INTERNATIONALISATION OF INDIAN BUSINESS

M. K. Raju

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"Free Enterprise was born with man and shall survive as long as man survives."

—A. D. Shroff
1899-1965
Founder-President
Forum of Free Enterprise

INTERNATIONALISATION OF INDIAN BUSINESS*

M. K. Raju

A. D. Shroff belonged to a generation of Indians who believed in a free economy conducive to overall national development. They took the initiative, exhibited qualities of leadership and earned the respect of the country for their independent views.

They knew India's inherent strength - abundant supply of raw materials, intelligent people with abilities second to none and a large domestic demand. They were of the opinion that there was no reason why India cannot be in the forefront of industrial nations. and eradicate poverty in a reasonable time.

Then what happened during the past thirty years? Undoubtedly, we had made commendable progress in building a large industrial base with self-sufficiency from'nail clippers to nuclear reactors. The question is not what progress we have made but what progress we could have made with the right policies and the right approach to industrial development.

The topic of my lecture is "Internationalisation of Indian Business". It is not my desire to cover the balance of payment position or the trends in our exports and imports. What I am concerned with is tho role the Indian industrial entrepreneurs can play in promoting joint ventures in the developing countries. How best can we transfer technology and render technical assistance? How well can we develop Indian joint ventures as a part of our regional/global strategy? How

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can we compete with other countries? What has been our progress so far? How does it compare with other developing countries?

Indian Joint Ventures around the world, especially in Asia and Africa, were initiated over a decade ago with great hope and promise. As of December 1, 1978, 345 joint ventures had been approved. It covers 43 countries, six geo-political regions and a broad industry classification — cement, chemicals, consultancy, construction, drugs, electricals, engineering, hotels, paper, sugar, textiles and so on. India so far has invested about Rs. 700 million and the joint ventures received wide acclaim.

Let us now assess the record of performance. Of the 345 projects approved, 107 units (31%) were implemented and in production, 89 projects (26%) were under implementation and 149 projects (43%) ,were abandoned. Given the goals established by the joint ventures, the abandonment rate of 43% is high.

It would be helpful if we could examine a fair cross-section of the joint ventures in some depth at least in one country, to see in detail how well they are performing. Our company has had the privilege of making such a multi-client study in depth in a South-East Asian country which has a sizable number of joint ventures. The details of the study must remain confidential, since it was based on the inside knowledge of a number of companies. However. the conclusions of the study as they reflect back the present status of the Indian Joint Ventures, looked from a variety of angles, need not be held confidential, as much of it is based on published data and they provide an unusual perspective on the joint ventures.

In the survey of 23 manufacturing units operating in one host country, only 2 (10%) may be termed as profitable, (where profits as percentage of sales exceed 5%), five (22%) barely profitable and 16 (70%) non-profitable, incurring cash losses.

This means that 90% of the firms, which have commenced production are in serious financial trouble or vulnerable. Without the generous support of the banks, many of them would have had no option but to cease operations.

The political implications of failure of Indian joint ventures are serious. The investments from the host countries comprise of trade unions, state Government, financial institutions, apart from the elite of the country, holding key leadership position in the Government at the State and Federal levels.

Of the 23 firms studied, 10 firms have negative equity due to losses, 4 have a debt-equity ratio of more than 3. Or in other words, fourteen out of the twenty three (60%) owe so much to the bank, that it would not be wrong to say the bank owned them.

On the basis of the broad performance as per our study, the problem of Indian joint ventures appears to be generic and pervasive. The performance across the board is poor. Political and social implications of failure of Indian joint ventures are serious. Not only would this damage India's industrial image and our ability to forge additonal ties, but it could impede our progress in other countries.

It is in our interests to develop broad policy solutions to the problems rather than cosmetic piecemeal changes. We have to examine the causes for failure and possible corrective action rather than find scapegoats. We can then develop policy recommendations.

We find there are many current alternate diagnosis of the causes of poor performance of Indian joint ventures.

They can be graded under four basic hypothesis :

** First, the interest burden carried by Indian Joint Ventures is such that it cripples their ability to readjust their strategy. Further, these ventures are 'cash starved' because Reserve Bank of India did not allow (until 1978) Indian partners to bring fresh resources and the host country partners were unwilling to invest additional funds without

a matching Indian contribution, This is the 'interest' burden argument.

** The marketing channels are controlled by vested interests who do not like to carry products made by the Indian Joint Ventures. This is 'invisible non-tariff barriers to entry' argument.

** Most of the Indian Joint Ventures were set up on the assumption that they would obtain protection from the host Government by way of tariffs and import restrictions. Without this support, joint ventures become vulnerable through price competition. We may call this 'lack of protection' argument.

** Commitment of the Indian partner is at best marginal. More often, the support received by the joint ventures - technical, managerial and financial - was indequate or too late in coming.

While these arguments are the most often repeated reasons for failure of Indian Joint Ventures and may even accurately account for failure in specific cases, our analysis suggests that the problem is more complex and multi-dimensional. The four popular hypothesis at best represent symptoms rather than causes.

A survey of the joint ventures of the large industrial houses on a global basis reveals that 75% of equity comprises of machinery supplied from India. Technical know-how fees and expenses cover nearly 24% and cash as low as 0.44%, or, in other words, there was practically no cash inflow from the Indian partners of the joint ventures. Even the equipment, in most cases, did not constitute a cash outlay of the Indian partner, as it was purchased on deferred terms through loans from IDBI. The joint ventures are thus "cash-starved" even at the stage of conception, regardless of how healthy the balance sheet may appear on paper. This was further aggravated by the fact that Indian partners tended to withdraw cash due to them as royalties and dividends. "Cash squeeze" in many cases became a "cash crisis" and but for the support of the banks, they would have gone bankrupt.

While some joint ventures were well managed, many of them are hampered by poor management. Confronted with cash shortages, price competition, superior quality products from abroad, Indian joint venture managers, in total disregard to long-term strategy, or financial viability, changed their business mix, product mix, prices, costs, volume and technology opportunistically. Changes in business mix and business emphasis per se may not be wrong but these changes reduced profits or resulted in losses.

In order to evaluate the hypothesis that Indian joint ventures face unfair external competition, "invisible barriers to entry" due to prejudice of vested interest groups, and unprofitable operations due to change in export markets, we made paired comparisons of firms in the same industries in terms of scale of operations, level of technology, product mix and distribution patterns. In each pair, one was sick and the other very successful. These comparisons provide, if not in a statistical sense, at least a basis on which to question the appropriateness of these explanations for poor performance. In the case of two textile mills, both of them Indian joint ventures, under identical operating conditions - one is very successful and the other almost bankrupt. The more successful is the smaller of the two but better managed in all respects. **A** depth analysis of the latter highlights the causes of poor performance to the incompetence of the management.

Yet another example of inefficient operations 'management can be the rapid decline of a consumer products joint venture, set up by one of the large groups in India. After several years of unsuccessful operations, it went into receivership. The bank negotiated with a local Chinese group, under whose management the company turned the corner in less than six months. The plant is now operating at full capacity and the new management is launching- a major expansion. When the new company took over, they segmented the market, commissioned all equipment, achieved full capacity utilisation, developed their own brands and distribution, launched an advertising theme, introduced comprehensive financial controls and it was a major

transformation from failure to success, all in a period of 12 months.

In addition to poor operations management, we found that in many cases, the commitment of the Indian partner to the success of the joint venture was questionable.

Some joint ventures were initiated with chief executives, who have had ho operating experience, much less adequate experience to manage a joint venture. While the Indian partner was expected to provide technical know-how, few, if any, technicians visited the host countries. In one of the plants visited, the Indian expatriates complained that top management which had a regulation for tight management controls for some strange reason, would not spafe a senior technician for even a month, despite the fact that the joint venture had serious technical problems. Most often it was the chief executive of the Indian parent who visited the host country for board meetings.

There was little flow of documentation, exchange of technical people or training. Except 'for a few large organisations like Tatas, Kirloskar, Godrej, many Indian partners did not create the organisational support at the home office needed to adequately Service the joint venture. As a result, moist often it was almost impossible for the Indian expatriates to get adequate or 'timely resolution of the problems — technical, marketing or financial — faced by the joint venture.

While the above observations are not based on hard quantitative data and are primarily based *on* interviews with executives — Indian expatriates in the joint ventures — they nevertheless represent a major cause of poor performance.

With the exception of a few, to most Indian entrepreneurs, joint ventures abroad represented their first exposure to the problems of operating in a different economic environment. As a consequence, they were unable to make, in advance, changes in the operating assumptions of their business. This led to some very unpleasant surprises.

A typical Indian entrepreneur is accustomed to operating in an environment characterised by tariff walls, which protect him from foreign competition; a domestic demand exceeding supply, which ensures continued profitability; a relatively small scale of operations, which resulted in lower levels of technology and higher unit costs than those enjoyed by his foreign counterparts; and high levels of debt-servicing capability as a result of generous and assured margins; and a low level of product innovation. In other words, India represented a safe profit sanctuary to the entrepreneur because of the multiplicity of country's regulations. The operating assumptions developed over the years in the Indian environment were transferred to other countries, by most joint ventures, but without an explicit examination of their assumptions.

In assuming project viability, Indian entrepreneurs have sought tariff protection instinctively. For example, Indian joint ventures in some of the South-East Asian countries asked for protection and received assurances that reasonable protection would be given. But entrepreneurs interpreted this to mean "sufficiantly high to protect their venture, even if it is inefficient" as well as "for all time". These two assumptions turned out to be at the root of financial problems for several joint ventures.

In a situation where demand exceeds supply, entrepreneurs do not often estimate the impact of low levels of utilisation on earnings or the impact of price competition and consequent erosion of margins. In the absence of effective competition, upward price adjustments can often be made to compensate for lower volumes.

In one project, at a level of 60-70% utilisation, the project is simply not viable in a fiercely competitive market. A similar plant in India would have survived at 60% utilisation simply by upward adjustment of prices.

In yet another company, an analysis of the project assumptions reveal that, with a 40% cost overrun, return on investment becomes negative.

In none of the projects we examined, was there even a rudimentary attempt to explicitly examine the extent to which the impact of project viability was vulnerable to changes in critical assumptions such as mix, volume, cost. prices and investment.

Debt-Equity norms accepted as safe, over a period of time, mirror the competitive structure of the industry and the "openness of the environment."

Joint Ventures are heavy on debt even by Indian parent standards suggesting that the risk is greater, whereas the debt-equity of local companies are far better than the Indian joint venture. Indian parent and even the Indian banking system.

A high level of debt implies a low tolerance of sufficient fluctuations in price and volume. In a competitive market. these fluctuations can happen at any time. By the very nature of the capital structure, the Indian joint ventures are extremely vulnerable to competitive pressures.

The cornerstone of India's industrialisation strategy was import substitution. This strategy implied that the relevant market was the domestic market; size of the plant and level of technology should be adequate to service the domestic market; cost of production relative to other large-scale producers of similar products were not relevant, with protective tariffs; government regulated not only the number of competitors, their scale and technology but often industry prices as well.

These implicit assumptions are so well entrenched in the psyche of the Indian entrepreneur and policy-makers that they are seldom examined, even when they venture abroad. Even exports are based on technologies and volumes originally intended for the domestic market. The Indian joint ventures abroad mirror these assumptions. All of them initiated their projects and continued to work on the "domestic market only" assumption. The domestic orientation resulted in 17,000 spindles, 20,000 pistons and 500 diesel engines per month plants.

The technology that India is familiar with is, in many cases, best described as low volume, high unit cost technology. This gives flexibility in production and allows for many models and types, even if the overall volume is small. That is why, typical plant capacities in India are 20,000 motor cycles, 25,000 cars, 10,000 diesel engines, 30,000 TV sets and 100.000 refrigerators. In glaring contrast, the typical plant capacity of products in some of the other developing countries and global markets are 1.2 million motor cycles, 150,000 cars, 120,000 diesel engines, 600,000 TV sets and 1.2 million refrigerators.

Because engineers, marketers, top management, Government and the politicians are so oriented to small volumes, they are callously insensitive to cost advantages of producing for the regional or global markets in large volumes. This has led to two distinct disadvantages in joint ventures:

i. They have so far been unable to develop a scale of operation that would exploit the regional, global markets. In fact, none of the firms we talked to had even thought seriously of this option.

ii. They were consistently forced to compete with Korean. Taiwanese and Japanese firms which had considerable lower unit costs, because of scale. Given their inherent inability to reduce costs, because of the choice of scale of technology, they had only recourse to tariff protection.

The choice of technology can be a crucial factor in the long-term viability of the project. Indian joint ventures by implication landed in low volume, import substitution strategy. They gave up the opportunity to become regional and global with high volumes; they were caught in low volume production in a highly competitive market, leading to poor financial performance.

A joint venture firm must have the ability to weather and recover from unpleasant business surprises. It is related to the financial management and technological resources of the firm. In developing joint venture proposals, rarely do

the Indian entrepreneurs evaluate their strategic staying power.

The questions, "what if things do not go right and how much additional resources — financial and managerial — can I commit" to the joint ventures are seldom asked.

While we have examined the meagre financial resources available to the Indian Joint Venture, it is fair to say that several Indian partners were "small" even in India by Indian standards.

More important than the financial resources are the technical and managerial resources. For example, no more than five units had an R & D budget and staff. While all of them might employ quality control staff, capabilities for product development, adaptation and improvement were very limited.

While most of these firms had mastered the art of manufacturing a given product on the basis of technologies borrowed from other countries, they developed very little capacity for innovation internally.

As a result, when a scaled down duplication of the Indian facility did not meet the requirement, the Indian parent firm did not possess a pool of talent, which could be used to help the joint venture management. The scarcity was not just in the area of technology, manufacturing and design skills but also in marketing and finance.

In short, the typical Indian joint ventures has few strategy options. If all the assumptions made in the project report have been realised, we would have had several success stories. But when these firms had to reckon with difficulties. they had few options.

Thus the poor performance of the Indian Joint Ventures can be attributed at least in part to their inability to recognise the old paradigms developed in India. However, the Indian Joint Ventures represent the first concerted move by Indian industrialists abroad and as such both suffer from errors in judgement and ability to manage. Both these drawbacks, however, can be corrected.

The Indian entrepreneurs deserve praise for venturing abroad in the context of severe resource and regulatory constraints. It must also be stated, however, that as a group, the Indian entrepreneurs have not attempted to evaluate their experiences in overseas manufacturing in the joint venture mode. As late as February 1979 the Federation of Indian Chambers of Commerce and Industry in its report "Workshop on Indian Joint Ventures and Project Exports". its fourth meeting on the subject, observes that industries need a check list of do's and don'ts. They went on to say, "while doing so, a study should be made as to how a multinational corporation succeeds in operating overseas ventures". Indeed. The volume of information, case studies and know-how available on MNC operations is so enormous and so easily accessible that this recommendation would come as a surprise to most MNC managers, scholars and consultants familiar with the subject.

Our study on a number of joint ventures in South-East Asian countries raises the following issues for consideration by Indian industrialists.

The impetus given by the Government of India to the concept of Indian Joint Ventures was clearly triggered by two events — a capital goods recession in India during the period 1969-1972 and a severe foreign exchange crisis. All regulations that governed the Indian Joint Ventures clearly reflected the desire of GOI to find outlets for idle capacity in the machine tool industry and to earn foreign exchange. Notwithstanding the objectives of industrial collaboration with developing countries which were enunciated, the approach was one of "expediency". This orientation has not changed, even though the foreign exchange situation in 1979 was quite comfortable at $ 15,446 million. As late as February, 1979, the Additional Secretary, Ministry of Commerce and Chairman of the Interministerial Committee on Joint Ventures reaffirmed the earlier concept. "Joint Ventures was mainly an ***export promotion*** measure and to the ***extend*** possible, our equity participation should be in the form of supply of machinery and know-how."

It is surprising that no formal attempt was made by industry either through FICCI or AIMA to call attention to the implications of the short-term approach by the Government of India, even after 10 years of experience with joint ventures, most of it not pleasant. The concentration of industrialists is on procedural fine-tuning and not on examining the basic concept of Indian Industrial collaboration with other countries.

While GOI thrust was characterised by expediency, the Indian entrepreneurers' move was characterised by "Opportunism". Internationalised operations in most firms were preceded by scanty preparation. It means a study of competitive structure in the host country, the choice of expatriate managers or the development of a organisational support base for the joint venture. It appears that project feasibility apart, the motivation to internationalise operations was clouded by short-term foreign exchange considerations. Even before the joint venture could take roots, it was perceived as "a foreign exchange generator" through either the export of raw materials, technical fees or royalties.

This short-term orientation of GOI and most of the Indian industrialists who set up joint ventures meant that inadequate attention was paid to strategic and managerial considerations. India's strategy in industrial collaboration is unclear and does not have any operationally relevant component other than earning of foreign exchange. The strategy of specific Indian joint ventures was equally unclear. Most of the expatriate managers were so concerned about staying afloat that they did not have a "vision of where they wanted to go", in some cases they even wondered "why we are here."

The comparative advantage that Indian firms have over others, notably multinationals operating in developing countries, is believed to be a result of the ability of Indian industry to make available "intermediate" or "appropriate" technologies. These are technologies that are not capital — intensive but are easy to operate and economical at small volumes. These technologies also use labour in preference

to capital. This argument has gained so much currency that it merits our serious attention.

The unique advantage of appropriate technology that Indian joint ventures can provide to a developing country can be understood only in the context of the structure of competition in that country, as well as in the context of the strategy of its government with respect to that industry.

We can identify five sources of competition — local firms; joint ventures from other developing countries like Korea, Taiwan and Hong Kong; joint ventures with MNCs from the developed countries like Japan, USA. UK and Germay; MNC subsidiaries; and imports.

It is in the context of this .structure that comparative advantages of Indian joint ventures ought to be evaluated. In the Indian environment, there are for all practical purposes only three types of competitors; local firms with no collaboration; firms with some form of MNC collaboration (joint ventures, technical agreements, licences) and MNC subsidiaries. As the government strictly controls imports of raw materials and technology, and as in most industries production capacities of individual firms are monitored and controlled, there is very little room for strategic surprises. This situation does not apply in other developing countries, particularly in South-East Asia. Strategic surprises caused by new technology, new products, increased capacity, reduced prices and increased imports.can all happen. Most of the Indian Joint ventures we studied are totally unaware of the extent of competitive activity — both current and potential.

In a dynamic developing country ***market*** environment, does the Indian Joint Venture have a defensible comparative advantage? MNCs have technological superiority, better product image, brand loyalty, advertising savvy and superior financial and management resources. Joint Ventures with MNCs have access to the same set of skills and resources. **Indian** Joint Ventures do not, as a rule, have unique technologies or patented products and processes. Neither do they

have strong brands and distribution capabilities. Their primary advantage is often one of "price".

This price or cost advantage may relate to the Indian entrepreneurs' ability ta substitute labour for capital and/or to reduce the total unit cost of the product through a combination of lower wages, lower expatriate management casts, and lower capital costs.

Irrespective of the source of these cost advantages, the total unit cost for the Indian Joint Venture must meet two criteria to be successful.

a. The unit cost. given scale of production, technology and management structure must be considerably lower than that obtained by other competitors, including imports.

b. The Indian Joint Ventures must be able, to defend its advantage against a price war, against heavy advertising and promotional campaigns by competitors, and against new product introduction.

Most of the Indian Joint Ventures fail bath these tests, as revealed by our comparison, af unit costs of plants operating at optimum capacity for a variety of products — one an Indian Joint Venture and the other a local firm involved in the production of the same product.

Even the Indian Joint Ventures which started with an initial comparative unit cost advantage made very little attempt to maintain and defend it in the context of increasing competition. For example, in the Indian Joint Ventures we studied, there was little, if any, attempt to invest in a distribution system, develop a brand loyalty, invest in new product development, increase the market share and .productivity. The above are some of the indicators of strategic malnutrition. The consequence is that even units which have been in operation for more than five years have a defensible position. Their viability continues to be in doubt.

Further, there was no organisational set up — international division in India to focus attention on the problems of the joint venture.

Three emerging issues merit the attention of Indian industrialists in formulating their strategy in South-East Asia — the national industrialisation strategy of the host country, the potential for Indian firms to develop a regional (rather than individual host country) perspective and the choice of scales and technology to match the two.

It is important to recognise that most developing countries in South-East Asia have more than one role model on which to pattern their developmental effort. India represents an "import substitution self-sufficiency oriented" model, based on protection to the local industry. Singapore and Hong Kong represent an "export substitmion-oriented" model of development. South Korea and Taiwan represent a "hybrid export oriented". selective in the choice of industries, and careful in regulating the activities of MNCs. If we compare these models for emulation by others — Malaysia, Thailand, Phillippines, Indonesia and Sri Lanka— the relative attractiveness of each becomes apparent.

Given alternative models, countries in South-East Asia may not follow an "import-substitution" strategy, as did India. They also may not follow the rationale of "self-sufficiency" in everything from nail dippers to nuclear reactors. This implies each country may develop a unique strategy for each of its Eey industries rather than a blanket approach. It is important to understand the correct thinking of the host governments as well as to anticipate changes in the postures of key industrial sectors where we want to participate — textiles, chemicals, consumer products etc.

The emergence of ASEAN is yet another factor which influences the strategic choices open to Indian entrepreneurs. The ability to cater to the regional market involves substantially larger volumes as well as competition from MNCs, who will be attracted to the volume that represents.

Suffice to indicate that industrialists should not assume that the models of development used by other countries are going to mirror India's approach. As such, sensitivity to the strategy of industrialization in the host country and the region is crucial to an evaluation of 'the applicability and

adequacy of Indian technology and know-how. Secondly, once this evaluation is made, Indian industry must develop pragmatic approaches to acquiring the technology and management expertise appropriate to a viable strategy for participation in the growth of South-East Asia.

The Government of India's entire approach to ventures abroad has been dominated by one concern — earning of foreign exchange. Regulations were developed, no doubt, at a time when the foreign exchange situation was very difficult. As a result the implications of these regulations on strategic and managerial performances have received little or no attention at all.

The abandonment rate for Indian Joint Venture continues to be about 45%, a very high rate by any standard. This might indicate that either Indian entrepreneurs do not adequately research the proposal and withdraw when forced to deal with "unforeseen circumstances" or are not fully committed to the proposals. This also indicates that there is nothing in the GOI regulations which promotes careful business evaluation other than the foreign exchange earnings. Clearly there are no penalties for abandonment. A 45% rate of abandonment does not breed confidence in Indian joint ventures among foreign government or potential partners. Even though the abandonment rate is so high we have not seen any study so far which exclusively focusses attention on this phenomenon.

In order for an Indian joint venture to have any impact in the host country on distribution channels, Government and customers, it must develop a significant market share in the industry in which it operates. If we compare small investments that the joint ventures have at present with the size of the market for the products in host countries, or the size of the competitors, we see a rationale for the inability of the Indian joint ventures to control any one of the variables needed for business success — prices, product leadership, distribution channels or manufacturing costs. For example, one Indian manufacturer of cotton and yarn, in one of the South-East Asian countries had invested in a capacity of 17,000 spindles with a 5% market share. In contrast, the largest host country unit has 80,000 spindles

capacity and a 22% market share. If we compare this, with our experience with MNCs in India, we can see the importance of market share. Union Carbide has a 29% market share for batteries; ITC 44% for cigarettes; Dunlop 25% for automobile tyres and Hindustan Lever 71% for soaps. In this context, GOI ought to be concerned about the relative size of the Indian investments abroad. The smaller the investment relative to the total market, the greater will be the probability of poor performance.

Let us now examine the policy of equity investments primarily through the export of capital goods.

It has led to the scaled down duplication of Indian plants in order to use Indian equipment and very little concern for developing an "appropriate technology or scale" in the host country. It has stifled growth in some joint ventures. The demand for equity capital may in the project stages relate significantly to the need for plant and equipment, and later on, during the growth phase, it is related to working capital needs, and possibly some balancing equipment. The prohibition of cash remittances from India artificially restricted the growth of some units.

In order to reduce abandonment rate as well as to improve the ability of Indian Joint Ventures to weather unpleasant surprises, GOI has to ensure that the firms which go abroad as partners have the financial and managerial resources to deal with a crisis. Size and resources of the Indian parent should become an important aspect of any evaluation of a proposal. Further, the organisation for managing overseas operations set up by the parent is crucial. Many of the Indian firms allowed to go abroad did nbt have the necessary "resources slack" to weather a storm.

It is, therefore essential that

* * GOI, in consultation with industry and on the basis of our experience so far develop a position paper on the long-term goals for Indian entrepreneurs in the world markets and clearly*delineate the goals-dedicated by expediency, political and ideological commitments and business considerations.

* * Blanket policies like "equity through equipment only" must be avoided. Depending on the nature of involvement planned by the Indian parent — turn-key to aggressive regional presence — regulation on both percentage of Indian equity and the mix of Indian equity (cash vs non-cash) must change. In other words, the question of equity amount, mix, purpose for which used etc., must relate to the strategy of the Indian parent.

* * GOI must evaluate the strategic stamina of Indian entrepreneurs and the preparedness of their organisation to undertake overseas manufacturing. Smaller firms with no access to patented or unique technologies will find it harder to survive competition. Substantial financial and managerial resources have to be invested in the joint venture in the initial stages.

* * Expatriate management must be competent. Some attempt to screen the key staff, sent overseas on long term assignments, is a must.

* * It must be made difficult for Indian entrepreneurs to adopt pure "opportunistic" behaviour. They must not be allowed the easy option of "abandoning the project." Penalties must be established. A study focussing attention on projects abandoned will ensure that only those who have the commitment and resources will apply for a licence. One must caution, however, that divestment is clearly an option, that must not be taken away.

The political implications of failure of Indian Joint Ventures are serious. Not only would it damage India's industrial image but also impede our progress in other countries. It is, therefore, imperative that GOI must take the initiative to salvage the sick joint ventures.

The turn around strategy for joint ventures requires at a minimum:

* * The total commitment of the Indian parent, as expressed by the willingness to support it with financial, managerial and technical resources.

* * The total commitment of GOI to ensure that all procedural and regulatory impediments are eased to facilitate the resolution of the problem.

* * Organisation of a consortium of Indian banks, with the blessings of GOI/RBI to finance the turn-around strategy.

* * Imposition of stiff penalties on firms which having initiated the joint ventures do not suppor it fully.

* * Organisation of Indian industry where deemed necessary to take over "sick units" and manage them.

Average returns on foreign direct investment by United States in developing countries during 1965-68 has been more than double the return on investment in developed countries. This clearly indicates the potential in internationalising Indian business.

With low costs for management and technical personnel, and abundant supply of labour, some of the developing countries have been able to make quantum jumps in technology to capture larger market shares.

For example, Taiwan's success in electronics, Singapore's success in oil rig construction and South Korea's spectacular entry into shipbuilding were achieved in a short span of time, astounding the world with their resourcefulness. These should be eye-openers to Indian entrepreneurs.

To sum up,

* * More than 80 per *cent* of the joint ventures in our sample of 28 firms in production are unprofitable *or* barely profitable. This was occasioned primarily due to poor management, poor operation control and a certain lack of commitment.

* * Implicit in the conception of Indian joint ventures were the business assumptions derived from the Indian economic environment, which were not valid in the host country economy.

* * A major re-examination of the role of Indian Joint Ventures in the developing countries — especially

in host countries who have been very pro-Indian — is warranted. GOI and Indian entrepreneurs must collectively evolve a long-term posture. Strategy must replace opportunism and expediency.

* * Appropriate technology is not a "blanket concept". Technologies are either appropriate or inappropriate, depending on the strategy of a country in a given industry and the strategy of the firms participating in it. Jargon is a poor substitute for understanding.

* * The solution of the problems of Indian joint ventures must be collective responsibility of GOI/RBI, the Indian partner, banks and host country partners.

* * The responsibility for the three aspects to the solution — commitment to the success of the joint venture, the financial resources, and the development of adequate technological skills and management capabilities — must be identified. GOI/RBI must share the financial resources through a consortium of Indian banks (for long-term loans) and by liberalising the remittances of equity in cash (to continue and lend meaning to the commitment of Indian partners). Sanctions must be developed to ensure that Indian entrepreneurs do not treat their involvement in joint ventures in a cavalier fashion.

* * Developing countries need not any longer be content with exporting technology to labour-intensive, protective environments. They can make equally quick advances in complex industrial areas and sophisticated technology through innovations. If India is to internationalise its business in a big way, it must move in this direction, where business acumen will be honed on the concept of strategy.

The views expressed in this booklet are not necessarily the views of the Forum of Free Enterprise.

"People must come to accept private enterprise not as a necessary evil, but as an affirmative good."

—Eugene Black

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