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Dynamics of Joint Ventures between Multinational Enterprises and Local Firms in Emerging Economies: The Case of Financial Services

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Abstract

Emerging economies present the case of rapid changes in markets and institutions. In this context, joint ventures between multinational enterprises (MNEs) and local firms are subject to a gamut of calculations between the partners for arriving at mutually beneficial contractual arrangements. In this note, we analyze two case studies utilizing a combination of the intangible asset theory of MNEs, Williamson's concepts of asset specificity and hold-up, and the resource-based theory of the firm. Both case studies involve financial services, namely, credit cards and insurance products. In these two cases, a large local bank provided the brand name while the MNEs provided the back-end technical-support, which is a seeming reversal of the normal pattern in emerging markets. From a resource based theory perspective, at the inception of such joint ventures, investments in relation specific assets may be small and the possibility of hold-up seem remote, but when markets become complex the possibility of hold-up increases dramatically. In this kind of context, joint venture partners have to adopt a dynamic perspective and formulate *ex ante* strategies for addressing the holdup problem, even though static analysis may suggest there is only limited or no possibility of such hold-up. Our analysis brings forth fresh insights on the issue of joint ventures, especially in the context of financial services, in an emerging economy.

Key words: Intangible assets; capital market imperfections; joint ventures; financial services; emerging economies

Introduction

Joint ventures between multinational enterprises (MNEs) and local firms can be viewed as entry mode strategy of MNEs in emerging economies- which is explained as a strategic choice of MNEs to overcome the institutional complexity of emerging markets (Patibandla, 2002). The strategy literature, mostly referring to developed economies, show how joint ventures are motivated for resource-complimentarity especially in high- tech industries with frequent technological change (Teece, et al, 1997). Joint ventures are a means not only for seeking complimentarity in resources but also a means of spreading risk of technological change (Patibandla and Petersen, 2002). The extension of this logic of motivation for joint ventures between MNEs and local firms in the emerging economy context is in terms of complementarity in resources of technology of MNEs and institutional knowledge of local firms, and spreading risk of turbulence of markets and, institutional complexity of emerging economies (Patibandla, 2007). Although the basic logic for motivation and break up of joint ventures is universal, the emerging markets present several interesting and complex issues for firms to take into account in forming joint ventures (Kapur and Ramamurthi, 2001).

According to the transaction cost theory of the firm under the basic premise of incomplete contracts (Coase, 1937; Williamson, 1975, 1985), firms make discreet structural governance choices based on the three critical dimensions of frequency, uncertainty, and asset specificity, which affect the costs of organizing transactions. Markets or arms-length transactions, hierarchical organization (integration or internalization) and the hybrid form arise as alternatives as a result of differences in transaction costs. When the degree of asset specificity of a transaction is high, the potential costs of hold-up make integration or internalization a preferable choice. Alliances are a hybrid governance mechanism that becomes possible and desirable if the parties can induce each other to undertake costly investments in credible commitments (also known as hostage investments). Conceptually, joint ventures are treated as temporary governance choices. Aoki (1990) characterizes joint ventures as T-form organization, i.e., temporary or transitional organization. He notes that these kinds of hybrid arrangements are particularly important for the success or failure of firms operating in developing markets where technology and rivalry are undergoing rapid change. The dynamic capabilities approach makes a similar argument, drawing on the resource based view of the firm, and contributes to an understanding strategic alliances in high technology industries in which technological change is frequent (Teece, et al, 1997).

In the international context, the transaction cost logic of governance choices can be combined with the concept of intangible assets (Hymer, 1960; Caves, 1996; Buckley and Casson, 1976; Markusen, 1995) in analyzing internalization versus the use of joint ventures between MNEs and local firms (Dunning , 1988; Kogut, 1988). In emerging and transition economies, the local institutional environments are complex and subject to rapid change (Dixit, 2003; Patibandla, 2007; Ahulwalia, 1999). MNEs have an incentive to form joint ventures with local firms as an entry mode strategy. This can help them to deal with uncertainty and facilitate the acquisition of a deeper knowledge of complex local institutions. Local firms in turn seek joint ventures as a way of acquiring the intangible assets of MNEs through such ventures.

Once one of the partner's objectives is served over a period of time, however, joint ventures generally break down. If we go by the logic that the joint ventures are T-form in nature, the partners of a joint venture have to make strategic calculations on an *ex ante* basis with regard to the surplus that can be realized in combining their complementary assets. They need to analyze the extent of the investments they should make in specific assets, in both static and dynamic terms. The dynamic aspects refer to the time frames of the parties to the venture, their intent (interest), and possible changes in the market and product conditions. The other dimension of dynamics is that incomplete contracts imply the need for re-negotiations or bargaining at the ex post stage of the formation of the joint venture when the environment changes (Williamson, 1975; Grossman and Hart, 1986). They have serious implications for the relation specific investments that each party will make over overtime in the venture.

Generally, the MNEs' advantages in intangible assets, such as global brand names and technology, tend to be more salient in developing economies than in developed economies because local firms in developing economies are, by definition, underdeveloped. Furthermore, MNEs pursue higher levels of internationalization to protect intangible assets with public goods properties because market imperfections are more prevalent in developing economies. Because of the reputation associated with an MNE, its marketing know-how, brand names, and other proprietary advantages tend to be highly valued by its partner, while the ethnocentricity often inherent in discussions of foreign direct investment may blind both partners to the value of the local market knowledge and institutional know-how possessed by the partner firm in the developing country. The vast majority of foreign capital flows do reflect the motivations of MNEs to exploit their highly valued intangible assets such as brand names and technology.

In the context of globalization and increasing international division of labor, especially in the service industries (Ghemawat and Patibandla, 1999), joint ventures between MNEs and local firms present unique features, especially in emerging economies such as India. At present, there is an increasing presence of MNEs in India for global outsourcing of software and services (Patibandla and Petersen, 2002). Additionally, India's economy is growing at a rapid rate (between 6 to 8 percent annually) with its traditional markets expanding briskly and with enormous potential for the generation of new markets surfacing every year. This presents several opportunities for MNEs and local firms to find complementarities for the creation of all manner of joint ventures. At the same time, the growing complexity in making strategic calculations in the context of the rapid changes in the market conditions should also not be underestimated.

In this note, we analyze two case studies, which exemplify the above issues. We chose these cases for illustration because they represent several unusual characteristics. In these two instances, it was the local partner in a developing economy who provided the brand name, while the concerned MNEs provided the basic back-end technical support for conducting complex financial services transactions. This, on the face of it, is somewhat contrary to the expectations of intangible assets theory. It would be erroneous, however, to assign primacy to either partner's contributions to the venture. What is important is to recognize that routine back end operations do not necessarily constitute tangible assets and embedded in these mundane processing activities may lay company-specific routines that confer significant value to the joint venture. Nor is a local, as opposed to a global, brand name to be dismissed lightly. Additionally, these kinds of joint ventures illustrate another property of business arrangements between partners located in different national contexts, especially when they are at different stages of economic development. These kinds of ventures may be easily initiated, but their evolution needs to be managed carefully. At first sight, it may appear that asset specificity and hold-up are easily contained, but from a dynamic perspective this presumption is erroneous. Market complexity increases as the joint venture unfolds and develops. We depict this empirically taking the examples of the joint ventures between an Indian firm and two of its overseas partners. The case studies refer to the joint ventures between a large Indian bank, the State Bank of India, and GE Capital, a prominent MNE active in the financial services, and Cardiff, another MNE well known in the insurance market.

Case 1: The Joint Venture between the State Bank of India and GE Capital

In early 1998, two joint ventures between a large Indian bank, the State Bank of India (SBI), and a globally established MNE, GE Capital were formed to market, issue and service credit cards under the name “SBI Cards”. One was “SBI Cards & Payment Services”, which markets and distributes SBI Cards in India. The other was “GE Capital Business Processes Management Services”, which handles the technology and processing needs of SBI Cards in India. In this joint venture, the brand name that has been used belongs to the Indian bank while the MNE provided the technical support.

In the following paragraphs we describe the two parties to the joint venture and the purposes and terms of the joint venture itself.

The State Bank of India

The State Bank of India (SBI) is the oldest and largest commercial bank in India. The bank's 194-year history dates back to the formation in 1806 of the first of the three presidency banks of Bengal, Bombay, and Madras, and their subsequent amalgamation into the Imperial Bank of India in 1902. It was transformed into the State Bank of India in 1955 when it was taken over by the Indian government. To mobilize capital both from low and high-income groups, the government of India promoted the bank all over the country. In 1994, the Indian government reduced its stake by floating shares to the public. However, the Central (the Reserve) Bank of India owns 59 percent of SBI’s equity. In 2001, SBI was the largest commercial bank in India, with total assets of US $ 67.71 billion, total deposits of US $ 52 billion and net profits of US $ 344 million. In that year, it had a countrywide network of 9,019 branches and employed 214,845 people. It commanded one-fifth of the deposits and loans of all scheduled commercial banks in the country.

SBI is the founder and a flagship member of the SBI Group which is a giant commercial and investment banking group that dominates the Indian scene with its eight commercial banking associates and four subsidiaries, encompassing more than 13,000 branches. They account for 27.23% of the aggregate deposits and 30.38% of total advances in India’s domestic banking sector. The bank's subsidiaries handle merchant banking, mutual funds, home financing, factoring, credit cards, etc.

GE Capital in India

GE Capital is the financial services arm of the General Electric conglomerate. GE Capital Services is a global diversified financial services company with 28 distinct businesses. With assets of US $300 billion in 1998 its net earnings reached US $3.8 billion and the company achieved a 23.5% return on equity. Its businesses are in the areas of equipment management, consumer services, mid-market financing, specialized financing and specialty insurance and include global operations in Europe, Asia and Latin America. With assets aggregating $18 billions in terms of credit card receivables, GE Capital Services issues a range of credit cards across the globe. The company's credit card issuance figure is approximated at over 70 millions.

GE Capital Services India was established in October 1993 as a wholly owned subsidiary of GE Capital Services. It is one of the most highly capitalized financial services companies, with a combined, estimated asset base of Rs. 35 billion and a credit rating of AAA (SO) by CRISIL and Duff & Phelps (highest safety). It has two types of operations in India: one caters to the Indian financial markets and the other encompasses the back-end technical support units for its global operations. The motivation behind the latter operation is to take advantage of the abundant English-proficient, low cost skilled and semi-skilled workforce, available in India, for its global operations. GE Capital's Indian market focus includes consumer finance, commercial equipment finance (including truck financing) and commercial finance.

GE Capital's Business Process Management Services (GE Capital International Services) was established in India as a wholly-owned subsidiary in 1996 to assist client organizations in maximizing the speed and efficiency of their current internal and external processes with cost, quality and service advantages. The company has established its remote processing centers in India in Gurgaon (near Delhi) and in Hyderabad in southern part of India to cater to its expanding remote processing services business. It has also established a Decision Science Center in the city of Bangalore, which is responsible for developing predictive tools and models for all aspects of customer management. The center provides back office processing services to GE companies in the US, Europe and Asia Pacific.

The SBI and the GE-capital Joint Venture for Credit Cards

In early 1998, two joint ventures between SBI and GE-capital were established to market, issue and service bankcards under the name, "SBI Cards". One was the SBI Cards & Payment Services, which distributes SBI Cards, and the other was GE Capital Business Processes Management Services, which handles the technology and processing needs of SBI Cards in India. This branch aims to leverage brand equity and customer relationship by combining the countrywide network of SBI with GE Capital's technology, processes, risk management, retail marketing and service capabilities. GE Capital holds 60 percent while SBI holds the rest of the equity stake in this joint venture. The new company was to have an initial capital base of Rs. 1,000 million. The SBI card will operate on the Visa network initially, but later on the Master Card settlement systems as well.

When the SBI-GE venture was launched in 1998 there were an estimated 2.5 million cards in circulation in India, with foreign banks such as Citibank accounting for 40 percent, and Standard Chartered, HSBC, and ANZ claiming a chunk of the rest. These banks have concentrated their card business on high-income groups in a few large metropolitan areas. The credit card market at the end of the nineties was nascent with high growth potential. In 2001, the market was estimated to be at 5.5 to 6 million credit cards growing at 20-25 percent annually (Business Line, Jan 26, 2002).

With its countrywide banking network of approximately 14,000 branches, SBI targeted middle-income groups, most of whom were already its customers. The company under-priced its credit card annual fee at Rs. 500, compared to the industry average of Rs. 750. Then it leveraged its backend operations with GE Capital to ensure that applications were processed within two weeks to beat the industry norm of five weeks. The annual fees would be waived for any card delivered after two weeks of application. Within 16 months of the launch, SBI Cards achieved a customer base of 0.25 million in 25 cities. In 2000, 0.9 million cards had been issued covering about 41 large and small cities across the country.

The back-end technical processing support of GE Capital facilitates fast and efficient bill processing, which reduces the incidence of customer default. In the credit card business, high incidence of default results in the lemon problem of adverse selection (Akerloff, 1970; Spence, 1976). The SBI-GE Capital joint venture of combining SBI's brand-equity and the countrywide network of SBI with GE Capital's backend processing support speeds up service and bill collection. This also helps in achieving highly competitive service and interest costs on credit card use that, with resultant low interest rate charges that, in turn, suit the middle-income groups particularly well.

Case 2: The SBI-Cardiff Joint Venture in the Insurance Market

Another case study that has very similar features to the SBI and GE Capital joint venture is the joint venture between SBI and the French multinational firm, Cardiff in the Indian insurance market. The public sector firm, the Life Insurance Corporation of India monopolized the Indian insurance market, until the year 2000. In that year, the market was opened up to private firms. Several leading state-run banks in India saw a major opportunity to leverage their vast branch networks through entry into the insurance sector when it was opened up to private participation. During this period, banks entering the insurance markets gained ground in India. The model of providing a packet of financial services together on a one-stop-shop basis started to take root and gain ground.

As mentioned previously, the State Bank of India has the largest established network of branches and banking customers in India, which it could leverage to provide insurance products. However, it had no experience or innate knowledge of the insurance business, which forced it to search for a partner. After negotiating with several MNEs including the French firm Cardiff, GE Capital and the Dutch-Belgian financial group Fortis, SBI finally selected Cardiff as its partner for entering the Indian insurance market. A major reason for this choice was Cardiff's extensive experience in providing insurance through banks, the company having pioneered the concept of 'Bancassurance'. Under this concept, the insurance activity is fully integrated into the banking activity with appropriate sales support and marketing techniques.

Cardiff Insurance is part of the French group, BNP Paribas, which already had a presence in the Indian banking sector. Cardiff was created following the diversification of its parent as the insurance arm of Paribas in 1973. The insurance business grew rapidly, with the company selling products through other banks. Cardiff has developed over 100 different partnerships with financial and other institutions in 23 countries, and distributes insurance products through bank branches, independent financial advisors, and non-traditional channels such as direct marketing and telemarketing.

SBI established the joint venture "SBI-Life Insurance" with Cardiff in mid-2001. Cardiff owns a 26 percent equity stake while SBI holds the rest. Cardiff is to play a silent role in the partnership although it will play a key part in devising products for the joint venture that are specifically targeted at bank customers. The joint venture in India is marketed under SBI's brand name, SBI-Life Insurance, and not by the brand name of Cardiff.

Through this joint venture, SBI intended to provide a number of products to suit different segments of the population in the Indian market, given its large network of branches and banking customer base in the country. Cardiff functions as a wholesaler, product developer, pricing and systems and training expert. According to Cardiff's management, the name that the Indian customers would identify with would be that of SBI, while the Cardiff's name would appear in the small print, similar to the case of the joint venture between SBI and GE Capital in the credit cards market. SBI Life Insurance will sell banking-related products devised by Cardiff, such as life insurance-linked credit insurance and unit-linked products. These products will be sold over the SBI counters to customers using the SBI name. SBI, in conjunction with its credit card business with GE Capital and its insurance business with Cardiff, provides customized insurance products for its cardholders (Business Line, January 25, 2001)

Discussion

In these two joint ventures, it was a local bank in a developing economy that provided the brand name while the MNEs provided the back-end services. In the case of SBI and GE Capital joint venture, GE-capital provided the back-end technical support while it was the SBI's brand name that was marketed on the credit cards. Also the MNE took the majority equity stake of 60 percent in the joint venture.

The central question of interest in this paper is what is the extent and nature of the knowledge and intangible asset intensity of GE Capital's backend transaction processing center, both in static and dynamic terms, insofar as they impact on the SBI-GE Capital joint venture in credit cards? The dynamic aspect is germane. If the degree of sophistication of the financial services provided by SBI increases, the complexity of back-end services will increase overtime. One can argue, on a static basis, that the knowledge intensity exemplified by GE Capital's backend transaction processing center does not exhibit significant intangible asset properties and can be seen as a tradable asset. Although, GE Capital's experience with financial services in the global market is a useful asset for SBI in the joint venture, this can be acquired by SBI without much difficulty from other providers. If this premise is valid, then GE Capital's relative advantage can be argued to stem mainly from the capital cost of the venture. GE capital has ready made back-end processing operations in India for SBI to utilize and since capital cost for GE are lower than for SBI, GE capital would be in a position to provide the service cheaper than if SBI has to set up the operation itself. This, in turn, facilitates provision of the services at competitive prices, which helps SBI to compete more effectively with local and multinational banks in the country than it could do on its own. As mentioned before, GE Capital has the majority equity stake in the joint venture at 60 percent. GE Capital invested in an "income earning asset" in the venture in terms of back-end processing and technology. GE's investment in this joint venture in India could provide higher future returns than in the US, as the Indian market is at nascent stage and growing at a high rate.

In the case of the SBI and Cardiff joint venture in the insurance market, the partners combined two of their firm-specific intangibles. SBI provided the intangible asset of its brand name and the tangible asset of its branch network. Cardiff provided its expertise in making and selling insurance products through banks, which can be treated as having a degree of intangible asset properties.

The pertinent question then becomes why the MNEs, GE Capital and Cardiff, did not use their brand names and go for an integrated venture instead of forming a joint venture with the SBI? A plausible answer is that SBI has a large established network of branches and a significant customer base across the country. Over the years, it built up strong brand equity with its customers particularly the middle-income group (the middle class). The middle class market for credit cards and insurance products has a higher growth potential than higher income groups.

Secondly, the financial services market has certain unique characteristics, which makes it different from other services and manufactured goods. The incidence of high agency costs associated with moral hazard and adverse selection is more prevalent in the financial markets than in the other markets (Akerloff, 1970). The depositors need to have confidence in the bank to deposit their savings. Banking customers may have higher confidence in a local bank than in a foreign bank, especially when the government protects the local bank. Furthermore, the adverse selection outcomes or costs of default are higher, the larger the number of cardholders and policyholders for any single bank or financial institution. This, in turn, may discourage foreign banks to cater to the large section of middle class customers in India especially when market and institutional conditions are underdeveloped. On the other hand, SBI with its large network of branches and experience with local customers in conjunction with the back-end technical processing of GE Capital would be able to reduce the adverse selection costs. In essence, the intangible assets pertain to the local bank with its country specific brand name and institutional experience while the MNE provides back-end technical support with a capital cost advantage.

The value-addition in the joint venture through the complimentarity of the assets of the partners can observed by invoking the concept of ‘revenue distance’ (Aron and Singh, 2002.) Revenue distance is the distance between the final sale of the service and the first step of value-creation; similar to the ‘value-chain’ concept that reveals the sources of value creation along vertical lines. The point at which the customer buys a credit card is the one where the revenue distance is zero. There are multiple processes and steps behind providing a specific financial service or product: first is finding the profile of the customer to separate out potential ‘lemons’, which requires processing information about a large number of customers. The information is generally collected from credit rating agencies but in this situation, since SBI has a large base of banking customers, it already possesses the information. Larger the number of steps involved in collecting and processing the information, the greater is the revenue distance. After the credit service is sold to a customer, the task of processing the usage and payment patterns of the customers and getting timely payments with minimum defaults becomes the next crucial step.

In the joint venture for providing credit card service, SBI has the customer base and identifies the potential customers for the credit card service within the pool. GE undertakes the back-end processing of the customer profile before the credit cards are sold. The ensuing stage is the processing of the information on usage and payments patterns of the customer base to minimize the defaults. The important question that follows is what are the possible risks to the partners in the venture? The risks for SBI could be that once it gives the customer information, the information may rest with GE, which increases its bargaining power. Further conjecture is that it could use that information to break up the joint venture and start its own credit card service. Finally, it may behave opportunistically once it accumulates the customer information to renegotiate the terms of the contracts.

As the financial services become more sophisticated and complex in response to intense competition, which induces firms to create new sources of value and strengthen the means of monetizing the value (Aron and Singh, 2002), the lock-in and switching costs for SBI with GE may increase. This means GE’s firm-specific advantage may become more sticky and difficult to replicate by SBI in the future. In other words, GE’s service, which began as low-end technical support at the beginning, may develop strong intangible asset properties as market complexity and back-end processing sophistication increase. The degree of lock-in depends on the kinds of services that are outsourced to GE - if complex financial services such as real time updating of customer balances, operating expenses control and yield computations are outsourced to GE, SBI will become highly dependent on GE's services.

When the complexity of the services increases and the revenue distance decreases, it's better for the final service provider, namely SBI, to set up its own captive processing unit instead of outsourcing. This is where the issue of how sticky or firm-specific GE's advantage becomes in dynamic terms assumes a crucial influence on SBI's ability to develop capabilities to replicate the back-end service assets of GE.

In the case of the joint venture between the SBI and Cardiff in the insurance markets, Cardiff had strong intangible assets at the beginning itself. As the services provided by the venture increases, the relative advantage and bargaining of Cardiff in the partnership will increase as it augments the complexity of its intangible services. If Cardiff is able to develop its reputation and build a critical customer base of its own, it has the incentive to break up and go on its own in the future.

The issue of joint ventures between MNEs and local firms in the host country is basically an extension of the internalization issue along the lines of Williamson's (1985; 1999) transaction cost theory. If savings in costs of production are higher than transaction costs of the joint ventures, joint ventures are profitable (Kogut, 1988). In Williamson's theory, agents invest in assets specific to a transaction after they enter into a contract. In other words, assets are acquired after the contracts are formulated, and opportunism takes place when one of the agents gets locked into an asset specific to the transaction.

On the other hand, in the resource-based view of the firm (Penrose, 1959; Teece, 1982), different firms (agents) possess different (physical and human capital) assets prior to a contract (joint venture). If the assets possessed by the two agents are complimentary, there is an incentive for a joint venture to form.

In the case of the SBI and GE Capital joint venture, GE Capital did not have to invest large sums in relation-specific assets, as it could leverage upon its existing back-end-processing infrastructure in India. On the basis of the existing infrastructure, it added employees to cater to the technical processing side of the venture. These employees could be re-deployed to other uses or fired without much costs or difficulty if the collaboration breaks down. Similarly, SBI has the pre-existing asset of a large customer base. SBI invested in marketing and building the brand name of the credit card, mostly among its large number of depositors. As the complexity of the financial services provided by SBI increases, the costs of hold-up increase which may eventually necessitate SBI setting up its own back-end operations.

Our analysis not only combines Williamson's transaction costs approach (by focusing on relation specific investments and hold-up) and the resource based view of a priori resources of the partners, but also expands on both to incorporate dynamic considerations. This leads to a more complete understanding of the dynamics of the changing bargaining positions of the partners. Most analyses of joint ventures invoke one or the other of the theories. In addition, they provide mostly a static or structural view of the joint ventures. Here we have incorporated process aspects. Given the inherent instability of joint ventures, a structural analysis that omits process considerations leads to a partial understanding of joint ventures, at best.

To recapitulate, SBI had ready access to a large customer base and GE capital had a ready-made back-end processing infrastructure in India and both partners formed the joint venture to leverage on their pre-existing assets. At the inception, there were no significant relation specific investments or risks of hold-up by the partners to worry about in static terms. However, as the complexity of the financial services provided by SBI increases, the 'revenue distance' decreases, which will increase the potential incidence and costs of hold-up especially for SBI. If SBI is able to realize this on an ex ante basis, it can be expected to eventually make efforts at appropriating the back-end technology of GE capital. GE will have two possible future decisions to address - 1) if its back-end technology can be copied by SBI over time without much difficulty, it would be reluctant to invest in relation specific-assets in dynamic terms and/or 2) it will make systematic efforts to make its back-end technology advantage sticky and non-tradable.

The archival reports on the basis of which data have been obtained on the two joint ventures do not allow us to definitively show that these dynamic considerations were absent in the analysis of the joint venture by the respective partners, but from a careful reading of numerous reports and looking at the data from all angles, we find that the main motivation for the joint ventures lay in the readily apparent complementarities in the assets of the participating firms. The foreign entry aspirations of the overseas partner combined with the interest of the local partner in accessing new capabilities is often the sole criterion for such joint ventures. We have highlighted the need for caution in omitting important considerations of potential asset holdups as the joint ventures unfold. We do not view such holdups as necessarily arising from the inherent opportunism of either partner, but rather from the inevitable market complexity that follows in the wake of rapid growth in newly emerging economies.

Conclusions

Increasing globalization has contributed to the phenomenon of giant multinational firms leveraging their international brand names across the globe. The brand names and reputations of global MNEs are supposedly more effective in developing economies because of relatively underdeveloped local firms. However, rapidly growing large economies such as India present complex dynamics for MNEs and complicate their choice of organizational entry mode. India has come to be known as a very attractive destination for MNEs for skill arbitrage across international markets. Secondly, a growing economy presents the opportunities for the creation of new markets. This market development will have significant retrospective implications for MNEs. In this note, we have discussed two cases of joint ventures between a local bank and two multinationals in financial services in which the local bank contributed a brand name (an intangible asset) while the MNE provided the back-end technical support. The joint ventures created and expanded (new) markets for financial services such as credit cards for middle-income groups. However, the sophistication and complexity of the services will increase over time as the economy grows and consumers mature. The issue of the consequent implications, both in terms of kind and severity, on the dynamics of the relations of the partners in the joint venture warrants further scrutiny and careful study.

A resource based analysis of the joint venture between the SBI and GE Capital would suggest that the firms leveraged their pre-existing assets to form the venture using clearly evident complementarities. To incorporate the hazards of investing in relation specific-assets and the possibility of hold-up, we need to supplement this limited view with insights from Williamson's transaction costs theory. We examine the cases in dynamic terms, and note that when market expansion and the resulting increase in service complexity is factored in; it becomes clear that the partners have to invest in relation specific-assets. The probability of hold-up by either side will increase, even if such considerations may have seemed moot at the inception of the ventures. As mentioned before, with increasing complexity of financial services, the 'revenue distance' of the service decreases, which increases the bargaining power of the back-end service provider and the need for the front-end financial service provider to integrate the back-end part. In other words, even though the firms got into a joint venture with low hazards of hold-up owing to their pre-existing investments, in dynamic terms there are possibilities of hold-up. What are the possible strategic business policy implications of this? On an ex ante basis itself, the partnering firms should attempt to foresee the dynamics of change and the fluid markets of an emerging economy. They need to adopt appropriate hold-up hazard mitigating strategies.

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