

1 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. For example, there has been 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 much higher levels of per capita income. As a result, the opportunities for return on investment have been more visible and secure in these markets. These facts have tended to obscure the future potential of the presently underdeveloped markets as locations for investment.

In the long run, the underdeveloped markets may well be some of the most attractive ones 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 host nations’ needs and aspirations. Whatever may be the arguments in favor 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. These problems may arise in two ways—the needs of industrial development call for increased imports, or the terms of trade 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.

In theoretical terms, it may be possible to fund these needs by means of foreign exchange loans.³ Past experience appears to suggest,

¹ W. W. Rostow, *The Stages of Economic Growth: A Non-Communist Manifesto*, Cambridge University Press, London, 1960.

² J. S. Fforde, *An International Trade in Managerial Skills*, Blackwells, Oxford, 1957, p. 4.

³ Max F. Millikan and W. W. Rostow, *A Proposal: Key to an Effective Foreign Policy*, Harper, New York, 1957.

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 foreign exchange 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 on the order of 5:1.6, in terms of long-term refunding commitments on the part of a capital-importing nation.⁵

Diffusion of benefits, however, 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. The 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 has been the rationalization, in economic terms, for a phenomenon which may actually be strongly motivated by nationalistic sentiments in favor of "conspicuous production."⁶ 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.⁷

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 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.

⁴ Matthew J. Kust, "U.S. Aid to India—How Much is Enough?" *The New Republic*, December 15, 1958.

⁵ The difference is accounted for chiefly by capital appreciation of the foreign investment.
⁶ This argument is discussed briefly in Charles P. Kindleberger, *International Economics*, Third Edition, Irwin, New York, 1963, pp. 465–468 and 571.

⁷ See, for example: Government of India, *Policy Statement on Foreign Capital*, 6th April 1949; Government of India, *Industrial Policy Resolution*, 30th April 1956; Government of India, *Press Note*, 8th May 1961; Government of Pakistan, *Industrial Policy Statements*, 1948, 1958.

This *simpliste* argument may, of course, hide some of the problems. For example, Baranson has described and stressed the problems involved in modifying products for the Indian market.⁸ There are likely to be differences in methods of operation, and in 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 preoccupation with the problems of “gearing down” design, production layout, 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.⁹

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 that have had a fairly long production life. Tooling, designs, and records of “bugs” which arose at various stages from start-up onward are usually well recorded and available. Under these circumstances, redesign 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. There 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 that is likely to be politically vulnerable, socially unstable, and economically unviable.

Against these factors are the tangible ones of highly profitable results from successful past investments in the less-developed nations, true for the general case,¹⁰ and true even for the particular case of India, whose efforts to keep such returns within reasonable proportions have received considerable publicity.¹¹ Coupled with this attraction are threats of discrimination, in absolute quota or relative tariff terms,

⁸ Jack Baranson, *Manufacturing Problems in India*, Syracuse University Press, Syracuse, New York, 1967.

⁹ Richard D. Robinson, *International Business Policy*, Holt, Rinehart and Winston, New York, 1964, pp. 177–184.

¹⁰ John Fayerweather, *Management of International Operations*, McGraw-Hill, New York, 1960.

¹¹ *Reserve Bank of India Bulletin*, May 1958, “Returns on Foreign Investments in India,” pp. 536–537.

against present and future importers in such nations. The attraction is, 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 firstcomers.

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.¹² The problem certainly creates major difficulties in the foreign investment decisions of companies in the developed countries.¹³

Economic advantages to capital-exporting countries are perhaps not proved. In two recent reports, 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 on the basis of some conservative assumptions, especially in connection with the effects of reinvestment and capital appreciation.¹⁴ 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 favorable."¹⁵

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 recognized specifically in the relatively favorable position of such investments, as compared with those in Europe, under the 1968 restrictions of the U.S. Government on

¹² See, for example: Albert O. Hirschman, *The Strategy of Economic Development*, Yale University Press, New Haven, 1958, p. 120.

¹³ Henry G. Aubrey, "Investment Decisions in Under-developed Countries," in *Capital Formation and Economic Growth*, National Bureau of Economic Research, Princeton, 1955.

¹⁴ W. B. Reddaway, *Effects of U.K. Direct Investment Overseas, An Interim Report*, and *Effects of U.K. Direct Investment Overseas, Final Report*, University of Cambridge, Department of Applied Economics, Occasional Papers 12 and 15, Cambridge University Press, London, 1967, 1968.

¹⁵ Kindleberger, *International Economics*, p. 413.

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."¹⁶

Joint Ventures

Combinations of business interests, motivated either by complementary attributes or by defensive considerations such as the sharing of business and nonbusiness 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 organization of international business operations have been the geographical diversification of manufacturing and the increased participation of local nationals in joint ventures. Participation, moreover, is carried out under terms which give local partners relatively equal authority. These changes have resulted from a combination of factors: one, the arrival of a major political and economic counterbalance to the power of the "traditionally" advanced nations; the other, the growth of a more permissive political morality, based upon changing social and cultural values, on the part of these nations. Both factors have led to the relaxation of colonial authority.

¹⁶ Robinson, *International Business Policy*, p. 222.

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 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 United Kingdom than in the United States, though not to the same degree as in the cases of Italy and Japan."¹⁷ 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 might 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 in this type of operation than most of their American counterparts, in an earlier pilot study, were even more favorably inclined toward such ventures in India and Pakistan.¹⁸

An attractive explanation, at the abstract level, of the growth of joint ventures in the proportion of foreign investment in the underdeveloped nations comes from a theory put forward by Hymer.¹⁹ This theory 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

¹⁷ Wolfgang G. Friedmann and George Kalmanoff, *Joint International Business Ventures*, Columbia University Press, New York, 1961, p. 80.

¹⁸ Study, in 1965, of some U.S. joint ventures in India, Pakistan, and Iran by the author of the present study (unpublished).

¹⁹ Stephen Hymer, *The International Operations of National Firms, A Study of Direct Foreign Investment*, unpublished Ph.D. Dissertation in Economics, M.I.T., 1960.

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.²⁰ Such a dependent position meant that the country was unable to exploit any improvement in its economic or technical position vis-à-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 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 rationalize 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).

If it is assumed, however, that responsible executives are sensitive to their own criteria and do not need to disguise them, it should then 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 recognize 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.

To summarize briefly the points raised in this section, 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 United States, 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 and discussed further in later chapters.

²⁰ See Wilfred Malenbaum, *Prospects for Indian Development*, Free Press of Glencoe, New York, 1962, pp. 157-159; also, very much earlier, James Mill and Horace H. Wilson, *The History of British India*, Jones & Madden, London, 1844, Vol. 1, pp. 538-539.

A Definition

The definition of a joint venture used in the present study is

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.²¹

The two most important implications of this definition are that

- a. There must be some definite commitment with 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 are 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 subsets 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), together with 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 most common 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 subsets 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 are national and nine are mixed. In one of the latter, the foreign commitment is in the form of a large-scale, long-term service contract, involving the continuing presence of up to 70 foreign

²¹ Cf. definitions in Robinson, *International Business Policy*, p. 147 (footnote); and in Friedmann and Kalmanoff, *Joint International Business Ventures*, p. 6.

technicians and advisers. The remainder of the sample are all in subset 3. In view of the small size of the sample, the group is treated as homogeneous in the statistical analysis, differences being examined only at the descriptive level.

Setting Up a Model

One of the original objectives of this study was to discover whether or not it is possible to establish a series of variables that would help to predict the criteria through which associates would be selected for particular joint ventures. These variables consist of characteristics of the parent companies, the joint ventures, and the background situation in which the decision was made. They are grouped into categories, or sectors, each of which can 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 can be established, they can in turn possibly be associated with certain organizational and structural characteristics of a joint venture. Finally, some elements of evaluation are examined. Internally, these take the form of methods used by parent companies to evaluate the performance of associated joint ventures. Externally, evaluation is 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 prove to be significantly associated and that they can be used to predict at least the direction of variation amongst each other, the framework of an operational model will be established. It should then be possible to enter the heuristic at certain defined points that will describe the likely constitution of the remainder. Similarly, if certain stages or variables are to be manipulated, it should be possible to predict the effects upon other parts of the model. It should then be possible to suggest policy recommendations for similar firms considering investing and operating under similar conditions.

Such a model is intended to provide a tool for internationally operating firms. As a result, the study is chiefly oriented toward the point of view of such firms. At the same time, if the model is valid, it should also be capable of serving as a guide to enlightened regulation of foreign investment by host country planning authorities.²² In the latter

²² For some comments on the lack of dexterity of such governments in regulating foreign investment, see Malenbaum, *Prospects for Indian Development*, pp. 251–254 and 258; 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.

role it would be useful in improving the accuracy of intramatrix relationships and resulting predictions of the effects of varying some of the inputs or dimensions to national development matrices. This role is not, however, central to the study and is not considered in any detail.

In order to limit the range of dimensions along which the model can vary, the first sample of foreign parent firms²³ is restricted to those of one nationality. In this case, these are British companies. This is not meant to imply that there is necessarily a universal similarity between firms of different nationalities which operate internationally. It is 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 are reduced by limiting the milieu of the study. While there is a growing interest in the subject, there is still a lack of systematic reporting²⁴ of the actual operations of overseas joint ventures. There is even less covering these operations in less-developed countries.²⁵ It appears, therefore, that an analysis of joint ventures in such a country, or in a subset of such countries, has

²³ 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."

²⁴ One should make exception here for the studies of: Michael Kidron, *Foreign Investments in India*, Oxford University Press, London, 1965; Karen K. Bivens and Enid B. Lovell, *Joint Ventures with Foreign Partners, International Survey of Business Opinion and Experience*, National Industrial Conference Board, New York, 1966; Friedmann and Kalmanoff, *Joint International Business Ventures*.

²⁵ The terms "less-developed" and "underdeveloped" are generally used as synonyms, together with "developing," in various classifications which compare achieved with potential performance against national 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 underdevelopment 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, and to talk of the "backward" nations. (Hla Myint, "An Interpretation of Economic Backwardness," *Oxford Economic Papers*, June, 1954.) 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. (Frederick Harbison and Charles A. Myers, *Education, Manpower, and Economic Growth*, McGraw-Hill, New York, 1964.) 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" in terms of their level of economic development.

additional value in increasing the available information about an area of growing interest and importance to business firms.

Another of the original objectives of 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 alignments and their respective endowments of natural resources appear to refute the argument of similarity. They have, however, a common history, similar social and economic problems, comparable legal systems and business organisations (although there are considerable differences in scale) plus a common business language. In spite of different political structures, their postures toward foreign business interests and, to a lesser extent their patterns of development have been 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 pattern 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. (See footnote 18.) The latter group seemed 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 U.K. companies (as far as the foreign share in equity was concerned) 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 high profits had been the order of the day in Pakistan's early years.²⁶ 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.²⁷ *The Directory of Free World Enterprises and Collaborations in India* lists some 850 British firms that are involved in "Collaboration" agreements in India,²⁸ but the vast majority of these cases are simple licensing or technical assistance contracts. In many cases, they involve only the provision of instructions and drawings, with little or no supervision, policing, or continuing contact.²⁹ No comparable information appears to exist in published form for Pakistan.

Because a clear definition of the population of British joint ventures in these two countries was lacking, it was decided that the best way to obtain a significant body of data on these operations was 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

²⁶ See also Gustav F. Papanek, *Pakistan's Development, Social Goals and Private Incentives*, Harvard University Press, Cambridge, Mass., 1967, pp. 32-40.

²⁷ 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.

²⁸ *Directory of Free World Enterprises and Collaborations in India*, 1st ed., Champaksons, New Delhi, 1966 (Author unspecified), pp. 141-184.

²⁹ This statement is based upon the comments made in discussion and correspondence with actual respondents and many of the other British firms listed in *The Directory*, as being involved in collaborations in India.

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 capitalization. Part of this list was published in the *Financial Times* as "Britain's Top 200 Companies."³⁰ An initial sorting of these 200 companies was carried out by means of a cross-examination, using the list of firms published in *The Directory* mentioned earlier, 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.

Table 1.1
Breakdown of Britain's Top 200 Companies

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

³⁰ The *Financial Times*, London, 19 May 1967.

Further correspondence, based upon firms listed in *The Directory*, in Kidron's *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 with the criteria of the London Stock Exchange. Out of these seven, three were large private companies that did not publish statements and were not quoted in 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 and for setting up an operational liaison in connection with 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 with a detailed covering letter, to another 61 firms involved in "Collaborations" in India. Out of this control group, only 2 companies provided the information requested.³¹

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 58 were in India and 13 were in Pakistan.

Value of the British Stake

The *Reserve Bank of India Bulletin* periodically lists the total values of outstanding foreign investments in India. As the basis for these figures, private investments are grouped in two categories. Branches and foreign-controlled rupee companies are classed as "direct." All others are 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

³¹ Of the remaining 59, 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), and 4 companies agreed to cooperate but failed to do so.

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.³²

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 justification 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 seemed to dominate and control associated joint ventures in which their own share of equity was well under 40%. At the same time, one firm involved 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 operation 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 rigor 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 spite of these possible difficulties in interpretation, the Reserve Bank's figures provide the most comprehensive estimate available for foreign investment in India. They have therefore been used to test the representative significance of the joint ventures examined in this study. The value of the British stake in the 58 Indian joint ventures was estimated to be Rs. 243.7 Crores at the end of the 1966 financial year. (These calculations appear in Appendix B.1.) This figure excluded an additional Rs. 26.3 Crores in long-term loans, made to the joint ventures (JVs) 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."

³² Taken from Reserve Bank of India, *Survey of India's Foreign Liabilities and Assets*, Bombay, 1957.

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:³³

- 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 much larger than the joint ventures in question.

A similar understatement also applies to the case of the significance by value of the 13 Pakistani joint ventures in the sample. A 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,³⁴ and appears in Appendix B.3). The total U.K. stake in the 13 U.K.-Pakistani joint ventures of the study was calculated to be Rs. 33 Crores at the same time. The value of this stake as a proportion of foreign direct investment in Pakistan could therefore be estimated to be

- g. Total UK Stake/Total Foreign Private Direct Investment in Pakistan (in 13 JVs) Rs. Crores—33/109 = 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.

³³ Comparisons are with the estimates shown in Appendix B.2, of the magnitude of such investment, based on Reserve Bank of India figures.

³⁴ Papanek, *Pakistan's Development, Social Goals and Private Incentives*.

Some Assumptions

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

1. The status of the sample of British parent firms in their home country.
2. The significance of the firms' investments in these joint ventures as a proportion of British and other foreign investment in these two host countries.

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

- a. Have a genuine knowledge of, and involvement in, the parent firm's policy and decision making at the highest levels.
- b. Have 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 are classified as follows:³⁵

- 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, or called abroad at short notice).

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 is more difficult to control for the further assumption that the evidence of such respondents is not biased 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

³⁵ Classified by the senior man for cases in which groups of respondents were involved.

presumably provide a series of consistently inaccurate answers. In 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 is therefore accepted, with the “fail-safe” corollary that, at the least, the responses represent the attitudes and judgments of a sample of influential executives. These executives were, moreover, in a position of high authority over the subjects of interest to the study.

The prior assumption is also made, that these executives would be prepared to provide accurate and comprehensive answers to an impartial but external questioner. It seems likely, however, that this would depend upon two additional factors: first, a guarantee that the information would remain anonymous; second, direct interviewing would be a more promising approach than that of simply asking executives to complete questionnaires. This seems 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 toward completing questionnaires. This would probably be associated with a subjective conviction that the information required could be provided more rapidly in discussion with an interviewer. Parallel to these arguments was the fact that it would also be possible to ensure correct understanding and interpretation of the questions and 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 correspondence. Several stated explicitly they would not have provided such frank answers without this guarantee.

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

Further descriptions of the organization of the research and the methods of analysis appear in Appendix A.1. This covers in particular the interviewing of the sample of respondents, organization and analysis of data and secondary research. The actual questionnaire

format which was used as the basis for data collection is shown in Appendix A.2.

A Brief Outline of the Presentation

The variables and the methods of classification used are described as they appear 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 concentrates upon activities, relationships, and decisions arising after there was some commitment to invest in the host country.

In its final form, the analysis is 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. Attitude toward control on the part of the British parent firms.
4. Variables describing various features of the background to the two chief decisions of major 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.

These variables will be discussed in the following chapters. The last chapter summarizes some of the implications for investors and management and the general conclusions arising out of the study. Finally, Appendix E includes a list of topics that are considered worthy of further research.