able to offer.

A curious contradiction appeared to arise in connection with managerial and technical resources. Whenever foreign investment in less-developed nations has been discussed, whether by capital-exporting or importing
governments by foreign or local businessmen, or by academics, one thing has generally been agreed. There may have been considerable argument over the cost/benefit ratios resulting from foreign capital investment, or from the introduction of products, processes, equipment, or patents. There has rarely appeared to be much argument with the thesis that one clear benefit to the host nation arising out of foreign investment lay in the provision of competent managers and advanced technical skills, both of which were conceded to be in short supply in less-developed nations. (4) Capitalising upon their own corporate possession of such skills was also accepted as a legitimate and commonplace justification for overseas investment by firms from developed nations.

The idealised composition of relative contributions to a joint venture in an underdeveloped host country would probably have been roughly of the form:

(a) Local partner provided local capital requirements, know-how in official and public relations, probably marketing facilities for the domestic market.

(b) Foreign partner provided foreign exchange requirements or plant and equipment, product and process techniques, and technical and managerial skills.

Yet 48% of the British firms in this sample considered the ability to provide managerial and technical skills to be one of the more important justifications for selecting a specific local associate* (5). The main

* In the 'resources' category of Table 7.3, no responses were received which stated that materials or components were a reason. There were 4 responses citing capital on the first round, 2 on the second, and 3 on the third. The remainder of the figures included in this category were related to the desirability of local managerial and technical contributions. Forty-three responses in this category, less the nine just described, left thirty-four, which is approximately 48% of the total sample of joint ventures.
reason for this apparent contradiction between theory and practice probably lay in the lack of a time dimension in the former. Strictly, what was required by the host countries was not technical and managerial personnel, but the transmission of technical and managerial skills. This was clearly indicated in the pressures exerted by the Indian and Pakistani Governments for 'localisation' of personnel at all levels as soon as possible after investment (6) (at times, according to the respondents in this study, even sooner).

Such a host nation philosophy may not have led to optimum allocation of scarce domestic resources in all cases because of the opportunity costs inherent in an insistence upon the employment in joint ventures of skilled local nationals. A director of a major vehicle company commented: "Very high levels of taxation, especially on non-technical staff, prevents the reasonable use of expatriate expertise and restricts the development of both our joint venture and the Indian economy". Such local personnel might well be better employed in activities for which foreign personnel were more difficult to attract, in order to try to achieve a more rapid overall rate of national economic development.

It is difficult to evaluate the relative opportunity costs of this type of transformation in resource allocation (7). The argument of these two host governments appears to conform to Fforde's thesis that local skills develop most rapidly in overall terms if they collaborate directly with foreign technology (8). This is coupled with the argument from theories of behaviour that early exercise of responsibility is an incentive which induces rapid learning.
These are rational interpretations however. Pressures for localisation may actually result from nothing more profound than political nationalism or short-term rationalisation on the grounds of the foreign exchange expense of employing highly-paid foreigners. In its broadest sense, this whole issue would open up a very widely ranging debate. Ultimately this would be a debate relating to the merits of balanced versus unbalanced* growth strategies for promoting economic development, one which was beyond the scope of the present study.

Whatever the merits of the philosophy of 'localisation', it was an accepted fact and had to be faced by these British companies. As a result, part of their strategy appeared to have been to search for local management which was capable of having grafted onto it as soon as possible, the peculiar skills and knowledge needed. This was not the whole of the explanation, however. For at least seven of these foreign investors, their own shortcomings, rather than potential host government insistence upon 'localisation', led them to seek a partner which could contribute competent local management. An instrument company executive said, for example, "We are short of management ourselves and have had major problems in the U.K. as a result. This is one of the main things we look for in a partner."

In this context, India at least was a special case. In the past, the problem of local scarcity of managerial skills was partly solved by spreading these skills thinly but widely. The vehicles through which this

* With, on the one hand the theories of Hirschman (9) as the chief protagonist of unbalanced growth. On the other, a considerable array of arguments, including those of Nurkse (10), Liebenstein (11), Lewis (12) and Rosenstein-Rodan (13) among others.
strategy was executed were Managing Agency Agreements*, and when these became the objects of political odium and restriction systems of interlocking directorships, or Secretaries and Treasurers Agreements very often entered into by the same local parents as those of the managing agencies.

"Another device adopted by entrepreneurs to retain their industrial empires, even in the teeth of the Companies Act, has been the conversion of Managing Agency rights into those of Secretaries and Treasurers. During 1st April, 1956 through 15th August, 1960, the date after which no person could be managing agent of more than ten companies, the Central Government approved as many as 137 cases of conversion of existing managing agents into Secretaries and Treasurers, out of a total of 181 cases of appointment of Secretaries and Treasurers. Further, because no limit has been placed on the number of companies that can be managed by a firm as Secretaries and Treasurers, many Industrial Houses in India, ... today control larger numbers of companies in their capacity as Secretaries and Treasurers than as Managing Agents." (15). This evidence was supported by the report of the Managing Agency Inquiry Committee under 'Mr. I. G. Patel in 1966 which stated that there was hardly any difference between Managing Agencies and Secretaries and Treasurers. (16)

As a result of the existence of these organisations, competent local management was available for joint ventures in India. Responsibility for administration was assumed by such agencies. Although they lacked technicians,

---

* A managing agent could be an individual, a firm, or a body corporate, appointed in the Articles of a company or by contract to manage all the affairs of the company (14). Secretaries and Treasurers are much the same except that: (a) An individual cannot hold the office, (b) They cannot hold equity or appoint directors in a managed firm, (c) They can be appointed without a contract, (d) They are not limited to holding office in 10 companies.
it was felt by many U.K. firms to be easier to graft necessary skills onto this type of management than on less-sophisticated local alternatives. One manufacturer of basic chemicals stated: "We could not have set up this joint venture without the managing agency system". In nine of the joint ventures in this sample, the local partner was a managing agency. Most of these agencies had in fact been largely taken over by Indian interests by the time of this study. Even those which had not however, as in the case of Gillanders Arbuthnot, were accepted as local corporate nationals.

Weighting of the responses in Table 7.3 appeared to emphasize two factors. First, it increased the overall rank order of importance of past association. Second, it decreased that of status. The first appeared to suggest that if a sufficiently favourable past association had existed, this in itself would tend to lead a foreign parent company to consider such associates at an early stage in the selection of partners for a proposed joint venture. They were less likely to be considered if the past association was not felt to be clearly a sufficient cause in itself for their selection.

Status, on the other hand, appeared to be more of a secondary consideration. In absolute terms, it was the motivation mentioned most frequently out of the original six groups. Most of these references occurred in the second and third round of responses however, implying that other reasons were felt to have been of greater significance in the selection of a given associate. A similar argument also applied to the question of local identity. This potential contribution by an associate ranked lowest in

* The subjects of managing agencies (17) and their effects in terms of monopolies (18) or the combination and concentration of industry (19) form very important and interesting parts of any comprehensive discussion of the private sector (20) in the business environment in India. The scope of such a discussion is too wide for the present study. In any case, the issues have been thoroughly covered elsewhere.
importance on both the raw and the weighted scores. Again, this agreed with the findings discussed in the last chapter, namely that, in the special case of India and Pakistan at least, local identity was not considered to be a significant issue by British investors.

In order to test the relationships between reasons for selecting associates and other variables, these reasons were combined further into four categories. The forced-choice and favourable past association classes stood as before. Convenience of facilities and resources were combined into one group of reasons, while status and local identity made up another. In the form tested, the selection of associates was represented by the primary reason cited by British parent companies for choosing a specific partner.

Relationships between this variable and the size of parent firms were discussed in Chapter Two, while variations according to the nature of business were covered in Chapter Three. The association between reasons for going into a joint venture and the selection of associates was examined in Chapter Six. This selection decision was not related to attitudes to control in any significant manner, nor to the ranking of, or attitudes towards, specific types of associate (except for a marginally significant association with local private interests). The absence of significant relationships between these variables appeared to indicate a pragmatic approach to investment in joint ventures by British firms. Although these companies had certain clear preferences with respect to different types of associates and in their attitudes to control, the decision to go into a joint venture and the selection of a specific associate were decided on the merits of the particular case.
Selection of associates was significantly related to two other groups of variables; i.e.:

(a) Certain measures associated with the background to the selection decision. These included: availability of alternative associates; previous knowledge of the chosen associate; major source of motivation towards a joint venture within a British parent company (the 'driving force'); location of the final responsibility for the decision to go into a given joint venture.

(b) Certain criteria set up in the study to evaluate joint ventures. Among these were: the stated importance and effectiveness of associates. There was also a marginally significant relationship with the profitability of a joint venture.

Prior Knowledge of Associates

In cases where a 'colonial divorce' was achieved relatively peacefully, considerable benefits appear to accrue to the previous 'guilty parties', or at least to some of their dependents. The situation is perhaps more akin to that of a judicial separation, in which the newly separated protagonists continue to be joined by bonds of mutual benefit. Mutual benefit which arises partly from the inertia of established custom and practice, in particular the convenience of continuing existing business relationships; partly from a common business training; often from a common business language; usually from the channelling of 'alimony' or 'separation endowments', in the form of tied public sector grants to ex-colonies or dominions.

The long association of British interests with these two host nations probably meant that the extent of the prior knowledge of their chosen associates indicated in this group of foreign parent companies was unusual in
the general context of overseas investment. Such knowledge does not, for example, appear to have been a common attribute among U.S. firms investing abroad in the past (21). It does appear to bear some relationship with the continued predominance of French interests in the ex-colonies of French West Africa, and even in Algeria, after the latter achieved, or had thrust upon them, independence (22).

There was in this study, a significant relationship between the reasons for selecting an associate and previous knowledge of their partners on the part of British parent companies*. This cross-tabulation is shown in Table 7.4.

Table 7.4 - Reasons for Selection and Prior Knowledge of Associates By British Parent Firms

<table>
<thead>
<tr>
<th>Reason for Selection</th>
<th>Manner in Which Associate was Known</th>
<th>No.</th>
<th>%</th>
<th>No.</th>
<th>%</th>
<th>No.</th>
<th>%</th>
<th>No.</th>
<th>%</th>
<th>No.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Unknown by people in U.K. firm</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Known as previous associates</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Several</td>
<td>One</td>
<td>Nobody</td>
<td>Total</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Forced-Choice</td>
<td>2</td>
<td>8</td>
<td></td>
<td>7</td>
<td>23</td>
<td>-</td>
<td>-</td>
<td>3</td>
<td>27</td>
<td>12</td>
</tr>
<tr>
<td>Convenience of</td>
<td>7</td>
<td>28</td>
<td></td>
<td>10</td>
<td>32</td>
<td>2</td>
<td>50</td>
<td>5</td>
<td>46</td>
<td>24</td>
</tr>
<tr>
<td>Facilities/Resources</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Favourable Past</td>
<td>14</td>
<td>56</td>
<td></td>
<td>5</td>
<td>16</td>
<td>1</td>
<td>25</td>
<td>-</td>
<td>-</td>
<td>20</td>
</tr>
<tr>
<td>Association</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Status/Identity</td>
<td>2</td>
<td>8</td>
<td></td>
<td>9</td>
<td>29</td>
<td>1</td>
<td>25</td>
<td>3</td>
<td>27</td>
<td>15</td>
</tr>
<tr>
<td>Totals &amp; % of row</td>
<td>25</td>
<td>35</td>
<td></td>
<td>31</td>
<td>44</td>
<td>4</td>
<td>6</td>
<td>11</td>
<td>15</td>
<td>71</td>
</tr>
<tr>
<td>sum</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

* At the 0.026 level.
Only 15% of the associates chosen had not been known previously by at least one person in the British parent company. In 79% of these joint ventures, the associate was either known by several people, or had even been an agent, licensee, customer or partner of the foreign investor. The extent of this local knowledge was emphasised in the answer to a further question put to respondents, regarding the manner in which local interests had been 'vetted' prior to their selection. This was an issue which had been felt by U.S. investors and potential investors in India or Pakistan to be a major difficulty (23).

It was not perceived a problem by British companies. In cases when further 'vetting' had been considered necessary, it had been carried out, simply and adequately, through personal and business contacts in the United Kingdom or the host country, and through British and local banks. The only U.K. firm in this sample which appeared to have had some initial problems in knowing where to start seeking information was a subsidiary of a U.S. company. Even this company had soon resolved these problems through its British contacts.

A strategy often discussed in connection with investment abroad, involved a progression from licensing a local manufacturer or agent, to then buying into the operation if it proved to be successful (24). This course of action did not appear to have been very important for the British firms in the sample. Only 28% of their partners had been chosen because of a past association. Only half of the local interests which had previously been associates were selected again for this reason. Nearly 40% of these interests were re-selected because of their local status, or the convenience

* As used here the term represents the procedures involved in checking the financial status, general standing and reputation, and the business competence of a prospective associate.
of the facilities or resources which they were able to contribute.

This evidence appeared therefore, to support the argument presented in the preceding section of this chapter. Past association was an important primary reason for continuing the association with a partner if it had been highly favourable (and, presumably, if it seemed likely to continue to be so). Possibly because of their knowledge of local conditions however, half of these foreign investors did not appear to consider that favourable past association was sufficient reason in itself to justify the re-selection of an existing associate. It was certainly not sufficient on the grounds of the possible uncertainty of the host environment. In this respect, these companies behaved in a manner which conformed to expectations based upon rationality in decision-making. Their choice was made on the merits of the case, relatively unclouded by fear of the effects of uncertainty.

**Availability of Alternative Associates.**

A problem referred to in connection with joint ventures in less-developed countries has been a lack of suitable local associates for foreign investors (25). Incompatibility has been described in relative terms encompassing differences in business mores and objectives, technical capabilities, or in the disparate sizes of local and foreign interests. Alternatively, the absence, in absolute terms, of any potential local associates has been emphasised. This shortage has been cited in particular, as a justification for mixed ventures with a host government (26).

Such a shortage did not appear to have been a significant problem for British investors in India. In part, this was probably because India was in fact a singularly well-developed underdeveloped environment. Its low per capita income tended to conceal the existence of a large and
varied industrial development*. This was almost exactly the comment of a representative from a large vehicle accessory manufacturer, "India is an exceptional less-developed country for joint ventures because of its large source of suitable potential partners". As a result, there was actually a reasonable amount of choice in considering associates. Although the two nations were not distinguished along this dimension, this appeared in discussion to have been less true for Pakistan.

It may also be true however, that more potential associates are available in other less-developed countries than appear to be recognised by many foreign investors and their chroniclers. This conjecture can strictly only be offered as a hypothesis for future study at this stage. There is some evidence that the hypothesis is worth testing, even after allowing for the fact that India's level of industrial development may create a situation which is not typical of most other underdeveloped nations. The issue is tied in with the difficulty (discussed in the last section) experienced by U.S. investors in India in appraising local interests. Both issues probably stem from a lack of familiarity with conditions in the host country and are in marked contrast to the experiences of British firms in the same environment.

Availability of alternative associates for the joint ventures in this study was defined in five categories as described by U.K. parent companies. This availability was then examined against reasons given for selecting a particular associate**. The distribution of responses along these two measures is shown in Table 7.4. These figures indicated that one or more

---

* The extent of the alternatives arising from this development (itself emphasised by any of the Five-Year Plan Reports) is indicated by the sheer number of local enterprises reported by Hazari or Joshi (27).

** This relationship was significant at the 0.030 level.
alternative associates had been available for all but 18% of these joint ventures, even though they had not been seriously considered in 28% of the cases. For 43% of these cases, there appeared to have been several alternatives — in fact, quite a reasonable amount of choice.

Table 7.5 - Availability of Associates for Joint Ventures

<table>
<thead>
<tr>
<th>Reason for Selecting an Associate</th>
<th>Number of Alternative Associates Available (excluding the chosen associate)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>None</td>
</tr>
<tr>
<td></td>
<td>No. %</td>
</tr>
</tbody>
</table>
| Forced-choice                    | 6 46% | 1 5% | 2 50% | 2 13% | 1 4% | 12%
| Convenience of Facilities/Resources | 4 31% | 8 40% | - - | 4 37% | 8 35% | 24%
| Favourable Past Association      | 3 23% | 8 40% | 1 25% | 3 27% | 5 22% | 20%
| Status/Identity                  | - - | 3 15% | - - | 2 13% | 9 39% | 15%
| Totals (% of row sum)            | 13 13% | 20 28% | 4 6% | 11 16% | 23 32% | 71%

Most of the cases in which alternatives were not considered involved the selection of associates because of favourable past association, or because of resources or facilities offered by a potential associate. Some of the latter were felt to have been peculiar to the specific local partner, for example, a suitable site for a chemical plant in a chosen area of the host country, thus limiting the foreign investor's freedom of choice.

The situation with respect to past associates has already been discussed. It was reasonable to expect that, if a previous association had
been sufficiently favourable, alternative partners might not be considered for a new joint venture (provided that the new operations were within the competence of the existing associates). The fact that alternatives were actually considered in 45% of the joint ventures in which past associates were eventually selected, appeared to emphasise two features of these investments. First, that U.K. firms did not feel committed to their local associates to the extent that they were forced to continue the association in further joint ventures. Second, that these foreign investors did not view the uncertainty of the environment as so threatening that they needed to reduce its area by the cautious strategy of preferring known to unknown 'evils' (28).

The availability of alternative local status contributors for this group of joint ventures appeared to support the argument that the shortage of potential associates for foreign investors, at least in India and Pakistan was not as great as the literature would suggest for less-developed nations as a whole. Local status and local identity, as defined here, were contributions which could be offered by a fairly wide variety of local interests. When status had been the primary reason for choosing a specific partner, there always appeared to have been a choice of associates, even though the alternatives had not always been considered. For over 73% of such joint ventures, there had actually been several status-worthy alternatives.

What had been expected to be an obvious relationship between these two variables did not appear to materialise. It had seemed to be virtually tautological to predict that British companies would state that they had been forced into their choice of partners if no others had been available for a given joint venture. In fact this relationship occurred in less than 50% of the joint ventures for which there had been no such alternative.
In 23% of this sub-group, the partner was said to have been chosen because of favourable past association. For another 31%, the selection was determined by the associate's contribution of facilities or resources.

This finding appeared to be further evidence of the positive approach of this group of foreign investors as suggested earlier in the present chapter. Even when these companies did not really have any other choice of partner, this absence of an alternative was not felt to be an adequate reason in itself for complying with a forced-choice situation. More important in justifying the selection of a specific associate had been the latter's ability to offer a positive contribution to a joint venture.

The 'Driving Force' and the Final Decision-Maker

Two measures were used to examine the effects upon selection of associates of variations in the location of responsibility for the selection and joint venture decisions. One of the hypotheses tested was that there would be a difference between the source of the chief stimulus within a parent company and the location of the final decision. This was really the null hypothesis of rationality* in that ideal practice would perhaps have suggested that:

(a) Motivation and stimulus for the examination of a joint venture opportunity, including search for and selection of potential associates, would possibly have arisen through the efforts of an interested individual or group.

(b) However, the results of appraisal and project preparation would have been audited and judgement passed by a superior executive authority within the firm.

* Description of rationality as a null hypothesis would appear to be supported by Aharoni's conclusions regarding the foreign investment decision process (29).
Respondents were therefore asked to describe separately, the driving force and the actual effective responsibility for the decision.

Certain relationships between the selection of associates and these two measures were predicted. In particular, there was expected to be a strong association between:

(1) Selection of an associate because of favourable past association and both stimulus and final decision by an individual familiar with local conditions (a 'familiar individual'). If this were true, it would suggest that the favourability of past association would tend to have been judged on the basis of the personal opinions of such individuals, rather than on possibly more objective grounds (30).

(2) Selection because of an associate's status and both stimulus and decision by a 'familiar individual'. It seemed likely that a foreign company's corporate judgement of local status would be determined by that of an individual who was familiar with the local definition of such status (31).

(3) Forced-choice of a partner and use of an impersonal decision-making procedure (described as 'normal channels' and approximating to a rational ideal). Insofar as the choice had been forced, there would probably have been less scope for the effects of an individual stimulus or preference.

Both the 'driving force' and the final decision measures were significantly associated with the selection of associates*. All three variables

* At the 0.019 and 0.027 levels respectively.
were combined in Diagram 7.a to show the variations, between the two measuring responsibilities, according to the different reasons given for the choice of associates.

In this diagram, the horizontal axes are calibrated in percentages. Each of the four major, vertically-divided segments represents the proportion of joint ventures, over the sample as a whole, in which associates had been selected for the reason given. The length of the bars running right or left from the central vertical axis represents the proportion of cases within each major vertical segment in which responsibility was attributed to the category of individuals or groups described at the left-hand margin. Bars running to the left represent proportions in the 'driving force' variable, while those to the right represent the location of the final decision.

The relationship described in (1) above occurred as predicted. In 20 joint ventures, an associate had been selected on the grounds of past association. The favourability of the association appeared to have been stressed by an individual familiar with local conditions in 70% of this sub-set of joint ventures. In 65%, the decision was said to have been made by such an individual.

Decision and drive by a 'familiar individual' did not appear to have been the major factor in the selection of associates on the grounds of status. The prediction in (2) above therefore, appeared to be incorrect. The responsibility for the selection of over 53% of this class of associate was said to have been largely an impersonal matter, carried out through normal channels. In fact, exactly half of these impersonal choices of status-worthy associates were made by U.K. companies in the vehicles group.

As discussed in Chapter Four, these firms made their decisions through normal
Diagram 7.a - Variations in Location of Responsibility for 'Drive Force' and Decision According to Reason For Selection of Associate.

<table>
<thead>
<tr>
<th>Location</th>
<th>Driving Force</th>
<th>Decision By</th>
<th>Selection Criterion</th>
</tr>
</thead>
<tbody>
<tr>
<td>Normal Channels</td>
<td></td>
<td></td>
<td>Forced-Choice</td>
</tr>
<tr>
<td>Group</td>
<td></td>
<td></td>
<td>(17% of JVs)</td>
</tr>
<tr>
<td>Individual</td>
<td></td>
<td></td>
<td>Status or Identity of Associate</td>
</tr>
<tr>
<td>Familiar Individual</td>
<td></td>
<td></td>
<td>(21% of JVs)</td>
</tr>
<tr>
<td>Normal Channels</td>
<td></td>
<td></td>
<td>Favourable Past Association</td>
</tr>
<tr>
<td>Group</td>
<td></td>
<td></td>
<td>(28% of JVs)</td>
</tr>
<tr>
<td>Individual</td>
<td></td>
<td></td>
<td>Facilities or Resources</td>
</tr>
<tr>
<td>Familiar Individual</td>
<td></td>
<td></td>
<td>(34% of JVs)</td>
</tr>
</tbody>
</table>

(Percentage of Sub-group Responses Attributed to Individuals or Groups Described in Left Hand Margin)
channels in an unusually high proportion of cases, largely because these decisions were externally, rather than internally, derived.

For 75% of the cases in which the choice of a partner had been forced upon a British company, the decision had been made through normal channels. This result conformed to the expectation described in (3) above. Six out of twelve joint ventures in this sub-group involved oil interests, all of which made decisions through a regular formalised procedure because of the international complexity of their decision matrices. There was a marked difference among the forced choice joint ventures in the attribution of responsibility for initiating and promoting on the one hand, and for the final decision on the other. In 50%, a special-interest group was said to have developed the project, while in a further 42%, the 'driving force' had been an individual who was familiar with the environment.

A similar difference occurred in the distribution of responses concerning joint ventures in which associates had been selected for their facilities or resources. As in the case of forced-choice joint ventures, there had been considerably more scope for development and promotion by individuals than for decision-making. As a result, the overall pattern of responses between the measures of the two types of responsibility were different. The nature of this difference also appeared to confirm what was described as the null hypothesis of rationality above. In fact, the overall difference concealed two features which did not agree with the hypothesis.

First, there was virtually no change between the two measures for joint ventures in which an associate's status had been the chief criterion for selection. Second, there was little change between the two in the proportionate responsibility of individuals for those joint ventures in which
partners had been chosen because of favourable past association. These two deviations from apparent rationality appeared to indicate that forecasts or interpretations based on rational grounds would be of less value when status or favourable past association formed the major basis for appraisal and decision-making. Presumably this was because of the scope for irrational and non-rational elements in these two criteria (32).

The Importance and Effectiveness of Selected Associates

Reasons given for selecting associates were also examined against the importance and effectiveness which was later attributed to these partners. These reasons were significantly related to both of these variables,* but as previously noted in Chapter Five, the high proportion of strongly favourable responses in most categories limited the sensitivity of the measurement. In order to provide an overall basis for comparison of the effectiveness of associates according to the basis for their selection, a value was assigned to each different effectiveness response. A positive statement was scored as plus one, a neutral response was valued as zero, while a negative response was given a value of minus one. A weighted effectiveness score was then calculated for each group of associates, classified by the reason for selection, according to the formula:

\[
\text{Weighted effectiveness score for each group } = \frac{\sum x_i - \sum z_i}{N_i},
\]

where: a positive response = \(x\)

\(a\) neutral response = \(y\)

\(a\) negative response = \(z\)

and where: the subscript \(_i\) varied according to the reason for the selection of associates, and

\[N_i = \sum(x_i + y_i + z_i)\]

* At the 0.025 level for importance, and the 0.004 level for effectiveness.
The effectiveness score was then plotted against each selection reason in Diagram 7.b.

**Diagram 7.b - Effectiveness of Associates According to Primary Reason for Their Selection.**

Positive 1.0
Maximum

Average Associate Effectiveness Score
Over all JVs in Sub-group

Neutral 0

Negative 1.0
Reason for Selecting Associate

Past Association, Facilities Resources Status Forced Choice

Two predictions had been made prior to this test. The evidence suggested that both were reasonably accurate. In the first, it had been assumed that if a U.K. firm had been forced into the selection of an associate, then the latter would tend to be considered less effective after the event. This was probably the result of two factors. At the rational level, the evaluation of the compatibility of partners was not likely to have been as thorough as if the associate had been sought out for other, more positive, reasons. Nor would this class of partner necessarily have offered much in the way of positive contributions to a joint venture. Typical of this last situation would have been the watching, rather than participating, brief of a host government agency acquired as a
compulsory partner. At a less rational level, the very fact that an association had been forced upon the foreign parent may well have led the latter to resent this infliction and therefore, to downgrade the value of any contribution which was made.

The second prediction was, in effect, the reverse of the first. If a partner had been chosen on the basis of its contribution of desired facilities or resources, then:

(a) The actual provision of such facilities or resources should, almost of necessity, constitute an effective contribution to a joint venture.

(b) Since the associate had been chosen deliberately, so that the choice was in the nature of an act of free-will, the British parent company should tend to be favourably disposed towards its partner in assessing the latter's effectiveness.

Results of this test appeared to indicate that arguments very similar to those in the second prediction just described also applied to the case of associates chosen on the grounds of favourable past association. Presumably, for these partners, effectiveness had already been proved. To a lesser extent, these same arguments also applied to those chosen for reasons of status. In this last sub-group however, there was a slightly sour note. Fifty percent of the ineffective associates were in this category, even though this figure only represented 20% of all the associates chosen for status. Perhaps there was a slight tendency, among this class of associates, for status to become statuesque.

Both of these predictions were again confirmed when the importance of associates to joint ventures was examined against the original reason for
their selection. These results appear in Table 7.6. In this second test however, the results were slightly more sensitive to analysis than those in the measure of stated effectiveness (in effect, because the proportion of strongly favourable responses was not quite as overwhelming).

Table 7.6 - Importance of Associates According to the Reason for Their Selection.

<table>
<thead>
<tr>
<th>Reason for Selecting An Associate</th>
<th>Stated Importance of Associates</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Important (Specified)</td>
<td>Useful</td>
</tr>
<tr>
<td></td>
<td>Number of cases &amp; cell % based on column sum</td>
<td></td>
</tr>
<tr>
<td></td>
<td>No.</td>
<td>%</td>
</tr>
<tr>
<td>Forced-Choice</td>
<td>3</td>
<td>7</td>
</tr>
<tr>
<td>Convenience of Facilities/Resources</td>
<td>16</td>
<td>37</td>
</tr>
<tr>
<td>Favourable Past Association</td>
<td>14</td>
<td>33</td>
</tr>
<tr>
<td>Status/Identity</td>
<td>10</td>
<td>23</td>
</tr>
<tr>
<td>Totals &amp; (% of row sum)*</td>
<td>43</td>
<td>(61)</td>
</tr>
</tbody>
</table>

(*Note: Percentages do not add up to 100% because of rounding).

The negative assessment of forced-choice partners was more marked than in the effectiveness measure, in that 50% of the responses in this group described associates as necessary (in a negative sense), or useless. On the other hand, there was also a higher proportion of favourable comments on partners chosen for facilities or resources. Over 95% of the associates in this group were considered to be important in some specified manner, or useful to the joint operation in which they were involved.

Opinions of the importance of associates in the "past" and "status" groups also showed similar distributions to those in the measure of
effectiveness. There was a slight apparent deterioration between the two tests in the overall assessment of partners chosen because of favourable past association. This indicated that as many as 25\% of the associates in this group may actually have been selected in order to provide local identity or status, as well as because of a favourable existing relationship. Since importance was, to some extent, associated with a more explicit contribution to a joint venture than was effectiveness, associates in this sub-category were perhaps less important than they were effective. 'Effective' was taken by most respondents to be akin to 'necessary'. The existence of this particular semantic ambiguity was in fact, one of the major reasons for including both these evaluation measures in the framework of the study. Overall, the results for the two turned out to be very similar.

**Selection of Associates and Profitability**

Most of the relationships tested between reasons for selecting associates and measures of profitability did not appear to be very close. There was however, a marginally significant association when the profitability measure used was the return before U.K. taxes on the British parent firm's long-term investment in a joint venture*. Figures were only available for 39 cases, but, even over such a small sub-sample, there was a clear difference in the profitability of joint ventures according to the reason given for selecting a specific associate. These results are charted in Diagram 7.c.

* At the 0.091 level.
Diagram 7.c - Profitability of JVs According to Reason for Selection of Associate

In preparing this diagram, the weighted average figures were calculated from the actual returns on investment shown by the joint ventures within each group, classed by reason for selection. The horizontal axis was calibrated according to the number of cases in each of these groups. As a result, the areas within the bars provided a reasonably accurate picture of the profitability distribution over this sub-sample of joint ventures.

In general terms however, the figures for the forced-choice category were probably misleadingly low. One of these joint ventures was a cable-manufacturing company, operating in a local market which had been over-licensed and subject to cut-throat competition in the years immediately preceding the study. The other was a newly-set-up pharmaceuticals company which had not yet achieved the anticipated level of profitability.
Unfortunately, no other detailed returns were available for joint ventures in which the choice of partners had been forced upon the British parent company. No comment upon the profitability of joint ventures in this particular category was felt therefore, to be valid.

The results shown in Diagram 7.c appeared to cast some doubt on the value of associates chosen to provide local status or identity to a joint operation. None of the joint ventures in this category were in the highest profitability group. Provision by associates of facilities or resources, or of the advantages which had made a past association favourable, could be considered as tangible and positive benefits to a joint venture. Status in this sense, would have been little more than a neutral contribution.

Using this distinction, these results again indicated that higher profitability was associated with positive contributions by an associate. Lower returns were associated with less tangible contributions, even if forced-choice cases were ignored (this argument would have suggested that these should have been the least profitable of all). The implication was therefore, that rather more should be sought from a partner than just local status. This was explicitly confirmed by the comment of an executive of a British company in the engineering group: "We would welcome joint ventures as the best way to start in a 'new' country if the local partner had something to offer beyond nationality, which is not enough".

Both of the other groups of joint ventures appeared to have been able to achieve a rate of return well over the figure of 10% before U.K. taxes. This was described in discussion as the minimum acceptable level for investment in these host countries. These levels of profitability were
also rather higher than the figures reported in the Reddaway study of 1967*. The latter were however, taken largely from the operations of overseas companies which appeared to be subsidiaries or branches of British firms, rather than joint ventures.

In spite of the limitations of the data and the problems involved in comparisons across differently-designed studies, these variations indicate that joint ventures are apparently no less profitable than operations through subsidiaries. To this should probably be added the reservation — provided that local associates are carefully selected for the positive contributions they can offer, rather than for the illusory benefits of local status, or simply because there are no alternatives available. This particular comparison was not a primary objective of the present study. It appears to be an important topic for further research. Corroboration of the implications above would have considerable impact upon much of the folk-lore concerning the structuring and control of overseas investment.

Summary

Selection of associates involved a distinguishable decision process, one which was usually initiated by the foreign partner. Existing typologies of reasons for selection were felt to be inadequate. Ideally, such a typology should be defined through a specific inter-disciplinary research project examining the nature of the motivation involved.

* A direct comparison between the two studies may not be valid, because of differences in allocation of accounting data. Also because the Reddaway report figures cover India or the world, while those described above deal with operations in India and Pakistan. After drawing a deep breath, one can plunge in and suggest that a comparable return to the U.K. using the Reddaway figures, may be about 12%. This would be estimated as follows: Profits after overseas tax for world-wide operations = 8%; the same figure including capital appreciation = 10.9%. (Both figures from Table XIV.1., p. 124 of the Reddaway report.) The difference of 2.9% was then added to the figure for Post-tax profitability to the U.K. Group from Indian operations (Table IV. 5, p. 43) = 8.6%. 8.6% + 2.9% = 11.5%, or about 12% (33).
Most associates in this sample had been chosen because of favourable past association, or to obtain facilities or resources. Only one in six was felt to have been forced upon the foreign partner. Even when no other partner had actually been available, this was not considered to be sufficient reason for selection; in a third of such cases, the associate had been chosen primarily for some other reason. The status of a local partner was recognized as a useful additional benefit by most British firms, but was usually considered to be a reason of secondary importance in selection.

Whatever the theoretical optimum division of responsibility for joint ventures in less-developed nations, half the foreign investors in this sample looked for managerial and technical staff as an important asset in a local associate. This was due partly to exogenous pressures for the 'localisation' of personnel at all levels by host governments. It was also due to endogenous pressures within the foreign company itself, in particular, an absolute shortage of skilled managers and technical personnel, or a relative shortage of potential overseas staff.

There was an important distinction in the selection of past associates. If the previous association had been highly favourable, it was very often an important primary reason for selection. It was not so important per se as to make its continuation a desirable or necessary end in itself. Only half the associates which had been previously associated were again chosen for this reason. Even in these cases, primacy was probably debatable. Almost by definition, past association involved an associate's contribution of resources or facilities. In general, U.K. investors in these two countries did not view the uncertainty of the environment as so threatening that they had to stick to people they knew.

This in turn, was probably because U.K. firms in these countries constituted a special case in overseas investment. They were aware of the
range of potential alternatives and they knew how to evaluate the potential. As a result, they had plenty of choice in general and were not forced into many joint ventures.

One can however, speculate from this special case. Familiarity with the host environment probably leads to the recognition of rather more potential associates than are sometimes supposed to exist in theory in less-developed nations. This may be especially true if local status or identity of a partner is felt to be sufficient recommendation in itself. This possible availability also seems to be worthy of further research.

Location of responsibility for initiation or promotion and for decisions varied with different reasons for selection. If associates had been chosen for their facilities or resources, or if the choice had been forced, there was scope for promotion by individuals or interested groups. The decision however, tended in such cases to be made through formal procedures. This distinction was particularly marked among the forced-choice category, in which most of the foreign parents were large companies concerned over the international integration of their operations.

When previous associates were re-selected however, both the 'driving force' and the final decision-maker tended to be an individual familiar with local conditions. This seemed to imply that favourability of past association was chiefly judged on the basis of personal recommendation. In general, the greater the scope for judgement of a potential associate on less rational grounds, the more likely it was that a decision would be made by a promoter. Conversely, if this scope was limited, a decision was usually made through a formal procedure, even though an individual or an interested group may have promoted the project within the foreign parent firm.
When associates were felt to be forced upon the foreign company, they were usually assessed as less effective and important. Past associates were generally given a favourable rating - presumably, this had already been pre-determined in any case. Contributors of facilities or resources were usually considered to be both effective and important. In both of these last two groups, evaluation and appraisal before selection had been most thorough. There had also been little cause for resentment over lack of freedom in choice. There may also have been an unconscious need on the part of respondents to justify the accuracy of their choice, comparable to the freezing of values through decision first suggested by Lewin (31).

There appeared to be some doubt as to the validity of local status or identity as reasons for selection. Such associates made less positive contribution to joint ventures and were therefore, felt to be less effective and important. Joint ventures in which these associates were involved also appeared to be less profitable than those in which the contribution of local partners was more tangible. Hence perhaps, the lower assessment by British firms of the importance or effectiveness of these associates. A possible implication appeared to be that more should be sought from a local associate, in the best interests of both joint venture and foreign parent, than just local status or identity.

Although the evidence was far from conclusive, there was some indication that joint ventures might be more profitable vehicles for foreign investment than subsidiaries, at least for investment in India or Pakistan. A final recommendation was made for further research which would specifically test the validity of this last argument.
Notes and References to Chapter Seven


5. A similar finding was reported in Friedmann and Kalmanoff, op. cit. pp. 136-138.


28. cf., Yair Aharoni, *The Foreign Investment Decision Process*, (Division of Research, Graduate School of Business Administration, Harvard University; Boston, 1966), pp. 281-282.

29. *ibid.*

30. cf. the findings in Raghbir S. Basi, *Determinants of United States Private Direct Investments in Foreign Countries*, Bureau of Economic and Business Research, Printed Series No. 3. (Kent State University; Kent, Ohio, 1963).

31. *ibid.*


CHAPTER EIGHT

FRAMEWORK OF A MODEL OF THE JOINT VENTURE PROCESS

One of the chief aims of this study was to set up the framework for a model based upon some of the decisions and certain of the dimensions involved in setting up and operating joint ventures. Because of the range of potential variability in the subjects and their environments, the research strategy adopted was to concentrate upon detailed analysis of a clearly-defined sub-set of the total population of joint ventures. As part of this strategy, the environment was limited to a two-country group, while foreign parent companies were restricted to those of one nationality.

It seemed reasonable to expect that if a model could be established, then:

(a) It should be possible to predict and describe certain series of decisions and relationships which would be associated with a resulting joint venture, given fairly limited information concerning parts of the model. Given too, that the constraints affecting the situation tested were reasonably similar to those under which the model had been set up.

(b) Certain implications would be capable of almost direct extrapolation and interpretation for the general case.

(c) If the validity of further generalisation was limited by what might appear to be special features of a particular set of constraints, the generality could be improved at a later stage. This would involve an extension of the study, or its repetition with different parent and host countries.
There were many possible alternative forms in which the framework and the appropriate analysis could be organised for a study of this type. An attractive possibility would have been to hang the model on three 'pegs', namely, the three major decisions involved in setting up a joint venture.

(a) The decision to invest.
(b) The decision to use the joint venture form.
(c) The decision to select a specific associate.

This format was not adopted for two main reasons. In the first place, the foreign investment decision covered a wider domain than that of joint ventures, and was a major area of study in its own right. Unless this decision was itself analysed in depth, it was probable that there would be little apparent variation in the motivation suggested by respondents. At the level of analysis of business objectives, most investments were likely to be said to have been made because of market considerations, in particular, developing a new market, or protecting an existing one. This suspicion turned out to be justified. Without additional detailed analysis of this decision, its position in a model would virtually have been that of a constant, rather than a variable dimension.

A second reason was that certain other variables seemed likely to offer a simpler basis for classifying dimensions which would be relevant to a model. Particularly useful in this respect were the groups of variables which could be used to classify characteristics of the foreign investors, the local associates, and the joint ventures themselves. Among these were the size, nature of business and possibly the performance, or profitability of all three of these interests. In addition, it was felt that the question of control was likely to be a basic issue and a determinant, in any joint operation, of the resultant relationships. Also of interest, were certain aspects of structure, especially dependence upon parent companies, and
possible means of evaluating performance and the relationships involved in a joint venture.

As a result, the initial format used eight sets of variables, two of which were actually the second and third decisions listed above. The analysis and also the model started from the premise that a decision to invest in a particular country or market had been made, at least in principle. Data were obtained for all the variables in each set. Certain variables proved to be significantly related to other parts of the framework. Others did not appear to be very useful in helping to predict variation, and were not examined further.

Some of the characteristics of foreign parent companies and of joint ventures showed high positive correlation, or highly significant association by Chi-Square, and were therefore later combined. Finally, after a comprehensive series of inter-group tests, the framework was defined in terms of the following eight groups of variables:

1. Size, and to a lesser extent, profitability, of the foreign parent firm.

2. The nature of the business involved - in general, much the same for both joint venture and foreign parent, and therefore defined in terms of the latter's business.

3. Attitudes to control on the part of the foreign parent company.

4. A rather diversified group of variables which appeared to have an immediate bearing upon the two decision processes, including:
   
   Attitudes towards and ranking of different types of potential associates;

   Location of responsibility within the foreign parent, for initiation and promotion of a joint venture project, and for the actual decisions involved;
Availability of alternative associates, and the extent to which chosen associates had been known prior to their selection.

5. The decision to go into a joint venture, i.e., the reasons given for using the joint venture form.

6. The reasons for which specific associates had been selected.

7. Broad-scale structural characteristics of joint ventures, chiefly expressed in terms of their dependence upon parent companies.

8. A group of measures used by parent companies, or set up as part of the analysis, in order to evaluate different features of the performance and of relationships between partners in the joint venture. These included:

   Methods of evaluation said to be used by parent companies;
   The importance and effectiveness which were attributed to associates;
   Readiness to participate in further joint operations;
   Measures of return on investment over a sub-sample for which data were available.

In view of the limitations imposed by sample size, it was not possible to obtain statistically significant results for multiple relationships between variables representing different parameters of the model. Analysis of these relationships was therefore, limited to two-dimensional form.

This analysis has been discussed in detail in Chapters Two through Seven. What remains here is to present a brief overall view of the framework and the series of linkages involved. This is done, largely in diagrammatic form, in the remainder of this chapter.
In terms of predictive capabilities, the most useful variable appeared to be the nature of the business. This was significantly related to some of the variables in all of the other main groups of the framework. In addition to the linkages described in Chapters Three and Four, parent business was significantly related to parent profitability*, which was, in turn, related to parent size**. (It is perhaps worth stressing to avoid possible misunderstanding, that these variables were not correlated, in a relationship which was necessarily linear. The Chi-Square tests merely indicated that certain parts of one distribution of characteristics were significantly related to certain parts of another distribution.)

It appeared to be reasonable to make the following general assumption, subject to confirmation in further studies incorporating a larger range of sample data. For cases in which there did not appear to be a direct association between measures, an admittedly weaker, second-level linkage could be obtained for prediction purposes by working through indirect relationships. A similar argument could also be applied in order to define lower-level linkages. Thus, for example, there did not appear to be a significant relationship, over the responses in the sample, between nature of business and (a) parent size, (b) availability of associates, or (c) the methods used by parent companies in evaluating joint venture performance. Examining each of these in turn however,

(a) As indicated above, parent profitability was significantly related to both parent size and nature of business. It was therefore assumed to provide a second level linkage between the other two variables.

* Parent business was significantly related to 'Net Return on Investment' of parent companies at the 0.004 level.
**Parent size in assets was significantly related to 'Net Return on Investment' at the 0.012 level.
(b) In a similar manner, a second level linkage existed between nature of business and availability of associates, via the significant relationships between each of these two variables and reasons for selecting specific associates.

(c) An association between nature of business and methods of evaluating joint ventures could be obtained through a third-level linkage. This involved working through the following relationships: Nature of business - to profitability of foreign parent - to size of foreign parent - to methods of evaluating performance.

The framework of established associations and linkages between variables which was based upon nature of business appeared to constitute the best approximation to a model of the decision processes and relationships involved in joint venture operations. This model is laid out in Diagram 8.a and some of the more important linkages, together with appropriate chapter references for convenience in application, are listed in Table 8.1, both of which appear at the end of this chapter. The model presumes the ability to work back from any other variable to nature of business and then out again, if necessary, through a lower level linkage, to any other variable. In Diagram 8.a, for example, through a linkage along any spoke to the hub - nature of business - and then out again along any other spoke.

A model described in this manner, involving a complex series of interdependent relationships, is rather like a complicated rooting system. For diagrammatic purposes, it soon grows out of control. The horticultural remedy would probably be to divide up parts of the plant and pot them separately in order to control the growth. This is also the strategy adopted here for convenience in laying out the model. The diagrams at
the end of this chapter describe a group of models which are in fact related as components of a whole. The tables provide references to detailed descriptions of relationships between variables in the relevant chapters of the text.

The size of the sample limits the validity of probabilities assigned on the basis of some of these research findings. Bearing this reservation in mind however, the model appears to be operational. With the aid of the figures shown in the tables in earlier chapters, probabilities can be assigned to the likelihood of various outcomes in the form of predicted relationships. Such probabilities can be modified further on a more subjective basis using the comments made in the descriptive parts of the text. They are also amenable to refinement through Bayesian analysis (1).

Carrying the horticultural analogy further, such a combination of elemental and subjectively-determined probabilities provides the basis for analysis of the effects of various possible outcomes through the use of the decision-tree approach (2). It should therefore, be possible, not only to predict the varying likelihood of a set of relationships, but also to provide a basis for decision-making incorporating cost and return data. If expected values could be assigned by an investigator to a series of possible outcomes in a given situation, then the effects of these outcomes could be summarised in 'rolled back' estimates of

(a) The likelihood that a project will succeed, and

(b) Costs and benefits accruing to various levels of success, or lack of it.
A strategy of cautious behaviour in the face of uncertainty and limited knowledge would recommend that this account should finish with a recognition of some of the major weaknesses in such a model as it stands. Most of these arise out of the limitations in sample size, and in the range of variability encompassed by the study. The power of the model is restricted by the lack of a larger number of observations, to working through a series of significant two-way relationships, rather than through overall composite relationships which are multi-dimensionally significant. The environment within which the sample of joint ventures actually operated was limited, as was the definition of foreign companies. Worse still, the findings may, in some respects, be atypical, since the relationships of some of these particular firms in this specific environment were in the nature of a special case.

One should also recognise the fact that there are 'lies, damned lies, and statistics'. There is always the danger of assigning too much importance to relationships which appear to be statistically sound or significant within a given context. Alter the context, and what happens to the validity – especially when, as here, the sample size is small and the conclusions are wide? However, statistical inference is part of the means of defining the rules of a game, a particular method of analysis, a theoretically sound approach to establishing a basis for making decisions, or for wider interpretation. The study was set out to work according to these rules and has endeavoured to abide by them. All of the possible limitations of the present model can probably be overcome by the incorporation of further findings from research along the same lines on additional host countries and foreign parent companies.
Diagram 8.a - Model of Relationships and Linkages Based Upon Nature of Business.

- Attitudes towards/ranking of potential associates
- Decision maker
- Reasons for going into a JV
- Alternative associates available
- Prior knowledge of associates
- Driving force
- Structural dependence of JVs
- Age of JV
- NATURE OF BUSINESS
  - Return on long-term investment in a JV
  - Methods of evaluating performance of a JV
  - Minimum acceptable rate of return on investment in JV
  - Cost of operating through a JV rather than a subsidiary
  - Parent profitability
  - Parent size
  - Readiness to go into other JVs
  - JV size
  - JV gearing
  - Effectiveness/importance of associates
  - Attitudes towards control
  - Reasons for selecting associates
  - Alternate associates available
  - Prior knowledge of associates
  - Driving force
  - Structural dependence of JVs
Diagram 8.b - Model of Relationships and Linkages Based Upon Size of Foreign Parent Firm.

- Structural dependence of JVs
- Long-term investment in JV by foreign parent
- JV size
- JV gearing
- Reasons for going into a JV
- Parent size
- Reasons for selecting associates
- Alternative associates available
- Prior knowledge of associates
- Driving force
- Decision maker
- Readiness to go into other JVs
- Effectiveness/importance of associates
- Parent profitability
- Return on long-term investment in a JV
- Nature of business
- Methods of evaluating performance of a JV
- Attitudes to control
- Nature of business
Diagram 8.c - Model of Relationships and Linkages Based Upon Attitudes to Control.

- Attitudes towards potential associates
- Decision maker
- Nature of business
- Parent size
- Reasons for going into a JV
- Reasons for selecting associates
- Ranking of potential associates
- Ability to achieve control
- Structural dependence of JVs
- Effectiveness of associates
- Importance of associates
- Return on long-term investment in a JV
- Readiness to go into other JVs
Diagram 8.1 - Model of Relationships and Linkages Based Upon Reasons For Going Into A Joint Venture.

- Attitudes towards/ranking of potential associates
- Attitudes to control
- Nature of business
- Structural dependence of JVs
- JV size
- Parent size
- JV gearing
- Methods of evaluating performance of a JV
- Prior knowledge of associates
- Alternative associates available
- Driving force
- Decision maker
- Effectiveness/importance of associates
- Return on long-term investment in a JV
Diagram 8.e - Model of Relationships and Linkages Based Upon Reasons For Selecting A Specific Associate.

- Attitudes towards/ranking of potential associates
- Attitudes to control
- Nature of business
- Structural dependence of JVs
- Parent size
- Methods of evaluating performance of a JV
- REASONS FOR SELECTING A SPECIFIC ASSOCIATE
  - Driving force
  - Decision maker
  - Alternative associates available
  - Prior knowledge of associates
  - Effectiveness/importance of associates
  - Reasons for going into a JV
  - Return on long-term investment in a JV
  - JV size
  - Age of JV
Diagram 8.f - Model of Relationships Based Upon Profitability of Foreign Parent Firm.

- Nature of Business
- Parent Size
- Reasons for going into a JV
- Minimum acceptable rate of return on investment in JV
- Cost of operating through a JV rather than a subsidiary
- Return on long-term investment in a JV
- Methods of evaluating performance of a JV
<table>
<thead>
<tr>
<th>First Level Linkages (Related Variables)</th>
<th>Tests Used To Define</th>
<th>Level of Measurement</th>
<th>Chapter Reference</th>
<th>Data Presented</th>
<th>Second Level Linkages (Most Important)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Parent Profitability</td>
<td>$\chi^2$</td>
<td>Nominal</td>
<td>2</td>
<td></td>
<td>Parent Size; Joint Venture Profitability</td>
</tr>
<tr>
<td>Attitudes to Control</td>
<td>$\chi^2$</td>
<td>Nominal</td>
<td>3</td>
<td>Table 3.2</td>
<td>Parent Size; Ability to Achieve Control</td>
</tr>
<tr>
<td>Attitudes Towards &amp; Ranking of Associates</td>
<td>$\chi^2$</td>
<td>Ordinal</td>
<td>3</td>
<td>Tables 3.4 &amp; 3.5</td>
<td></td>
</tr>
<tr>
<td>'Decision-Maker'</td>
<td>$\chi^2$</td>
<td>Nominal</td>
<td>3</td>
<td>Table 3.3</td>
<td></td>
</tr>
<tr>
<td>Reasons for Going Into Joint Venture</td>
<td>$\chi^2$</td>
<td>Nominal</td>
<td>6</td>
<td>Table 6.4</td>
<td>Age of Joint Venture</td>
</tr>
<tr>
<td>Reasons for Selecting Associates</td>
<td>$\chi^2$</td>
<td>Nominal</td>
<td>3</td>
<td>Table 3.6</td>
<td>Prior Knowledge of Associates; Driving Force; Alternative Associates Available</td>
</tr>
<tr>
<td>Structural Dependence of Joint Ventures</td>
<td>$\chi^2$</td>
<td>Ordinal</td>
<td>4</td>
<td>Table 4.1</td>
<td></td>
</tr>
<tr>
<td>Associates Effective</td>
<td>$\chi^2$</td>
<td>Ordinal</td>
<td>4</td>
<td>Diagram 4a</td>
<td></td>
</tr>
<tr>
<td>Associates Important:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>In India or Pakistan</td>
<td>$\chi^2$</td>
<td>Ordinal</td>
<td>4</td>
<td>Table 4.2</td>
<td></td>
</tr>
<tr>
<td>In LDCs in General</td>
<td>$\chi^2$</td>
<td>Ordinal</td>
<td>4</td>
<td>Table 4.3</td>
<td></td>
</tr>
<tr>
<td>Parent Readiness to Participate in Other Joint Ventures</td>
<td>$\chi^2$</td>
<td>Ordinal</td>
<td>4</td>
<td>Table 4.4</td>
<td></td>
</tr>
</tbody>
</table>
# Table 8.2 - Linkages Associated With Parent Size

<table>
<thead>
<tr>
<th>First Level Linkages (Related Variables)</th>
<th>Tests Used To Define</th>
<th>Level of Measurement</th>
<th>Chapter Reference Data Presented</th>
<th>Second Level Linkages (Most Important)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Joint Venture Size</td>
<td>Correlated</td>
<td>Ratio</td>
<td>2</td>
<td></td>
</tr>
<tr>
<td>Long-term Investment in Joint Venture by Foreign Parent</td>
<td>Correlated</td>
<td>Ratio</td>
<td>2</td>
<td></td>
</tr>
<tr>
<td>Joint Venture Gearing</td>
<td>Correlated</td>
<td>Ratio</td>
<td>2</td>
<td>Diagram 2a</td>
</tr>
<tr>
<td>Attitudes to Control</td>
<td>$\chi^2$</td>
<td>Ordinal</td>
<td>2</td>
<td>Diagram 2b</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Nature of Business; Ranking of Associates; Structural Dependence; Associates Effective; Associates Important; Parent Readiness to Invest in Other JVs</td>
</tr>
<tr>
<td>Reasons for Going Into Joint Venture</td>
<td>$\chi^2$</td>
<td>Nominal</td>
<td>2</td>
<td>Table 2.2</td>
</tr>
<tr>
<td>Reasons for Selecting Associates</td>
<td>$\chi^2$</td>
<td>Nominal</td>
<td>2</td>
<td>Table 2.3</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Prior Knowledge of Associates; Driving Force; Decision-maker; Alternative Associates Available</td>
</tr>
<tr>
<td>Return on Long-term Investment in JV</td>
<td>$\chi^2$</td>
<td>Nominal</td>
<td>2</td>
<td>Diagram 2c</td>
</tr>
<tr>
<td>Methods of Evaluating JV Performance</td>
<td>$\chi^2$</td>
<td>Nominal</td>
<td>2</td>
<td>Table 2.5</td>
</tr>
<tr>
<td>Parent Profitability</td>
<td>$\chi^2$</td>
<td>Interval</td>
<td>2</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Nature of Business</td>
</tr>
<tr>
<td>First Level Linkages (Related Variables)</td>
<td>Tests Used To Define</td>
<td>Level of Measurement</td>
<td>Chapter Reference</td>
<td>Data Presented</td>
</tr>
<tr>
<td>-----------------------------------------</td>
<td>---------------------</td>
<td>----------------------</td>
<td>-------------------</td>
<td>---------------</td>
</tr>
<tr>
<td>Parent Size</td>
<td>$\chi^2$</td>
<td>Ordinal</td>
<td>2</td>
<td>Diagram 2b</td>
</tr>
<tr>
<td>Nature of Business</td>
<td>$\chi^2$</td>
<td>Nominal</td>
<td>3</td>
<td>Table 3.2</td>
</tr>
<tr>
<td>Ranking of Associates</td>
<td>$\chi^2$</td>
<td>Ordinal</td>
<td>5</td>
<td>Table 5.1</td>
</tr>
<tr>
<td>Structural Dependence of Joint Ventures</td>
<td>$\chi^2$</td>
<td>Ordinal</td>
<td>5</td>
<td>Table 5.2</td>
</tr>
<tr>
<td>Ability to Achieve Control</td>
<td>$\chi^2$</td>
<td>Nominal</td>
<td>5</td>
<td>Table 5.3</td>
</tr>
<tr>
<td>Return on Long-term Investment in JV</td>
<td>$\chi^2$</td>
<td>Ordinal</td>
<td>5</td>
<td>Diagram 5a</td>
</tr>
<tr>
<td>Associates Effective</td>
<td>$\chi^2$</td>
<td>Ordinal</td>
<td>5</td>
<td>Diagram 5b</td>
</tr>
<tr>
<td>Associates Important: In India or Pakistan</td>
<td>$\chi^2$</td>
<td>Ordinal</td>
<td>5</td>
<td>Table 5.4</td>
</tr>
<tr>
<td>In IDCs in General</td>
<td>$\chi^2$</td>
<td>Ordinal</td>
<td>5</td>
<td>Table 5.5</td>
</tr>
<tr>
<td>Parent Readiness to Participate in Other Joint Ventures in:</td>
<td>$\chi^2$</td>
<td>Ordinal</td>
<td>5</td>
<td>Table 5.6</td>
</tr>
<tr>
<td>India or Pakistan</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other IDCs</td>
<td>$\chi^2$</td>
<td>Ordinal</td>
<td>5</td>
<td>Table 5.6</td>
</tr>
<tr>
<td>Developed Countries</td>
<td>$\chi^2$</td>
<td>Ordinal</td>
<td>5</td>
<td>Table 5.6</td>
</tr>
</tbody>
</table>
Table 8.4 - Linkages Associated with Reasons for Going into a Joint Venture.

<table>
<thead>
<tr>
<th>First Level Linkages (Related Variables)</th>
<th>Tests Used To Define</th>
<th>Level of Measurement</th>
<th>Chapter Reference</th>
<th>Data Presented</th>
<th>Second Level Linkages (Most Important)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Parent Size</td>
<td>$X^2$</td>
<td>Nominal</td>
<td>2</td>
<td>Table 2.2</td>
<td>Methods of Evaluating JV Performance; Joint Venture Gearing</td>
</tr>
<tr>
<td>Parent Profitability</td>
<td>$X^2$</td>
<td>Nominal</td>
<td>2</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Nature of Business</td>
<td>$X^2$</td>
<td>Nominal</td>
<td>6</td>
<td>Table 6.4</td>
<td>Attitudes to Control; Attitudes Towards &amp; Ranking of Associates; Structural Dependence of Joint Ventures</td>
</tr>
<tr>
<td>Age of Joint Venture</td>
<td>$X^2$</td>
<td>Ordinal</td>
<td>6</td>
<td>Diagram 6a</td>
<td></td>
</tr>
<tr>
<td>Size of Joint Venture</td>
<td>$X^2$</td>
<td>Nominal</td>
<td>6</td>
<td>Table 6.3</td>
<td></td>
</tr>
<tr>
<td>Reasons For Selecting Associates</td>
<td>$X^2$</td>
<td>Nominal</td>
<td>6</td>
<td>Table 6.5</td>
<td>Prior Knowledge of Associates; Driving Force; Decision-maker; Alternative Associates Available; Associates Effective; Associates Important; Return on Long-term investment in Joint Venture</td>
</tr>
</tbody>
</table>
Table 8.5 - Linkages Associated With Reasons For Selecting A Specific Associate.

<table>
<thead>
<tr>
<th>First Level Linkages (Related Variables)</th>
<th>Tests Used To Define</th>
<th>Level of Measurement</th>
<th>Chapter Reference</th>
<th>Data Presented</th>
<th>Second Level Linkages (Most Important)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Parent Size</td>
<td>χ²</td>
<td>Nominal</td>
<td>2</td>
<td>Table 2.3</td>
<td>Attitudes to Control; Methods of Evaluating JV Performance</td>
</tr>
<tr>
<td>Nature of Business</td>
<td>χ²</td>
<td>Nominal</td>
<td>3</td>
<td>Table 3.6</td>
<td>Attitudes to Control; Attitudes Towards &amp; Ranking of Associates; Structural Dependence of Joint Ventures</td>
</tr>
<tr>
<td>Reasons For Going Into Joint Venture</td>
<td>χ²</td>
<td>Nominal</td>
<td>6</td>
<td>Table 6.5</td>
<td>Age of Joint Venture; Size of Joint Venture</td>
</tr>
<tr>
<td>Prior Knowledge of Associates</td>
<td>χ²</td>
<td>Ordinal</td>
<td>7</td>
<td>Table 7.4</td>
<td></td>
</tr>
<tr>
<td>Alternative Associates Available</td>
<td>χ²</td>
<td>Ordinal</td>
<td>7</td>
<td>Table 7.5</td>
<td></td>
</tr>
<tr>
<td>Driving Force</td>
<td>χ²</td>
<td>Nominal</td>
<td>7</td>
<td>Diagram 7a</td>
<td></td>
</tr>
<tr>
<td>Decision-maker</td>
<td>χ²</td>
<td>Nominal</td>
<td>7</td>
<td>Diagram 7a</td>
<td></td>
</tr>
<tr>
<td>Associates Effective</td>
<td>χ²</td>
<td>Ordinal</td>
<td>7</td>
<td>Diagram 7b</td>
<td></td>
</tr>
<tr>
<td>Associates Important In India or Pakistan</td>
<td>χ²</td>
<td>Ordinal</td>
<td>7</td>
<td>Table 7.6</td>
<td></td>
</tr>
<tr>
<td>Return on Long-term Investment in JV</td>
<td>χ²</td>
<td>Ordinal</td>
<td>7</td>
<td>Diagram 7c</td>
<td></td>
</tr>
<tr>
<td>First Level Linkages (Related Variables)</td>
<td>Tests Used To Define</td>
<td>Level of Measurement</td>
<td>Chapter Reference</td>
<td>Data Presented</td>
<td>Second Level Linkages (Most Important)</td>
</tr>
<tr>
<td>------------------------------------------</td>
<td>---------------------</td>
<td>----------------------</td>
<td>-------------------</td>
<td>----------------</td>
<td>---------------------------------------</td>
</tr>
<tr>
<td>Profitability of Joint Ventures</td>
<td>Correlated</td>
<td>Ratio</td>
<td>2</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Parent Size</td>
<td>$\chi^2$</td>
<td>Ordinal</td>
<td>2</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Nature of Business</td>
<td>$\chi^2$</td>
<td>Nominal</td>
<td>2</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Reasons For Going Into Joint Venture</td>
<td>$\chi^2$</td>
<td>Nominal</td>
<td>2</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Methods of Evaluating JV Performance</td>
<td>$\chi^2$</td>
<td>Nominal</td>
<td>2</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Minimum Acceptable Rate of Return on Investment in JV</td>
<td>$\chi^2$</td>
<td>Ordinal</td>
<td>2</td>
<td>Diagram 2d</td>
<td></td>
</tr>
<tr>
<td>Cost of Operating Through JV, Rather Than Subsidiary/Branch</td>
<td>$\chi^2$</td>
<td>Nominal</td>
<td>2</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Notes and References to Chapter Eight


CHAPTER NINE

CONCLUSIONS AND IMPLICATIONS

In this final chapter, the results of the study as a whole are reviewed briefly from three aspects. In the first place, what are some of the possible implications for investors and managers arising out of the findings? In some cases, these implications really apply only to the case of joint ventures in India or Pakistan. Others can perhaps, be interpreted for the general case. A second section summarises the conclusions which appear to arise out of the results of the research, conclusions which may be of wider and more general interest than the implications for management. Finally, a group of suggestions for further research is listed, research into topics encountered during the course of the study, on which there appeared currently to be limited amounts of definitive information available.

Some General Implications for Investors and Managers.

Until this study can be repeated, with different environments and parent firms of other nationalities, the results can strictly only be considered to be valid for British joint ventures in India or Pakistan. There is some basis for comparison of these findings with the limited amount of information presently available on joint ventures, as has been discussed earlier in the text. Using these comparisons* and at the risk of reducing validity, it seems reasonable to consider some of these findings to be relevant for the general case of joint venture investment, at least when this is located in less-developed nations. This section deals

* Detailed references, wherever applicable, are described in the appropriate chapter of the text.
with some of these generalised implications. The next covers implications for management or investors which are perhaps peculiar to these two host countries.

**Size of Foreign Parent Company and Gearing of Joint Venture Capital.** In general, larger foreign companies were associated with joint ventures which had a higher proportion of loan funds in their capital structure. The debt:equity ratio which is officially permissible appears, in any case, to be higher in less-developed countries than in the security-conscious stock markets of the developed nations. It was not really clear just how far the status of the local associate or of the project itself have a bearing on the availability of loan funds. Certainly some of the local partners in this set of joint ventures were able to obtain short-term loans and overdraft facilities for a joint venture, particularly when they were themselves associated with a large business group which incorporated financial institutions.

The evidence appeared to suggest however, that long-term and foreign exchange loans were most often associated with joint ventures in which one of the partners was a large foreign company. In some cases, as in the oil joint ventures, this association arose because loans had actually been made by the foreign partner to the joint operation. Even after allowing for this fact, it was clear that funds from development finance and other financial institutions were actually attracted by the project soundness believed to accrue from the presence of a prestigious foreign firm.

**Size of Foreign Parent and Profitability of Joint Ventures** - Data on this subject were incomplete, covering just over half the sample. With this reservation, the profitability of these joint ventures showed an inverse
relationship with the size of the foreign parent. This may have been due to the fact that some of the larger foreign companies were taking their profits at different cost centres or that they were more concerned over the international integration of their operations, rather than over the return in any one market.

An alternative explanation which was said to have some validity was based however, upon the 'visibility' of a project and its parents to the local authorities. This suggested that there was a less stringent scrutiny of the pricing practices and the achieved levels of return of smaller operations and of less obviously dominant foreign concerns. Such an explanation was reasonable even on purely practical grounds. The policing of pricing policies with a limited 'police force' would tend to be based upon selectivity, in the sense of concentrating first on those prices which were most significant to the national economy.

Methods of Evaluating the Performance of Joint Ventures - Once past the stage of commitment of funds and resources, the actual rate of return on this type of overseas investment was said to have very limited validity for evaluating performance. The theme of these investors was rather that, once in, one virtually had to accept what one could get. This was partly because of the costs and difficulties of disengagement. It was also a pragmatic acceptance of the potential variances attributable to environmental factors and to the difficulty in making accurate detailed predictions of performance.

Such a statement in no way invalidates the importance of efforts to improve accuracy in forecasting rates of return before investment, or of efforts to reduce the area of unpredictability. It was simply that most of the executives in the sample considered continuing control and supervision
of this type of investment could be more realistically carried out in
terms of overall objectives of the parent company. They felt that devotion
to specific figures of rates of return on a given project was unrealistic,
merely compounding a fallacy of misplaced concreteness. In support of this
argument, there was some evidence that inflexibility over this particular
issue tended to be associated with less profitable foreign companies.

Attitudes to Control and Profitability - Most of the executives in this
study appeared to equate a majority share in equity with effective control
over a joint venture. This could be a rather short-sighted view. A
foreign majority position in an operation is immediately open to accusations
of foreign dominance in a local firm. As a result, it becomes more 'visible'
to local countervailing forces. Because of the existence of such forces,
it is not necessarily safer in the long-run than would be a foreign
minority shareholding. In the short run, these forces may also work to
restrict a foreign majority's freedom of operation.

There was some slight indication that the profitability of these
joint ventures was inversely related to the level of concern over formal
control expressed by its foreign parent. Apart from the fact that effective
control in this type of operation may be more a feature of technical, than
of financial leverage on the part of foreign investors, there was also the
question of the local partner's contribution. The implication of the evi-
dence here was that a relaxed attitude towards control tended to leave a
local partner more responsibility. This in turn, (and presumably, under
some technical guidance from the foreign parent) induced the local partner
to perform more effectively. Such a combination of events also appeared
to be associated with greater profitability in a joint venture.
The data from the study also suggested that joint ventures are in general, no less profitable than foreign branches or subsidiaries. Comparison with the figures from other studies may be suspect, because of the possible incompatibility of measurements and calculations. On the basis of the results of a sub-sample of these cases however, the rate of return after host country taxes, on the foreign parent's long-term investment in a joint venture, was higher than comparable figures in the Reddaway report. The latter dealt mainly with the results of overseas branches and subsidiaries.

**Reasons for Selecting a Specific Associate** - One should add that the sequence of favourable events arising from a relaxed attitude to control just described above, also depended on the positive attributes of the chosen associate. In most of these joint ventures, the foreign parents had selected associates for their positive potential contributions, rather than primarily because of their status, or because no others were apparently available. Even when the actual choice had been forced upon the foreign partner, in over a third of such cases the choice had only been accepted because the associate in question had something more tangible to offer. The threat of compulsion or the attribute of local nationality were not in themselves, sufficient justification for selection. In terms of profitability, the best returns were, in general, associated with joint ventures in which partners had been chosen because of the positive contributions which they had to offer.

**Fifty-Fifty Joint Ventures** - An attractive compromise over the issue of control appeared to be to set up a 50-50 joint venture. There is some danger however, that these may be somewhat of a snare and a delusion. In
theory, the compromise is excellent, provided that the parties are experienced and industrially-mature interests. Provided too, that there is a clear definition beforehand of potential problem areas in operations and pre-negotiation of mutually acceptable solutions or accommodations.

In such operations however, there is always the danger that the partners may become pre-occupied over maintaining their own equality, even at a cost to the joint venture and their own best interests. This situation appeared to be particularly relevant with respect to the issues of reinvestment and increasing investment for desirable growth among the joint ventures of this study. The net result was a stalemate which hindered a joint venture's development.

There was some implication that this type of issue was less of a hindrance and a problem if the foreign partner was prepared to accept a minority position. The foreign company's technical leverage then gave them as much control as was needed, plus the authority to stimulate growth and development. At the same time, local partners were more likely to be prepared to find additional funds for what was to them, formally a subsidiary, one of their own operations.

Availability of Potential Associates - India and Pakistan constitute a special case among less-developed nations, because of their fairly extensive industrial sectors which are relatively developed in absolute, if not in per capita terms. As a result, there is less of a shortage of potential associates in these two than in most countries which are classified as less- or underdeveloped. On the other hand, the number of such associates recognised in India and Pakistan by British, as compared with U.S. investors, suggests a further generalisation.
In practical terms, there are probably more potential associates actually available for foreign investors in less-developed countries than appear to be suggested in the literature, or in the 'folk-lore' of foreign investment. Usually however, the existence of many of these suitable alternatives is not recognised, except by investors familiar with the particular environment.

Host Government Associates - There is also considerable emphasis in the 'folk-lore' of countries with allegedly free-enterprise economies, upon the undesirability of host government partners in joint ventures. The evidence in this study did not support the validity of such emphasis. British companies had certainly experienced some restrictions in mixed ventures on the pricing practices which they would themselves have preferred. They had also found that the host government partner in such a venture was concerned over major issues of policy, insofar as these issues affected the national interest. In these cases however, British parent firms had also found that, even when a host government held a majority position in a mixed venture, it did not interfere in the actual running of operations. The general experience seemed to be that the government partner adopted what was largely a watching 'brief', leaving the foreign partner to get on with the business.

On the whole, the companies which had actually been involved in mixed ventures were more in favour of this type of operation than were less experienced firms. The implications of these findings are probably most relevant for investors in countries which are lesser developed than India or Pakistan. Countries where a large foreign company may be genuinely limited in its choice of potential local associates to the host government or its agencies.
In these countries, the host government may be more than simply the only partner available for political or legal reasons, it may also have some positive attractions. In particular, it may be the only potential local associate with time horizons, conception of problems of scale and an overall view of the market, compatible with those of a foreign investor. To ignore the possibility of association with government interests on dogmatic grounds, is to run the danger of passing up excellent investment opportunities for reasons which are largely subjective and which are quite possibly unjustified.

**Technology and Pressures for Localisation** - The favourite strategy of these foreign firms in the face of pressures for localisation of personnel, was to select a partner endowed with sound local management. Technical knowledge necessary to a joint venture's operations was then grafted on to this management. In this way, the need for foreign technical personnel was kept to a minimum, their roles being concentrated in start-up, trouble-shooting and training activities. For some companies, this strategy provided a solution for a different problem, in that they were themselves short of technically competent staff for overseas operations in any case.

**Some Implications Peculiar to India and Pakistan**

**Managing Agencies as a Source of Local Personnel** - Following directly on from the last subject in the last section, one of the sources of sound local management in India was in the managing agency system. British firms appeared to be well aware of the advantages in grafting special technical expertise onto the competent and experienced managerial personnel available
from this type of partner. This may be less true of other foreign investors. There are certainly long-standing ties between these agencies, most of which were previously British-owned, and companies in the United Kingdom. Such ties would help to explain the greater awareness of the potential of the managing agencies on the part of British investors.

On the other hand, one suspects that other foreign investors may also have been disturbed by the apparent strength of the local agitation against managing agencies in India. Agitation does not in fact appear to have done much to impair the effectiveness of these local firms, being met by a Hydra-like proliferation of alternative methods of operation and legal forms. In the long run, it is quite possible that the managing agencies may become obsolete, as and when the cadre of competent local managers grows to proportions sufficient to replace their functionally necessary activities.

This would appear to be a situation of the fairly distant future, in view of the vast need for managers likely to be generated by India's projected industrial development. Until such a millennium arrives, the managing agency system offers a very useful source of local management. It is a source moreover, which is oriented towards 'Western' business practices, as well as employing competent personnel.

**Importance of Local Associates** - With the exception of the oil industry, associates in India and Pakistan were said to be more important to local operations and to be more effective, than in other less-developed nations. This was, in part, another result of the relatively higher levels of industrial development in these two countries.
Effects of Regional Variation in Location - For the special case of India, there appeared to be some preference, over this group of executives as a whole, for associates and conditions in South India especially in the Madras area. Without necessarily deprecating other associates, stronger and warmer sentiments were expressed with regard to the South. Particularly emphasised were the technical competence, cooperation and willingness to learn of this group of local partners. Coupled with these was their concentration upon business, rather than political or social, parameters affecting operations.

It was also stated that the labour force in the Madras area tended to be more cooperative and less subject to agitation induced by external sources, than in other parts of the country. In this last respect, the Calcutta area was said to be becoming especially difficult as a location for foreign-associated operations.

Technological Desirability of Different Industries - It was not possible to establish, across the various industries included in this study, an overall scale of desirability and therefore leverage in bargaining with host governments. At one extreme however (at the negative end of any such scale) there was some relevant evidence. It was felt to be easier to get government approval for foreign participation in a project in any other industry, than in those classified here as engineering or electricals.

These two industries were stated explicitly to be those in which India was by now best endowed, largely as a result of development efforts in the country so far. In these two industries especially therefore, foreign investors face the likelihood of being directed to operate with local partners - if at all. On the reverse of the coin, these are also the industries which are most likely to be able to offer a choice of competent and compatible local partners to a prospective foreign investor.
Some General Conclusions.

Examination of the experiences of this sample of British firms, and of the ways in which a group of associated joint ventures were set up in India and Pakistan, led to the conclusion that there are three separable major decisions involved in what is here called the joint venture process. These are, as already indicated, the decision to invest in a given host country, the decision to use the joint venture form, and the selection of a particular associate. Although they may be run together in terms of chronological order and they may be interdependent to some extent, the tendency was, over the cases in the study, for the decisions to have been made in the order listed and for subsequent to depend upon previous decisions. As a result, the problems of examining a complex and interdependent overall decision process, whether through techniques of sequential analysis or systems analysis, can be reduced through division into separate parts.

For the case of India and Pakistan, a vast majority of investment decisions were said to have been motivated primarily by market considerations, either developing a new market or protecting an existing one. The decision to use the joint venture form was made most often in order to obtain local facilities or resources which were required by the foreign parent company. In spite of the fact that host government legislation in both these nations appeared to make joint operations virtually a necessity, this compulsion was felt to be of subsidiary importance in over half of these decisions. In a quarter of these joint ventures, compulsion had not been an issue at all.
So far as the selection of associates was concerned, the status of a local partner and the benefits of local identity also appeared to be subsidiary considerations. This may have been the result of a special relationship between British firms and these two host countries. Many of these companies already had something of a local identity and considerable local status on their own account. On the basis of somewhat limited profitability figures, such an attitude seemed to be justified. Joint ventures in which partners had been chosen for their past or potential contributions of facilities or resources were the most profitable. They were clearly more profitable than those in which associates had been selected because of their status, or in order to provide an operation with local identity. Similarly, associates chosen on the grounds of their status were felt by British executives to be less effective and less important to a given joint venture, than were those selected for more tangible considerations.

Responsibility For Promotion of a Project and Decision - The evidence in this study supported the theory that the initiation, development and promotion of new foreign investments tends to be the responsibility of individuals or of special interest groups. For these joint ventures, the argument was especially true for the case of individuals, in particular, for individuals who were familiar with local conditions in the proposed environment. Among the cases in which an associate had been chosen primarily because of a favourable past association, practically all were the result of the promptings of a 'familiar' individual. It appeared therefore, that such favourability was judged largely on the basis of personal recommendation.
As a general rule, the greater the scope for judgement on less rational grounds, the greater the likelihood that the decisions associated with setting up a joint venture would be the responsibility of an individual. When this scope was limited, the decisions were more likely to be made as part of a formal, rationally-devised procedure.

**Familiarity and Awareness of The Environment** - India and Pakistan were not recognised by these executives as constituting a particularly threatening environment for foreign investment. Obviously, by the time this study took place, they had some experience of that environment and were therefore aware of actual conditions. On the other hand, only a very small proportion stated that the spreading of risk had originally been a motivation for going into a joint operation. This suggested that India or Pakistan had not appeared to be threatening at the time the investments were actually made.

Such confidence would be compatible with the argument that British investments in these two countries were in fact a special case in the field of overseas joint ventures. This may very well be a feature of a special relationship, and therefore, a special case. Comparison with the comments of potential U.S. investors upon the same countries leads to what is perhaps a fairly obvious observation concerning the general case. Familiarity with an environment tends to reduce the impression that overseas investment is risky or threatening. An impression which is largely induced by suspicion of the unknown characteristics of a strange environment.

**Uncertainty and Concern Over Control** - The last argument does not mean that uncertainty related to investment in India or Pakistan was not recognised at all by these executives. There was in fact, some indication
that a concern for control on the part of some British firms involved the desire to reduce the area of uncertainty in overseas investment, as well as the desire to have a free hand in running an operation - for a variety of stated reasons.

The strength of such a desire to reduce uncertainty was related to, and indicated in, the type of potential associate preferred for a joint venture, in principle, if not in practice. If control was felt to be important in a particular case, then fellow-nationals of the foreign investor were favoured as the most desirable possible partner (given that this type of partnership had been possible - usually a theoretical assumption). When control was not considered to be so essential, the tendency was to favour local private interests which could make some kind of positive contribution to a joint operation.

The Squeeze Between Two Monopsonists - An interesting aspect of the foreign investment decision process appeared in the experiences of some of the manufacturers of vehicle components and accessories. These firms were caught in what was effectively a double squeeze, so far as their own freedom to make a decision was concerned. When their major customers set up local operations in a country, these suppliers had to be ready to provide their own products in that country or else run the danger of losing the customer in other, more lucrative markets. At the same time, a host government which was aware of this threat could take advantage of it by forcing the supplier to go into local manufacturing, through imposition of tariff or quota restrictions on imported components.

As a result of these dovetailing pressures, the investment decision was, for these suppliers, largely exogenously determined. In the present study, this situation only appeared to have been a problem in connection
with the motor industry. It appears to have some relevance in the general case however, for all industries in which there is a strong interdependence among members and ancillary firms.

Bilateral Monopoly and The Joint Venture Decision - According to the comments of this group of executives, the theory of bilateral monopoly appeared to have only limited validity. The theory that relative bargaining power would be the determinant of the form taken by foreign investment did not provide a complete explanation of the way in which these joint ventures were set up. In 42% of these cases, the British parents had recognised host government pressure to go into a joint operation. Considering the officially stated policies of these governments, this was perhaps, a lower proportion than would have been expected. For the other 58%, such pressure had not influenced their decision to use the joint venture form, except as a subsidiary consideration. Nor did this appear to have been due to peculiar advantages possessed by the foreign firms in this 58% of the cases.

Another deviation from the implications of the theory occurred in the relationship between host government pressures to go into a joint venture and the point in time at which the latter was established. According to the theory, these pressures should have become increasingly influential over time. In fact, there was some indication that these pressures had become less important over time.

The only case which appeared to fit a pattern of relationships and development consistent with one determined by bilateral monopolistic advantage was that of the oil companies. These were however, among the most
powerful of the foreign companies in the study. They were also offering some of the most desirable technology. This being the case, it was not clear, in terms of the theory of bilateral monopoly, why these should be more prone to such conditions than other firms.

An alternative explanation favoured here was that the size of the foreign parent company was likely to be a determinant of the arousal of countervailing powers on the part of a host government, largely through fears of economic imperialism. The larger the company, the greater would be the fear. Once such local powers were aroused, an interpretation in terms of relative advantage in bargaining provided a convenient model for explaining the ensuing relationships.

On the whole, it appeared that the theory of bilateral monopoly provided a useful abstraction and rationalisation of a complex process which was not itself very rational. It constituted an abstract framework, from which specific analysis and explanation could commence, but which required considerable modification before explanation could be satisfactory.

**Readiness to Participate in Other Joint Ventures** - Perhaps the most fitting, and certainly the most optimistic note on which to finish these conclusions is to emphasise the findings discussed in Chapter Four. Only one in seven of the foreign firms in this sample were not prepared to take part in other joint ventures in underdeveloped nations. Only one in five made the same objection for developed nations. Even the dissenters seemed to have sound objections on technical and specific grounds. Approximately half of these companies were already involved in other joint ventures in both these types of host countries.
It appears quite possible that the joint venture form of operation will become an increasingly important bridging mechanism between the resources of international companies and the aspirations of host countries. If so, the readiness of companies such as these, which are experienced in this type of business, to participate in further joint ventures is an encouraging sign and an advertisement to other potential overseas investors.

**Suggestions for Further Research.**

In this final section, the various subjects which were discussed at various stages in the text as requiring further research are collected together. Since these issues were described in context earlier, the discussion is not repeated and the topics are simply listed, together with the appropriate chapter number (in brackets), for convenience in reference.

1. Examination of international variations in production functions, in order to determine a scale of technological complexity which would provide an adequate basis for comparison between and within industries, and across international boundaries. (Chapter Three)

2. Relationships between level of technology and size of companies investing abroad, to determine in particular, the extent to which more advanced technology may tend to be a corporate asset of larger firms among such overseas investors. (Chapter Two)

3. Relative primacy, in terms of ability to attract loan capital to an overseas joint venture, of the characteristics of:
   (a) The foreign partner
   (b) The local associate
   (c) The project itself. (Chapter Two)
4. Definition of the procedures through which evaluation criteria are set up for overseas investments, especially in joint ventures. (Chapter Two)

5. The extent to which the issues of reinvestment and of increasing investment in joint ventures actually create, as opposed to being said to create, major conflicts between partners. With particular reference to the case of 50-50 joint ventures. (Chapter Three)

6. Examination of a possible correlation between the closeness of intra-industry juxtaposition in location and strength of frictional effects and dislike among direct competitors. (Chapter Three)

7. Establishment in definitive and preferably quantitative terms, of the relative importance of different patterns of evolution and strategies in overseas investment. With special attention to any sub-sets leading to joint ventures. (Chapter Three)

8. Examination of relative productivity, wage rates, living standards, levels of employment and work force satisfaction, in different areas of India and Pakistan, in order to determine whether the regional differences alleged to exist are in fact significant for foreign investors. (Chapter Four)

9. Classification of the methods through which required levels of effective control over joint ventures are achieved. Definition of possible relationships between the profitability of investment in a joint venture and (a) the level of concern over control on the part of the foreign parent, (b) the control actually achieved. (Chapter Five)
10. Definition of the motivations involved in selecting joint venture associates. The object being to develop an operational typology, based on the results of inter-disciplinary examination of socio-cultural and psychological aspects of motivation, as well as the more apparent political and economic motivations. (Chapter Seven)

11. Examination of the relative profitability for foreign investors of joint ventures, as compared with subsidiary or branch types of overseas operations. (Chapter Seven)

Finally, as stressed earlier, repetition of the present study with different host countries and parent companies of other nationalities would be useful in order to check:

(a) The validity of some of the generalisations put forward
(b) The wider applicability of the suggested model.

It would also be desirable to 'round out' the analysis by repeating the study from the point of view of local associates in joint ventures.
Appendix B - The Questionnaire Form Used in the Study

The top sheet included background information regarding the study, researcher and sponsoring organisations. It also emphasised the anonymity of the information and the firms responding. The form was entitled - JOINT VENTURES IN INDIA AND PAKISTAN.

Details of companies and respondents were restricted to the top sheet, the remainder of the form was as follows:
Section One - Descriptive and Financial Data

1. What are the chief products or activities of your company:

2. What was your total value of consolidated sales for the last year:

3. What is the consolidated total value of your assets:

4. What are the registered names of any joint ventures (JVs) in which your company is involved in the country of this study: (Please complete for each JV)
   a) Name of JV company:
   b) Chief products/activities:
   c) Date of commitment agreement:
   d) Date operations commenced:
   e) Value of total sales (last year)
   f) 4e) as % share of host country market:
   g) Projected future share of this market:
   h) Balance sheet value of assets and reserves (last financial year)
      i) Current assets:
      ii) Fixed assets:
      iii) Reserves & surplus:
      iv) Other assets:

5. What is the current distribution of equity and debt holding in these JVs: (Please complete for each JV)

<table>
<thead>
<tr>
<th>Total Value</th>
<th>% of total value held by</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Your Company</td>
</tr>
<tr>
<td>a) Equity: Voting Non-voting</td>
<td></td>
</tr>
<tr>
<td>b) Debt over 3 years:</td>
<td></td>
</tr>
<tr>
<td>c) Debt 3 years or less:</td>
<td></td>
</tr>
</tbody>
</table>

6. Have there been any significant changes in the above distribution since the JV was set up? (Please describe)
7. How much of your participation in the capital of the JV was in the form of:

<table>
<thead>
<tr>
<th>Initially</th>
<th>Subsequently</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>a) Machinery, plant, equipment:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>b) Technical services:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>c) Patents, licenses, information:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>d) Cash:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>e) Other: (Please specify)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

8. What services have been contracted with the JV by your company or by other associates: (Please indicate by whom and the basis of the contracted return)

<table>
<thead>
<tr>
<th>Basis of contracted return</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fixed Fee or Agreed price</td>
</tr>
<tr>
<td>-----------------------------</td>
</tr>
<tr>
<td>a) Management:</td>
</tr>
<tr>
<td>b) License:</td>
</tr>
<tr>
<td>c) Technical assistance:</td>
</tr>
<tr>
<td>d) Distribution/Marketing:</td>
</tr>
<tr>
<td>e) Contract manufacture:</td>
</tr>
<tr>
<td>f) Turn-key or setting up:</td>
</tr>
<tr>
<td>g) Sale of materials/intermediates:</td>
</tr>
<tr>
<td>h) Other (Please specify):</td>
</tr>
</tbody>
</table>

9. What are the names of your associates in this JV: (Please indicate after each one their % share in the JV's capital if this is not obvious from Question 5 above)

10. Where these associates are companies, please give an estimate of their:

<table>
<thead>
<tr>
<th>a) Total assets:</th>
</tr>
</thead>
<tbody>
<tr>
<td>b) Annual turnover:</td>
</tr>
</tbody>
</table>

And some indication of their chief products or activities:

11. From what source has any significant expansion of the JV been financed:

<table>
<thead>
<tr>
<th>Total</th>
<th>% coming from each source below:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value</td>
<td>Your firm</td>
</tr>
<tr>
<td>-------</td>
<td>-----------</td>
</tr>
<tr>
<td>a) Reinvested earnings:</td>
<td></td>
</tr>
<tr>
<td>b) Other equity:</td>
<td></td>
</tr>
<tr>
<td>c) Other liabilities:</td>
<td></td>
</tr>
<tr>
<td>d) Capitalisation of reserves:</td>
<td></td>
</tr>
<tr>
<td>e) Other sources:</td>
<td></td>
</tr>
</tbody>
</table>
12. Please provide as far as possible, the profitability figures for the JV's activities in the years listed below: (last 5 years if years below unavailable)

<table>
<thead>
<tr>
<th>Financial Year</th>
<th>Earnings before local taxation</th>
<th>Earnings net of local tax</th>
<th>Income distributed</th>
<th>Income repatriated to your company</th>
</tr>
</thead>
<tbody>
<tr>
<td>1946</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1956</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1964</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1965</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1966</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

13. Please provide as far as possible, details of charges paid by the JV to your company for the reasons listed in each of the years below: (or last 5 years)

<table>
<thead>
<tr>
<th>Financial Year</th>
<th>Interest</th>
<th>Royalties</th>
<th>Fees for Know How or Management</th>
<th>Other Charges</th>
<th>Capital Repatriated</th>
</tr>
</thead>
<tbody>
<tr>
<td>1946</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1956</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1964</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1965</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1966</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

14. How many people of each nationality are employed in the JV at each level below:

<table>
<thead>
<tr>
<th></th>
<th>Chief Exec.</th>
<th>Directors</th>
<th>Managerial</th>
<th>Supervisory</th>
<th>Other Employees</th>
</tr>
</thead>
<tbody>
<tr>
<td>a) Local Nationals:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>b) British:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>c) American:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>d) Other Foreign:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

15. Who in your company is responsible for activities connected with this JV: (Please specify position and department or division)

16. Is your company involved in any JVs in other countries? (Please list)
Section Two - Selection and Decision Criteria

17. Why was this particular host country chosen? (Please mark (1) for the most important reason and indicate 2nd, 3rd, 4th, etc. reason as appropriate)
   a) Developing new market:
   b) To overcome tariff barriers:
   c) Future protection for existing market:
   d) Matching competitors (Please name):
   e) Geographical diversification:
   f) To obtain raw materials:
   g) Political stability:
   h) Host Govt. attitude:
   i) Using patents/licenses:
   j) Facilities/Resources available:
   k) Lower cost conditions:
   l) Host Govt.’s tax incentives:
   m) Other reasons: (Please describe)

18. How was this country chosen:
   a) After an international survey of opportunities:
   b) After a prior survey of this country:
      (Please indicate after a) and b) who carried out any such survey)
   c) How long did any such surveys take:
   d) Information from an external (to your company) source:
   e) If d) above, what was this source:
   f) Any other method/source of information: (Please describe)

19. Who made the first approach or suggestion regarding a JV, and in what year:
   a) Your company:
   b) Year:
   c) One of the current associates: (Please specify)
   d) Year:
   e) Some other party: (Please specify)
   f) Year:

20. Was anyone in your company familiar with: (Please describe the person(s) and the reasons for their familiarity)
   a) The host country:
   b) Potential associates:

21. How long did the commitment decision take:

22. Is this longer/shorter than, or normal for such a decision in your firm:

23. If longer or shorter, please comment:
24. How did the initial contact with/consideration of your associates originate:

25. What were the reasons for your selection of your associates: (Please mark reasons (1), (2), (3), etc. in their order of importance)
   a) Pre-empted (i.e. existing Govt. license holder): 
   b) In the same line of business as the proposed JV: 
   c) Resources/Facilities complementary to those of your firm: (Please describe) 
   d) Favourable past association (i.e. agent, licensee): (Please describe) 
   e) General soundness and standing: 
   f) Other reasons: (Please discuss)

27. What other potential associates were available:

28. Why were they rejected/Why did they drop out:

29. What "vetting" was carried out and from whom were any references received:

30. Why was the JV form chosen by you for this operation: (Please mark reasons in their order of importance)
   a) Host Govt. regulations or pressure: 
   b) Spread risk: 
   c) Convenience of associates complementary resources/facilities: 
   d) Associates' established control of resources/facilities/channels of supply or distribution made the association necessary: (Please describe)
   e) Better access to loan funds/capital/preferential treatment by Govt.: (Please describe) 
   f) Easier to establish identity as "local" concern: 
   g) Other reasons: (Please describe)

31. Who was the driving force in your company in favour of the commitment decision:

32. Who made the commitment decision: (apart from final Board approval)
Section Three – Organisation and Control

33. What responsibilities do your associates assume and in what areas: (Please indicate for each function whether they assume full, joint, or no responsibility, also whether they supply the executive responsible. If they have no specific responsibility under the agreement, please indicate whether they are helpful: very often, rarely, or occasionally. Please comment upon any issues which you feel are not brought out adequately by this simple framework)

<table>
<thead>
<tr>
<th>Function</th>
<th>Assume Agreed Responsibility</th>
<th>Supply Exec.</th>
<th>Helpful V.Often</th>
<th>Helpful Occ.</th>
<th>Helpful Rarely</th>
</tr>
</thead>
<tbody>
<tr>
<td>a) Marketing &amp; Distribution:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>b) Purchasing &amp; Procurement:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>c) Technical &amp; Engineering:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>d) Production</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>e) Administration &amp; Control:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>f) Financial (incl. obtaining capital):</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>g) Recruitment &amp; Personnel:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>h) Relations with Govt. &amp; Authorities:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>i) Public Relations:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

34. Have conflicts arisen with your associates over the following issues: (Please discuss)
   a) Reinvestment:
   b) Increasing investment:
   c) Growth rate of sales:
   d) Growth rate of profits:
   e) Transfer pricing of materials/intermediates:
   f) Other sources of return to your company:
   g) "Unbusinesslike" behaviour:
   h) Different criteria for evaluating performance:
   i) Other issues:

35. Do you feel that your associates are effective participants in this JV:
36. What influence does your company actually exert and what influence would you like to exert upon this JV in the following areas of decision-making and managerial policy? (Please indicate whether the JV makes major decisions in each area either independently, after consulting you for advice, or only after your specific approval. Please mark in the appropriate column (D) for what the JV actually does, and (S) for what you feel that it should do. It would also be very helpful if you would comment upon any of the criteria which you use in defining a major decision.)

<table>
<thead>
<tr>
<th>JV makes Major decisions</th>
<th>Comments on any Criteria used</th>
</tr>
</thead>
<tbody>
<tr>
<td>Subject to Approval</td>
<td>After Consultation</td>
</tr>
</tbody>
</table>

a) Capital expenditure:

b) Pricing:

c) Dividend policy:

d) Organisation:

e) Product selection, design, or planning:

f) Production planning or control:

g) Quality control:

h) Marketing & Sales:

i) Purchasing:

j) Costing methods:

k) Budgeting and budgetary control:

l) Financial accounting procedures:

m) Wage and labour policy:

n) Selection, promotion, compensation of executives:

o) Training:

p) Administrative and supervisory techniques:

q) Recording/reporting procedures:

37. How are any conflicts which arise between your company and your associates or the JV itself resolved:
38. What degree of control does your company feel to be necessary before participating in a JV? (Please indicate whether necessary (N), desirable but not necessary (D), acceptable (A), or not acceptable (U). Also whether this policy applies to all JVs, only to JVs in the less-developed countries, or only to this JV. The following are a list of possible permutations, none of which may accurately reflect your firm's policies. If they do not, please describe this policy)

<table>
<thead>
<tr>
<th></th>
<th>All JVs</th>
<th>JVs in LDCs</th>
<th>This JV only</th>
</tr>
</thead>
<tbody>
<tr>
<td>a) Equity majority of over 75%, either direct, or with reliable fellow interests:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>b) Equity majority, direct or with fellow interests</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>c) Agreed Board majority:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>d) 50/50 equity holding + management contract:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>e) Minority equity holding + management contract:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>f) No fixed equity requirement, reliance upon:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>JV's need for i) Patents/licenses:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ii) Technical assistance:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>iii) Future R&amp;D results:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>iv) Materials or equipment:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>your firm's control of</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>v) Quality or SOPs:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>vi) Distribution:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>g) No fixed requirements, reliance upon</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>&quot;friends in court&quot;, possibly obtained by your firm's willingness to accept a minority position in a &quot;local&quot; company:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>h) Careful selection of suitable associates the only major criterion:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>i) Any other permutation which is more suitable according to your company's needs or experiences:</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Section Four - Evaluation

39. How does your company evaluate the performance of this JV:
   a) In terms of return on investment:
   b) What is the minimum acceptable level
   c) In terms of % overall profit (before or after local taxes?):
   d) What is the minimum acceptable level:
   e) Rate of growth of sales: (Please describe)
   f) Achievement of other scheduled objectives: (Please describe)

40. Are the acceptable levels indicated in 39.b) or 39.d), or implied in 39.e) or 39.f) higher/lower than, or the same as in:
   a) Your company's parent country:
   b) Other developed countries:
   c) Other less-developed countries:

41. What is the cost or loss to your company, if any, of carrying out business in this host country through a JV, as compared with a subsidiary:

42. How important are local associates to the success of:
   a) This JV:
   b) JVs in less-developed countries in general:

43. Is your company satisfied with the manner in which this JV was set up and developed, and its present operations: (Please mention any points which you feel may not have been adequately brought out in this questionnaire)

44. Would your company participate in other JVs:
   a) In the country of this study:
   b) In other less-developed countries:
   c) In developed countries:
45. Do you feel that JVs are a satisfactory form of enterprise for carrying out business in less-developed countries when the other associates are from: (Please comment)

a) Your company's parent country:

b) Other developed countries:

c) Private sector interests in the host country:

d) The host Govt. or its agencies:

e) The "general public" in the host country ("jointness" being here used in one of its widest senses):
Section Five - Political and Economic Environment

46. Please comment upon any effects which the host Govt.'s policies, or its actual application of those policies, have had upon the operations of the JV, its plans for expansion and its competitive position. In particular, in the following areas:

a) Methods of allocating foreign exchange:

b) Allocation of import licenses:

c) Application of import duties:

d) Allocation of manufacturing licenses:

e) Regulations or pressure for exporting:

f) Regulations or pressure against profit levels:

g) Regulations or pressure against proposed or actual payments or returns for patents, licenses, or technical assistance:

h) Remittance of profits or repatriation of capital:

i) Employment or salaries of expatriates:

j) Taxation policies:

k) Special attitudes towards the private sector:

l) Special attitudes towards foreign investors:

m) Intervention on political grounds:

n) Intervention on social or cultural grounds:

o) Any other areas:
Books, Brochures and Monographs

Aharoni, Yair, *The Foreign Investment Decision Process*, (Division of Research, Graduate School of Business Administration, Harvard University; Boston, 1966).


Basi, Raghbir S., *Determinants of United States Private Direct Investments in Foreign Countries*, Bureau of Economic and Business Research, Printed Series No. 3, (Kent State University; Kent, Ohio, 1963).


---, *Industrial Enterprise in India*, (Longmans; New York, 1961).


——, *Supplement to Foreign Enterprise in India*, (University of North Carolina Press; Chapel Hill, 1966).


Liander, Bertil, (ed.), *Comparative Analysis for International Marketing*, (Allyn and Bacon; Boston, 1967).


Nigam, R.K., *Managing Agencies in India (First Round: Basic Facts)*, (Government of India, Ministry of Commerce and Industry,
Department of Company Law Administration, Research and Statistics; New Delhi, 1958).


Robinson, Harry J., The Motivation and Flow of Private Foreign Investment, (International Development Center, Stanford Research

--- *Some Aspects of Industrial Finance in India*, (Asia Publishing House; Bombay, 1962).

Rowan, Sir Leslie; Loudon, J.H.; Campbell, Sir Jock; Gaitskell, Arthur; Clarke, William, *Investment and Development - The Role of Private Investment in Developing Countries*, (Overseas Development Institute; London, 1965).


--- *Foreign Capital in India, Pamphlet No. 11*, (Eastern Economist; New Delhi, 1951).


Buchanan, Daniel Houston, *The Development of Capitalistic Enterprise in India*, (Macmillan; New York, 1934).

Articles, Chapters, Addresses, Papers, Periodicals.


Singh, B.K., "Incentives In The Indian Tax System", All-India Congress Committee Economic Review, 25 November 1964.


Government Publications and Records.

Government of India:
Industrial Policy Resolution, 6 April 1948.
Prime Minister of India, Policy Statement to Parliament On Foreign Capital, 6 April, 1949.
Industrial Policy Resolution, 30 April, 1956.
Press Note on Foreign Capital, 8 May 1961.
Indian Companies Act 1956, as amended. Sections cited: Schedule 1, Table A; Sec. 4(7); Sec. 2(26)
Capital Issues Control Act, 1947, Section 12 cited.
Indian Constitution. Articles cited: Article 19 (1)(f); Article 37.
General Clauses Act. Section 3 (42) cited.

Government of Pakistan:
Resume - James William Christopher Tomlinson

Personal Data
Born February 15, 1932, in India    Married, three children
U.K. citizen    U.S. Immigrant
Lived in India until 1945, completed schooling in England
National Service with British Army in Germany, 1951-1953; rank - Lieut.

Education
The Queen's College, Oxford, 1953-1956; M.A. in English.
Main subject area - International Business
Background areas - International Economics, Sociology and Social Psychology,
Anthropology and Social Change.
Dissertation - 'A Model of the Joint Venture Process in International Business'.
Sloan School of Management Scholarship - 1965.
Research Assistant, 1965-1966, to Professor J.D. Nyhart. Analysis of the operations of development finance institutions. Preparation of a directory of DFIs for the OECD.

Industrial and Teaching Experience
British Celanese Ltd. and Courtaulds Ltd., 1956-1960
Assistant to the manager of a textile finishing plant.
Work study officer with assignments in textile finishing, plastic film and sheet production and finishing, transport reorganisation.
Secretary of a Committee set up to reorganise Work Study Practices in Courtaulds' Yarn Mills Group and Acetate Division.

Oxford College of Technology, 1960-1964
Lecturer, later senior lecturer, in management. Responsible for setting up, teaching and administering courses in Work Study, Production Management and Marketing.
At the same time, carried out a number of assignments as a management consultant to local firms in the Oxford area, including projects
Resume - J.W.C. Tomlinson (continued)

in the following fields:
Production control system and incentive scheme for a paper mill and a manufacturer of pre-cast concrete buildings;
Preventive maintenance system and craftwork incentive scheme for a paper mill;
Market analysis, reorganisation of trading and marketing policy and introduction of a control system for a grocery chain;
Choice of location for a new bindery and warehouse for a printing firm and publisher.

Massachusetts Institute of Technology, 1967-1968
Instructor in International Business in the Sloan School of Management.

Manchester Business School, 1968-
Visiting senior lecturer in international business.

Publication