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A study of various types of business model of international joint venture (IJV) in India

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Abstract

International Joint Ventures (IJV) is one of the prominent mode by which the MNC's enter India. There are various business models that JV operate in India. This paper looks at the various models like New Product Development, Export Oriented Unit, Product Customisation, Product Servicing and Spares Management, Product Servicing & Spares Management for the Specific Regions. The purpose of this research paper is to explore a comprehensive overview of different models that are operating in Indian Context. The JV is formed for each business model or sometimes there can be combination of the business models that are working in India. This papers assesses the various business models of JV that are operating in India.

Keywords: IJV, international joint venture, business model, new product development, export oriented unit, EOU, product customisation, product servicing, spares management

Introduction

The main entry strategy for MNCs to enter the foreign markets are Direct Exporting, Licensing, Franchising, Joint Ventures and Foreign Direct Investment. Of all the entry strategies, Joint Venture (JV) is one of the most preferred mode of entry my many of the MNCs. JV gives the foreign company a new market for its products / services while the Indian company gets access to new technology / products and services to meet the growing requirements of Indian Market. However, if we see the various types of Joint venture and their Business Models operating in India, we can broadly divide it into 5 different types of JV companies. The paper examines each type of business models that the JV operates and examines the type of sector which these JV companies are operating. In the paper, we examine different companies in Public Sector as well as in private Sector companies in India. Also we can closely examine the various Indian companies which have formed this JV with MNC to meet the specific requirements of the Indian Companies strategies.

Literature review

Grosse, Robert. International Technology Transfer in Services, Journal of International Business Studies volume 27, pages781–800(1996)

In this study the author examines the nature of technology and the process of its transfer in five service industries from parent companies to foreign affiliates. Three principal research questions are posed: What is the key technology in each industry? What are the main methods for transferring this technology? How and why do technology and transfer methods differ across firms, industries and countries? The empirical analysis shows that key technologies were generally knowledge of/experience in the industry and methodology for producing the service. Transfer of the technology was mainly done through the training and transfer of experts: and organizational forms were wholly owned subsidiaries and international partnerships. More technology transfer occurred when firms were more international, when affiliates were more recently-established, and when parent ownership was lower in the affiliate. Some evidence exists that more firm-specific, jointly produced technology leads to higher ownership percentage and greater transfer to affiliates.

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R. Katz; E.S. Rebutisch; T.J. Alien, A study of technology transfer in a multinational cooperative joint venture, IEEE Transactions on Engineering Management (Volume: 43, Issue: 1, Feb 1996)

In this paper, the problem of technology transfer has been extensively addressed from many different perspectives. Very few of the research studies, however, have examined it as a process, trying to understand more about how different kinds of technologies are transferred across organizational boundaries. This research examines the transfer of technologies over a three-year period in an international joint venture comprising three operating divisions of large multinational chemical companies located in Germany, the United States, and Japan. A total sample of 208 technologies are identified as having been transferred between the venture's partners. Descriptions of the types of technologies, the methods used to transfer them, their degrees of success, and the organizational, national, and cultural differences in which the international transfers took place are investigated.

Research gap

On examination of various research in the areas of International Joint Venture, it is found that most of the research work is done in the areas of technology transfer, culture, specific segment of the economy, Human Resources, International relations etc, however in Indian context research on the specific types of business models that JV companies are operating in Indian context is not addressed. Also, many of the research is being done in the areas of commercial segments which are reaching the consumers, but less research is done in the areas of high technology segments like Aerospace, Defence, Heavy Electricals etc.

Objective

- To identify the various business models of IJV operating in India.
- To identify the country of Origin of the IJV.

Uniqueness of high technology segment

High Technology segment provide Products / Solutions which are sophisticated and meets the requirements of Aerospace, Defence, Heavy Electrical, Advance Medical Electronics. It has been found that these solutions are later converted as dual use technology and customised to meet the requirements of common man. The cost of these technologies will be very high, and often funded by Governments for the development of these technologies. If this technology related products are to be sold to other countries or JV formed in other countries then the permission of the Government is mandatory. This makes the technology restricted and also the products are developed for the particular regions. If these same products are to be used in Indian context, then this product / services needs to be customised.

Data analysis

Data of 50 different companies in the Public Sector and Private Sector was considered for the study of the business model. In this it was analysed for the partnership, business models of the Company and the country of the Foreign Company.

Out of the 50 different JV companies analysed, the JV with Israel is the highest with 11 JV companies followed by France and USA with 9 and 8 respectively.

Country	No of JVs
Isreal	11
France	9
USA	8
Russia	5
Italy	3
UK	3
Others	11

From the analysis, the different business models of International JV is analysed.

Different models of IJV in Indian context

If we examine the various Joint Venture Companies operating in Indian context, we can broadly classify them into five different types, they are

1. New Product Development
2. Export Oriented Unit
3. Product Customisation
4. Product Servicing and Spares Management
5. Product Servicing & Spares Management for the Specific Regions

New product development

International Joint Ventures operating in New Product Development develops the new Product with the background technology from the foreign companies and develop a unique product to meet the requirements of Indian Conditions.

- BEL Thales Systems Limited is a Joint Venture between Bharat Electronics Ltd and Thales, France. In this company, the JV is working with Thales, Netherlands to develop a Multi-Target Tracking Radar (PHAROS) to address Indian and Global Market.
- Larson & Toubro JV with MBDA for Missile systems are developing missiles for Indian requirements.
- Strategic Defence sector, where in it was a Government to Government agreement which resulted in the formation of BrahMos for the design and manufacture of Missiles.

Export oriented units

In this model, the International Joint Venture will be manufacturing in India and exported to other parts of the world.

- International Aerospace Manufacturing Pvt. Ltd. (IAMPL), JV of HAL with Rolls Royce manufacture more than 130 different parts for Rolls Royce Engines for Civil aircraft applications.
- Safran HAL Aircraft Engines Pvt. Ltd is a JV which manufactures precision Aero Engine components and assemblies.
- GE-BE Pvt Ltd is a JV with General Electric Medical Systems which manufacture X-ray tubes for RAD & F and CT Systems. The products are exported worldwide.

Product Customisation

Many of the MNC finds Indian Defence and Aerospace market to be highly lucrative and plans to enter Indian

market. These companies are forming JV with Indian companies to customise the product to meet the Indian requirements.

- ECIL Rapiscan is a JV with Rapiscan which specialises in metal detectors and X-ray machines for screening airport luggage, cargo and other locations.

Product servicing and spares management

Many companies have sold their products in Aerospace and Defence segment to many countries Armed forces. The life of the Aircraft is more than 20 years. During this time, the aircrafts needs regular maintenance, services and supply of spares. The cost of foreign employees coming to India and maintaining the Aircrafts will be a very costly affair. This has prompted many companies to form a JV to provide Services and Spares to Products sold for Indian customers.

- Indo Russian Aviation Ltd is a JV with HAL, a PSU and RAC MiG, Ryazan, Aviazapchast. The JV provide product support / spares for Russian / erstwhile Soviet Union origin fleet of aircraft by sourcing through its Russian partners.
- Helicopter Engines MRO Private Limited is a JV with HAL and Safran Helicopter Engines. The JV provide maintenance, Repair and Overhaul Services for Safran Helicopters Engines and HAL engines installed on HAL-built Helicopters.

Product servicing & spares management for the specific regions

This is similar to Product Servicing and Spares Management but the regions/ zone of servicing extends to the surrounding regions. The products profile will be limited customers and the product installed will be remote locations, preventing the foreign employee coming to service the Products. In such cases, this model is adopted and also to ensure that the resources are effectively utilised and the catering to multiple markets.

- BGGTS (BHEL -GE Gas Turbine Services Pvt Ltd) is a Joint Venture of BHEL, India and General Electric, U.S. for providing quality after-market services for Gas Turbines to GE and BHEL Customers. The JV offers reliable, time-saving and cost-efficient Gas Turbine Services to power sector customers in the Bangladesh, Sri Lanka, Mauritius and India

Findings

The major findings of this study are finding the type of business model that the International Joint Ventures are operating in India. Each business model is adopted based on the Product types, complexity of maintaining the product, capturing the Indian market and also to utilise the government incentives for export oriented units.

Also, it is found that in strategic sector, the products like Radars, Fighter Plane needs to have a very less down time. It is also observed that while buying these complex high technology products, one of the conditions will be about spares for the products. The companies which provide the spares will be a better choice by the customers so that they can have their products serviced at any time and availability of spares in regular interval with limited cost. In case of this complex high technology product the cost of the Product is calculated on the life time maintenance cost rather than the one time buy of the product.

The other factors like tax holidays and other concessions given by State / Central Government, Market for the setting up of companies are also being considered while planning for the location of the IJV. The other important parameter is the Government FDI (Foreign Direct Investment) Policy to attract foreign investments in India. In the case of Defence sector, the foreign partner can invest a maximum of 49% equity in the Company, the remaining equity participation is by the JV Indian partner. This will ensure that the majority stakeholder is the Indian company. The Indian company will have a better bargaining power when dealing with the foreign partner.

Suggestions

From the analysis it is seen that many of the IJV are formed to manufacture the products in India due to the vast market and also the comparatively cheaper manpower cost. The Government should ensure that the technology flows to India due to the IJV formed. For this the Government Policy should ensure that majority of the sub-systems should be designed and manufactured in India.

On the other side, the Indian partner should be able to Indigenous the sub-systems and products over time and ensure that the products spare & service cost comes down over the years.

The MSME should also be involved in indigenous efforts so that they can design the products and they can be part of the Supply Chain Management.

Conclusion

One of the major factor for forming an IJV is the access to new market for foreign companies and diversification initiatives for the Indian companies. In this study attempt was made identify the different business models on which the IJV works and also the Government role in companies being formed. Each Models can vary over years but in many of the cases if the product comes to the end of the Product Life cycle, if the JV does not produce new products, the the IJV will fail.

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