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Internationalization of Indian Enterprises: Patterns, Strategies, Ownership Advantages and Implications

Nagesh Kumar*

Abstract: The recent spate of large cross-border acquisitions e.g. Tata Steel-Corus, Hindalco-Novelis, and Tata Motors-Jaguar/Land Rover, among others and Greenfield investments by Indian companies have helped in focusing attention on the emergence of new corporate players on the global scene. India's emergence as a source of FDI outflows is impressive for its level of development. It is argued that the destinations, sectoral composition, motivations, and entry strategies of Indian investments have been changing with magnitudes. This paper examines the sources of Indian companies' ownership advantages and trends, patterns and implications. It has been argued that the source of their ownership or competitive advantage lies in their accumulation of skills for managing large multi-location operations across diverse cultures in India and in their ability to deliver value for money with their 'frugal engineering skills' honed up while catering to the larger part of income pyramid in India.

Keywords: outward investment, emerging multinationals, Indian multinationals, India, internationalization of Indian companies, acquisitions by Indian companies, ownership advantages of Indian multinationals
***JEL Codes**:* F21, F23.

1. Introduction

The recent spate of large cross-border acquisitions e.g. Tata Steel-Corus, Hindalco-Novelis, and Tata Motors-Jaguar/Land Rover, among others and Greenfield investments by Indian companies have helped in focusing attention on the emergence of new corporate players on the global scene.

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Rising numbers and magnitudes of outward investments by Indian companies have made it an important and perhaps more dynamic aspect of increasing global economic integration of Indian economy along with trade in goods and services and inward FDI. India's emergence as a source of FDI outflows is impressive for its level of development. It is argued that the destinations, sectoral composition, motivations, and entry strategies of Indian investments have been changing with magnitudes. Some of the recent acquisitions included Indian companies targeting much larger companies based in developed countries. What have been the motivations of Indian companies' strategies to invest abroad and how have they changed over time? While leveraged buyouts enable financing of such deals, ability to find financial resources is generally not enough for such investments. The theory of internationalization of firms makes outward investments conditional upon ownership of some firm specific intangible assets that have revenue productivity abroad or provide some leverage to their owners. What are the sources of Indian companies' ownership advantages? What are the emerging patterns in the outward investments by Indian enterprises in a global comparative perspective and their implications for the enterprises and the home economy? These are some questions that this paper attempts to explore.

2. Outward FDI Policy and Trends in Indian Outward FDI

2.1. Evolution of Outward FDI Policy

The early policy of the Indian government towards outward FDI in force during the 1970s permitted only minority participation by Indian companies by way of export of capital goods rather than cash outflows in view of domestic capital and foreign exchange scarcity. In April 1978, an Inter-Ministerial Committee in the Ministry of Commerce was set up to clear proposals for Overseas Investments. As a part of economic reforms since 1991, policy governing outward investments was also liberalized in 1992 when an automatic approval system for overseas investments was introduced, and cash remittances were allowed for the first time. The total value of investment was restricted to $2 million with a cash component not exceeding $0.5 million in a block of 3 years. In 1995 a single window was created in the Reserve Bank of India (RBI), a fast track route was introduced and

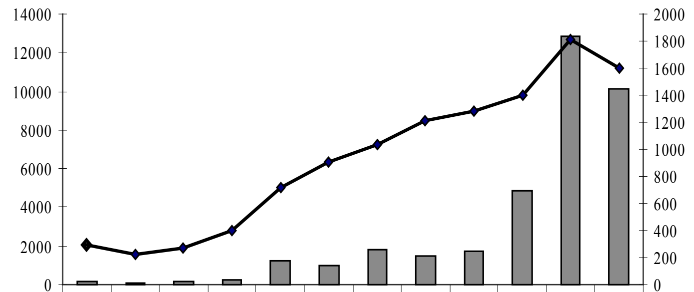
investment limit was raised from $ 2 million to $ 4 million. Beyond USD 4 million, approvals were considered under Normal Route at the Special Committee level. Investment proposals in excess of US $ 15.00 million were considered by MoF with the recommendations of the Special Committee and generally approved if the required resources were raised through the GDR route. With the introduction of Foreign Exchange Management Act in 2000, the policy with respect to outward investment was overhauled and the limit for investment was raised to US$ 50 million. Companies were allowed to invest 100 per cent of the proceeds of their ADR/GDR issues for acquisitions of foreign companies and outward direct investments. The limit was raised in March 2002 to US$ 100 million for automatic route. In a significant liberalization of policy governing outward investments in March 2003, government allowed Indian companies to invest under automatic route upto 100 per cent of their net worth. This limit was raised further to 200 per cent of net worth in 2005, to 300 per cent of net worth in 2007, and finally to 400 per cent of net worth in 2008 to facilitate large acquisitions as the foreign exchange reserves of India built up.[1] The government policy, therefore seems to have been guided by the relative foreign exchange scarcity in the country besides the recognition of the importance of outward investments for the overall competitiveness of Indian industry. It has three distinct phases of evolution, viz. restrictive policy during 1978-92, permissive policy during 1992-2003, and liberal policy, since 2003 (Nayyar 2007).

Recognition of the outward investments for competitiveness of enterprises has also resulted in creation of financing facility for outward investments by Indian companies through the Export-Import Bank of India (Exim Bank). Exim Bank has extended term loans to Indian companies for funding their investments in overseas affiliates ever since its inception in the early 1980s. Currently the Bank's Overseas Investment Finance (OIF) program provides financing for both equity as well as loans of Indian companies in their affiliates abroad. Since April 2003, Indian commercial banks have also been permitted to extend credit to Indian companies for outward investments. In November 2006, the prudential limit on the bank financing was raised from 10 per cent to 20 per cent of overseas investment. From 2005, Indian firms were allowed to float special purpose vehicles in international capital markets to finance acquisitions abroad facilitating the use of leveraged buy-outs in international financial markets. Therefore, they were provided access to the expanding international capital market. While the enabling policy and access to international markets facilitated outward investments by Indian enterprises, these cannot be adequate by themselves. As per the theory of international operations of firm, a firm needs ownership of certain unique assets to be successful abroad.[2] The issue of ownership advantages which is central to ability of a firm to expand abroad is addressed in section 4.

2.2 Trends in Outward Investments by Indian Companies in a Comparative Global Perspective

Although Indian companies have been investing abroad since the early 1970s, the magnitudes of investments were quite small until mid-1990s when the investment limits were raised. However, the magnitudes as well as numbers of outward investments have suddenly swelled since 2000 to around US$ 1.5 billion per annum. Since 2005/06 the outward investments have climbed new heights as apparent from Figure 1. In 2005/6 the magnitude of outward investment by Indian companies was nearly US$ 5 billion and it jumped to

Figure 1: Outward FDI by Indian Enterprises, 1996-2008 (Million dollars and numbers)



	1996/7	1997/8	1998/9	1999/00	2000/1	2001/2	2002/3	2003/4	2004/5	2005/6	2006/7	2007/8* upto
Actual Outward FDI	205	121	143	271	1212	982	1799	1497	1768	4870	12880	10114
No. of Approvals	290	228	275	395	714	908	1034	1214	1281	1395	1817	1595

Note: *for April-December 2007.
Source: Author based on Ministry of Finance and RBI data.

US$ 12.8 billion in 2006/7. In the first nine months of 2007/08, Indian companies had already invested over US$ 10 billion.

To put the magnitudes of Indian outward FDI (OFDI) in a global comparative perspective, a comparison with other emerging countries would be in order. For this one has to turn to data compiled and reported by UNCTAD on a comparable basis. The UNCTAD figures for India, however, do not tally with Indian data reported by Indian sources as summarized in Figure 1.

Table 1 shows that outward investments from developing countries have over time gained in salience accounting for 14 per cent of global outflows in 2006 compared to just 8 per cent in 2003. The importance of key emerging economies namely Brazil, China, South Africa and India as sources of outward FDI among developing countries has increased over the past few years, as highlighted in the literature (Wells 1983, Lall 1983, Kumar 1998, Aykut and Ratha 2004, UNCTAD 2005, 2006; Goldstein 2007; among others). Their importance as sources of FDI has gone up in recent years with their combined share going up from 12 per cent in 2003 to 16 per cent in the next two years to a staggering 35 per cent in 2006. It would appear that 2006 has seen sharp rise in outward investments not only from India but also from Brazil, South Africa and China as well. It remains to be seen whether the increased was resulting due to some large acquisitions or whether it is the new scale of activity that will be sustained in the coming years. Some of outward investments are reported as emerging from tax havens such as British Virgin Islands and Cayman Islands and could be attributed to round tripping.

In terms of absolute magnitudes, share of outward FDI from India in outflows from developing countries at 6 per cent compared to 9 per cent for China is impressive considering the fact that Chinese economy is nearly 2.5 times that of India. Another comparison across countries is in terms of outward FDI as a percentage of gross fixed capital formation (GFCF) in the source economy also reported in Table 1. It suggests that the share of O-FDI in GFCF was higher for India than China in 2003-2004, roughly comparable in 2005 and again in 2006. OFDI/GFCF ratio for Brazil and South Africa is higher than China and India.

Table 1: FDI Outflows from Emerging Countries

(million US$)

	2003	2004	2005	2006
World	560087	877301	837194	1215789
Developed economies	503966	745970	706713	1022711
Developing economies	45372	117336	115860	174389
% share in total	(8)	(13)	(14)	(14)
South Africa	565	1352	930	6674
% share in developing countries	(1)	(1)	(1)	(4)
Brazil	249	9807	2517	28202
% share in developing countries	(1)	(8)	(2)	(16)
China	2855	5498	12261	16130
% share in developing countries	(6)	(5)	(11)	(9)
India	1879	2179	2495	9676
% share in developing countries	(4)	(2)	(2)	(6)
Total share of 4 emerging countries	(12)	(16)	(16)	(35)
FDI Outflows as a percentage of Gross Fixed Capital Formation				
World	8.4	10.1	9.2	11.8
Developed Countries	10.3	11.8	11.1	14.1
Developing Countries	2.1	5.5	4.7	6.4
South Africa	2.9	3.9	2.3	14.1
Brazil	0.3	8.6	1.8	15.8
China	0.4	0.7	1.5	1.9
India	0.8	1.2	1.4	5

Source: Compiled from on-line UNCTAD's FDI database and UNCTAD *World Investment Reports, 2004 and 2007.*

The above comparisons do not reflect on the profile of international enterprises originating in India and other emerging countries. A recent study by the Boston Consulting Group (BCG, 2008) has identified 100 companies (Global Challengers) from rapidly developing economies (RDEs) that are globalizing and are likely to emerge as global players. This list covers Indian companies along with those from 13 other emerging countries and hence could also be useful in putting the globalization of Indian enterprises in a comparative global perspective. The BCG list is dominated by two Asian countries namely China and India with 41 and 20 companies in global

100 respectively. The next country in the list viz. Brazil has only 13 companies. According to the key characteristics of Chinese and Indian companies summarized in Table 2, on average Indian companies are much smaller in scale compared to their Chinese counterparts but have much higher proportion of international sales at 47 per cent compared to just 17 per cent in case of Chinese companies. A striking difference is the fact that all the 20 Indian companies are publicly traded companies and none of them is state owned while 29 of 41 Chinese companies are state owned. A greater proportion of acquisitions (78%) by Indian companies was in developed countries compared to those by Chinese companies (68%). Therefore, profile of an Indian company emerges to be one of a fast growing and rapidly internationalizing company that is publicly traded and privately managed compared to larger state owned enterprises of China.

Table 2: Key Characteristics of Indian and Chinese Globalizing Companies

	India	China
No. of companies in BCG 100	20	41
Average size, US$ billion	3.9	14.5
CAGR, %	31	26
Share of international sales, %	47	17
Operating profit margin, %	16	14
CAGR of total share holders return, %	38.2	27.7
Public traded (quoted)	20 out of 20	34 out of 41
State owned	None	29 out of 41
M&A deals by sample companies	26	17
Proportion of matured markets in M&A deals	68	78

Source: Compiled from BCG (2008).

Another study suggests that the bulk of the Chinese outward FDI is concentrated in Hong Kong (64 per cent), Cayman Islands (15.6 per cent) and Virgin Islands (3.5 per cent) which may be driven by the round tripping considerations to take advantage of tax preferences for foreign investors prevailing in China. In terms of motivations, Chinese outward investments are dominated by outward investments made by three state owned oil companies viz. CNPC, CNOOC and SINOPEC which are driven by natural resource seeking motive, although some manufacturing companies such as

Lenovo, TCL, Nanjing Auto are beginning to make acquisitions for technology and brands (Hagiwara 2006). The natural resource seeking investments are outward investments but not internationalization of operations. In India's case, most of the outward investments are undertaken generally by private enterprises seeking to internationalize their operations through horizontal acquisitions and Greenfield investments.

3. Emerging Patterns in Internationalization of Indian Enterprises

Changing Geographies

Alongside the magnitudes, the geographical and sectoral composition of Indian outward investments has also changed over time. Table 3 summarizes the geographical distribution of approvals of outward FDI by the Indian government. It reveals that the outward FDI activity of Indian enterprises in the pre-1990 period was largely concentrated in developing countries. The share of developed countries increased to more than a third during the 1990s, yet the bulk of the activity (63 per cent) remained concentrated in developing countries. However, in the new millennium the developed countries have become new focus of activity with nearly 54 per cent share of approved investments. The share of developed countries would have risen further in the past couple of years for which data is not yet available as some of the major multi-billion dollar deals have been in the developed countries.

Evolving Sectoral Composition

The sectoral distribution of O-FDI flows has also changed over time as summarized in Table 4. It is apparent that in the pre-1990 period, the bulk of O-FDI was concentrated in manufacturing sector and in services sector in a nearly two thirds and one third proportion respectively with negligible share of extractive sector. In the 1990s, the proportion changed gradually in favour of services with IT and related services becoming very important sector especially in the second half of 1990s. Among the manufacturing sectors, drugs and pharmaceuticals emerged as an important sector besides fertilizers and agrochemicals. In the first four years of the current decade for which data is available, extractive sector has enhanced its importance with more than a fifth of all approvals by

Table 3: Geographical Distribution of Approvals of Outward FDI from India, 2006

(million US $)

	Upto 1990	1991-95	1996-02	2002-06
South-East and East Asia	80.79	191	703.6	1486.46
South Asia	20.91	59.11	164.53	108.21
Africa	37.83	63.02	734.36	1569.82
West Asia	21.54	95.38	410.89	513.62
Central Asia	23.2	13.99	38.28	138.67
Central and East Europe	6.56	37.31	1750.03	1081.9
Latin America & the Caribbean	0.58	8.36	253.18	454.18
Developing Countries	191.52	468.21	4054.91	5352.92
% share in total	(86.09)	(63.80)	(63.33)	(46.20)
Western Europe	17.29	149.4	789.52	4084.23
North America	13.51	110.79	1546.41	1632.58
Developed Countries	30.89	256.6	2348.18	6233.91
% share in total	(13.89)	(34.97)	(36.67)	(53.80)
Total	**222.46**	**733.82**	**6403.09**	**11586.83**

Source: RIS Database.

value. Manufacturing sector has regained its importance with 56 per cent share of approved investments while the share of services sector has gone down to nearly 23 per cent. It would appear that internationalization of service sector enterprises has reached its plateau and now manufacturing enterprises are paying more attention to internationalization of their operations.

Changing Entry Strategies: Greenfield to Acquisitions

A major change has been with respect to entry modes. While Greenfield investments were the primary entry vehicles for O-FDI in the pre-1990s as well as during the 1990s, acquisitions occupy an important place in the entry strategy in the current decade (as is clear from Table 5). As per Table 5, Indian companies made purchases outside India of the value of US$ 4.74 billion. In 2007, Indian companies are reported to have spent US$ 32.73 billion on overseas M&A deals.[3] However, large acquisitions generally involve leveraged buy-outs based on capital raised in international capital markets and are not reflected in the outward FDI figures.

Table 4: Sector-wise Distribution of Outward FDI from India

($ million)

	Pre-1990	1991-95	1996-00	2001-04
Extractive	4.04	1.53	59.61	979.42
% share in total	(1.82)	(0.21)	(1.71)	(20.86)
Exploration & refining of oil	0.02	1.52	59.58	913
Exploration of minerals & precious stones	4.02	0.01	0.03	66.42
Manufacturing	145.22	406.2	1224.96	2647.6
% share in total	(65.28)	(55.38)	(35.19)	(56.39)
Oilseeds, food products & processing	9.06	31.94	37.38	62.08
Textiles and garments	9	44.84	67.71	27.94
Wood, pulp and paper	11.51	0.7	17.02	1.77
Leather, shoes & carpets	20.55	11.45	16.95	6.74
Chemicals, petro-chemicals & paints	7.82	52.95	39.17	2114.2
Drugs & pharmaceuticals	4.72	54.48	168.1	223.32
Rubber, plastic & tyres	2.32	2.84	82.95	25.34
Cement, glass & building material	4.19	27.47	52.31	2.84
Metals	16.17	14.38	36.29	43.12
Electrical & electronic equipments	2.11	6.42	84.44	16.39
Automobiles and parts thereof	3.21	2.93	21.07	59.05
Gems & jewellery	0	6.25	11.59	14.62
Electronic goods & consumer durables	0.27	8.82	11.93	4.98
Beverages & tobacco	3.24	17.61	124.43	16.05
Engineering goods & industrial machines	8.53	13.35	52.86	8.33
Fertilizers, pesticides & seeds	39.93	32.87	294.09	3.68
Miscellaneous	2.59	76.89	106.68	17.15
Services	73.2	325.77	2196.4	1068.24
% share in total	(32.91)	(44.41)	(63.10)	(22.75)
IT, communication & software	5.64	120.84	1233.54	746.46
Hotels, restaurants, tourism	24.96	52.88	59.56	16.1
Civil Contracting & engineering services	1.8	2.45	14.12	14.7
Consultancy	0.43	1.53	6.53	2.8
Trading & marketing	12.47	90.89	5.56	3.11
Media broadcasting & publishing	0.01	0.5	739.13	77.12
Financial services & leasing	26.32	37.92	57.56	125.95
Transport services	0.55	11.17	37.16	61.21
Other professional services	1.05	7.6	43.08	20.79
Total	**222.45**	**733.5**	**3480.98**	**4695.26**

Source: RIS Database.

Table 5: Cross-border M&A Purchases by Indian Companies, 2004-06

	2004	2005	2006
Acquisitions (Number)	64	91	133
Value of acquisitions (million US$)	863	2649	4740

Source: compiled from UNCTAD (*2007*).

In terms of entry strategies of Indian companies, the acquisition of Tetley by Tata Tea in 2000 for US$ 407 million was perhaps a turning point. It was for the first time that an Indian company acquired a major industry champion in the west much bigger in size than itself through leveraged buyout. The acquisition provided to Tata Tea a global brand, worldwide marketing network and packaging technology of Tetley. Thus Tata Tea could instantly combine its production bases and plantations in India and Sri Lanka vertically with the front end of Tetley giving access to customers across the world. Following the acquisition, Tata Tea has now emerged as the world's second largest global branded tea operation with product and brand presence in 40 countries and has been able to enhance its value addition considerably by being able to sell the bulk of its tea as tea bags.[4] The successful acquisition opened the floodgates for such acquisitions for Indian companies trying to establish themselves as significant players in the western markets in value added consumer goods and services. Indian companies trying to build their niche in the consumer goods industries in the western markets have learnt that it is an extremely painstaking and slow process prone to high risks, as demonstrated by Titan's experience. Titan Industries attempted to break into the stronghold of the Swiss watches in the western European markets with products designed especially for the markets backed by a heavy advertising and marketing effort to build a brand following. However, the effort had rather limited success and the company had to pull out of a number of Western European markets and consolidate its presence in a few where it had made a mark.[5]

After successful experience of Tata-Tetley, major Indian companies with global ambitions have increasingly employed acquisitions as entry mode besides greenfield entries for penetrating the overseas markets. In particular, acquisitions of companies with regional or global footprints seemed attractive to fulfil the global ambitions of Indian companies in an expedited manner.

4. Changing Motivations and Ownership Advantages

Market-seeking to Strategic Assets Seeking Strategies

The changing entry strategies in favour of acquisitions, partly reflects the changing motivations for outward investments by Indian companies. Initially (during the 1970s and 1980s), outward investments made by Indian companies were of *market-seeking* nature designed to exploit the revenue productivity of their scaled down technology and capital goods adapted to developing country situations. Hence, they were primarily concentrated in relatively poorer countries in Asia and Africa and focused on relatively matured technology areas of manufacturing such as metal products, edible oil refining, paper, light engineering, among others.[6]

In the 1990s, Indian enterprises emerged as important players in generic pharmaceuticals and in IT software services in the global markets. As exports in these areas require local presence, outward investments were undertaken by Indian companies to support their exports. Hence, O-FDI during the 1990s comprised generally *trade supporting* type. The geographical coverage began to shift in favour of developed countries which emerged as principal markets for Indian generic drugs and the software services.

In the current decade the motivation for outward investment has been globalization of operations and increasing the scales. Indian enterprises in the course of their evolution developed certain ownership advantages that could be exploited abroad. Exposed to globalization through their export-orientation and inward FDI through liberalization of the trade and investment regimes under structural reforms undertaken by the government since 1991, the Indian companies began to develop global ambitions. Realizing these ambitions through Greenfield investment strategies and building brand names and other strategic assets such as access to marketing networks and access to customers is a painstaking and slow process. Hence, acquisition of established companies with global footprints appeared to be a right strategy for Indian

companies. Hence, the motivation for OFDI during the current decade has been dominated by *strategic assets seeking,* although many market-seeking Greenfield investments and natural resource seeking investments are being made. The strategic assets include not only access to brands and customers, but sometimes also proprietary technology. The acquisition of Thomson's CRT business by Videocon, for instance, not only passed on to the Indian company, plants in China, Italy, Poland and Mexico but also access to Thomson's technology, patents and R&D centres. Other motivations have included access to natural resources such as minerals. Some acquisitions by Indian companies have been driven by *natural resource seeking* objective. These include investments by ONGC Videsh in Russia, Sudan, and other countries, Tata Power's investments in coal mines in Indonesia, among others (Table 6 for a list of select acquisitions). That still leaves the question of ownership advantages of Indian companies that enable them to successfully acquire established global companies.

Sources of Ownership Advantages for Indian Enterprises

The theory of international operation of the firm – which has evolved over the years with the contributions from Hymer (1976), Caves (1971) and Dunning (1979) among many others – posits that the ownership of some unique advantages having a revenue generating potential abroad combined with the presence of internalization and locational advantages leads to OFDI. Enterprises based in the industrialized countries have emerged as MNEs on the strength of ownership advantages derived from innovatory activity that is largely concentrated in these countries. Very little is known about the sources of the strength of enterprises based in developing countries, such as India, that enables overseas investment.

'Frugal Engineering Skills' or the Ability to deliver Value for Money as an Ownership Advantage

It has been argued that the main source of the advantage enjoyed by Indian enterprises was their ability to absorb, adapt and build upon the technologies imported from abroad rather than produce completely novel technologies. Indian enterprises have accumulated considerable learning and technological capabilities, during the first four decades of independence, under the import substituting industrialization policy pursued by the government (Lall, 1986;

Table 6: Select Major Acquisitions by Indian Companies since 2000 by Motivation

Indian Firm	Target Firm	Country	Industry	Value (US $ million)	Year
Strategic Assets Seeking					
Metals and Products					
Tata Steel	Corus Steel	U.K.	Steel	12100.00	2007
Tata Steel Ltd.,	Millenium Steel Plc.	Thailand	Steel	175.0	2005
Tata Steel	NatSteel Asia Pte.	Singapore	Steel	283.7	2004
Hindalco	Novelis	U.S.A.	Aluminium	6000.0	2007
Ispat Industries Ltd.,	Finmetal Holdings	Bulgaria	Steel	300.0	2005
Pharmaceuticals					
Dr. Reddy's	Betapharm Arzneimittel GmbH	Germany	Pharmaceuticals and Healthcare	570.3	2006
Ranbaxy Laboratories Ltd	Terapia SA	Romania	Pharmaceuticals and Healthcare	324.0	2006
Matrix Laboratories	Docpharma NV	Belgium	Pharmaceuticals and Healthcare	234.7	2005
Automobiles					
Tata Motors	Daewoo Commercial Vehicles	South Korea	Automotive Equipment	102	2004
Tata Motors	Jaguar and Land Rover Motors	UK	Automotive Equipment	2, 500	2008
Tata Motors	Hispano Carrocera	Spain	Automotive Equipment	15.5	2005
Bharat Forge	Federal Forge	USA	Automotive Equipment		2005
FMCG					
Kraft Foods Ltd.,	United Biscuits	UK	Food & Beverages	522.0	2006
Tata Tea	Tetley Group	UK	Food & Beverages	431.2	2000
Tata Tea and Tata Sons	Glaceau	USA.	Health Drinks	677.0	2006
Tata Coffee	Eight o' Clock Coffee Co.	USA.	Food & Beverages	220.0	2006
United Spirits	White & Mackay	UK	Food & Beverages	1110	2007

Table 6 continued

Table 6 continued

Indian Firm	Target Firm	Country	Industry	Value (US $ million)	Year
Power Generation and Electronic Engineering					
Suzlon Energy	Hasen Transmissions	Belgium	Wind power generation equipment	565.0	2006
Suzlon Energy	Repower Systems	Germany	Wind power generation equipment	1700	2006
Videocon International	Thomson SA (CRT business)	Europe, China, Mexico	Electronics	289.2	2005
Opto Circuits India Ltd.	Eurocor GmbH	Germany	Medical Equipments	600.0	2005
Information and Communication Technology (ICT)					
Wipro Ltd	Infocrossing	USA	Information Technology	600	2007
I-Flex Solutions	Mantas Inc	USA	Information Technology	113	2006
Sasken Communication Tech Ltd.,	Bornia Hightec	Finland	Information Technology	210.0	2006
Tata Consultancy Services	TKS Technosoft	Switzerland	Information Technology	80	2006
Seagate Tech Ltd.,	Evault Inc.	USA	Information Technology	185.0	2006
Citrix Software Pvt. Ltd.,	Sequoia Software	USA	Information Technology	184.6	2001
VSNL Ltd.,	Teleglobe International Holdings Ltd.,	USA	Telecom	254.3	2005
Reliance Infocomm	Flag Telecom	USA	Telecom	191.2	2003
Natural Resource Seeking					
ONGC Videsh	Petrobras	Brazil	Petroleum	1400.0	2006
ONGC Videsh	Greater Nile Oil Project	Sudan	Petroleum	766.1	2002
ONGC Videsh	Sakhalin-I PSA Project	Russia	Petroleum	323.0	2000
ONGC Videsh	Greater Plutonio Project	Angola	Petroleum	600.0	2004
Ballarpur Industries Ltd.,	Sabah Forest Industries	Malaysia	Pulp and Paper	209.0	2006
Tata Power	PT Bumi Resources	Indonesia	Coal Mining	1100	2007

Source: Author based on information from FICCI, IBEF, and media reports.

Kumar, 1996, 2007). Sometimes, these included adaptation of imported designs to make them appropriate for local climatic conditions and poor infrastructure. For instance, the suspension in Indian made vehicles was adapted for dealing with the poor quality of roads. Some of these adaptations were also found appropriate in other developing countries. However, a more remarkable feature of Indian innovations has resulted from Indian enterprises' evolution in a low country setting and hence dealing with highly price conscious and demanding customers. As the volumes in India lay at the bottom of the pyramid, the companies focused on innovations for developing affordable yet functionally efficient products. Indian pharmaceutical and chemical enterprises developed cost-effective processes of known chemical entities, helped by the absence of product patents in India until 2005. With this capability, they began to enter the generics market in the United States and other developed countries after the expiry of product patents. They have emerged as the most competitive suppliers of generic medicines and are now being invited by a number of governments in Africa and elsewhere and international foundations to supply cheap drugs for public health programmes.[7]

Similarly, Indian automobile producers, in order to cater to some of the most demanding customers in the world at their home base has given to Indian companies a unique ability to deliver value for money. Tata Motors, for instance, was not only able to design and develop the first completely Indian car Indica in 1999 but was also able to productionize it at nearly one third of the cost for a similar plant elsewhere. Indian companies often make value for money as a unique selling point for their products e.g. Tata Indica's campaign 'more car per car'. After developing a number of highly successful products such as small pick-up truck Tata Ace, a sports utility vehicle Safari, Tata Motors eventually went on to develop world's cheapest car priced at US$ 2500 in 2008 meeting contemporary emission and safety standards, which has been recognized by the global industry leaders as revolutionary.[8] The development of Nano which includes 34 patents involved setting new benchmarks in terms of automobile design[9] and involved teams working at R&D centres of the company located in India, the UK, Spain and in South Korea. Another Indian auto company Mahindra designed and launched

a sports utility vehicle Scorpio that is considered a great value for money in its class and is sold in a number of countries in Europe, Africa and Latin America besides in South Asia. This unique ability of Indian companies to develop cost effective processes, described by Carlos Ghosn, CEO of Renault/ Nissan as the 'frugal engineering skills', has attracted attention of established MNEs for increasingly sourcing their design and development activities from India. This ability gives to Indian companies the confidence to turn around many production facilities in the western world that have been rendered unviable due to high production costs.[10]

Accumulated Learning, Organizational and Managerial Know How

Accumulated production experience is a source of considerable learning and absorption of know-how. This learning is a source of incremental innovations on the shop floor that are not captured by indicators of more formal innovatory activity. Accumulated experience also helps an enterprise acquire managerial skills, knowledge of the market and reputation, among other advantages. These advantages can be valuable for overseas investments especially in relatively mature and standardized industries, if not in more skill- or knowledge-intensive ones. Indian software companies have developed global delivery models to optimize and leverage the locational advantages of different geographies.

Long production experience in India gives to Indian companies not only skills and organizational capability to manage large operations but also experience of managing in multicultural settings, given the cultural diversity of the country. Given the large geographical area in their home base, Indian companies learn to pursue multi-domestic operations with production centres and offices spread throughout the country. With significant cultural, linguistic and ethnic contexts prevailing in different locations in the country, Indian companies acquire skills that give them an edge in managing operations across diverse locations. This managerial capability also gives them the confidence of managing the acquired facilities besides Greenfield projects. Therefore, managerial skills has emerged as an important ownership advantage for Indian companies.

Ability to Raise Finance

Having operated under a system of prudential financial regulations and corporate governance, Indian companies generally enjoy healthy balance sheets and robust credit ratings. Most of them have been listed at Indian stock exchanges for decades and are actively quoted. A number of them have also listed themselves at the NYSE and have followed GAAP systems of accounting and corporate governance. Their healthy balance sheets and their proven organizational skills have enabled them to attract attention of international banks and financial institutions for funding their leveraged buyout programmes.

Empirical Support for the Propositions

A quantitative study analyzing the determinants of the propensity to invest abroad of Indian companies in the framework of a logit model estimated for a panel dataset of 4200 Indian companies corroborated the above hypotheses (see Kumar 2007a). The study found variables capturing firm level accumulated learning, their technological effort, cost effectiveness of production processes, and their ability to differentiate products having strong favourable effects on the ability of Indian enterprises to invest abroad. The effect of firm size on the probability of FDI outflows was also strongly favourable but with a non-linear inverted u-shaped. Exporting enterprises were found more likely to undertake outward investment. The ability to export in a way already captures competitiveness and some ownership advantages. Further analysis observed some variation in effectiveness of variables across technology classes, for instance, ownership advantages were particularly effective in low and medium technology industries and cost effectiveness being particularly significant in low technology industries.

5. Three Phases of Evolution of Indian Enterprises

It would appear from the foregoing summary of emerging patterns in O-FDI activity of Indian enterprises that the nature and characteristics of overseas operations of Indian companies over the past decades have undergone a considerable transformation. As summarized in Table 7, three phases are clearly distinguishable with respect to sectors, magnitudes, entry modes, and destinations that are arguably due to changing motivations. In the first phase until 1990, largely Indian companies operated small operations as

Table 7: Evolution of Indian Enterprises

	First Phase, pre-1990s	Second Phase, 1990s	Third Phase, 2000-
Ownership Advantages	Adapted and scaled down technologies	Cost effective processes	Managerial expertise, low cost production and engineering ability
Motivations	Market-seeking	Trade supporting	Strategic assets and natural resources seeking
Sectors	Low technology: light engg., palm oil refining, rayon, paper	IT services, pharma., etc.	Metals, pharma, auto
Magnitudes	Small	Moderate	Large
Entry modes	Greenfield	Greenfield	Acquisitions and greenfield
Destinations	Asian and African low income countries	Similar to exports	Resource rich and strategic resource rich/countries, e.g. UK, USA, Russia, S. Korea, Singapore, South Africa

Source: the author.

joint ventures in poorer countries in Asia and Africa seeking markets based on adapted and scaled down technologies in relatively low technology sectors. The entry mode was Greenfield.

With the onset of reforms with greater freedom to invest abroad, Indian companies made outward investments in other countries to support their exports with local presence. Hence, they began to be concentrated in developed and developing countries where the markets for Indian products and services existed. These investments were concentrated in select industries such as pharmaceuticals and IT software in which Indian companies developed some cost effective processes. The entry mode was largely Greenfield. This comprised the Second Phase in the evolution of Indian enterprises.

The third phase in the evolution of Indian enterprises has been ushered in by the Tata-Tetley deal. It is driven by the motivation of Indian companies to acquire scale and global footprints. Hence it is largely directed at acquiring strategic assets such as brand names (as in the case of Tata-Tetley or White & Mackay), established marketing networks (as in pharmaceutical industry), or access to customers (as in the case of Novelis or Corus in the western world), or access to clients (in IT industry), or technology (as in the case of wind turbines and gearbox technology by Suzlon, or for heavy range of trucks as in Tata-Daewoo), etc. The scales and magnitudes involved are large and the entry mode is often acquisition. These acquisitions are producing new set of global leaders e.g. Tata Steel becoming the fifth largest steel producer in the world after acquiring Millenium Steel, NatSteel and Corus; Suzlon Energy, second largest producer of wind turbines, and so on so forth.

The phased evolution of Indian enterprises has some similarities with the South Korean companies during 1980s through Greenfield investments and acquisitions during 1990s to acquire scales and global footprints or Japanese companies in 1970s and 1980s respectively.[11] The Indian policy of facilitating enterprise development by restricting imports and foreign entry in the early period of its development before liberalization of trade and investment regimes in 1991 in some ways is similar to that followed by

Japan and South Korea. A contrast is provided by the Southeast Asian countries that have pursued a policy dominated by liberal FDI involvement. While they have been successful in development of export capability with FDI, e.g. motor industry in Thailand, it has been argued that the Southeast Asian region has only a few, if at all, world class companies on the global scene.[12] In China too, a rather heavy reliance was put on FDI for development of export capability. Although there is substantial magnitude of O-FDI emanating in China, much of it is undertaken by state owned enterprises for seeking natural resources rather than private sector enterprises undertaking internationalization of their operations in a horizontal manner.

6. Implications for Companies and the Home Country

Acquiring large companies by raising financial resources is one thing but making them serve the interests of stakeholders and fulfil the objectives of acquisition successfully can be quite challenging. Very often integration and coordination is made difficult by different management cultures across the enterprises involved. Many acquisitions actually fail to deliver value to the stakeholders in a meaningful manner.

It may be too early to examine the success of the acquisitions undertaken by Indian companies. However, most of these acquisitions fall in a pattern that involves bringing together low cost back end of an Indian company with a front end having interface with customers in rich countries. If the acquisition is able to fully exploit the synergies in this manner without disturbing the equilibrium, the chances of success increase and the acquisition may produce a win-win for both the acquiring and acquired companies. Tata Tea-Tetley acquisition is a case study in this regard. It brought together Tata Tea, a company owning several tea gardens in India and Sri Lanka and selling 60 per cent of its tea in the bulk, and Tetley with bulk tea entirely sourced from different countries but having marketing networks and packaging plants in the US and the UK among other countries. With the consolidation of the two, the combined entity derives 84 per cent of its turnover from selling value added tea in packet or tea bags. The proportion of outsourcing the bulk tea from unrelated sources has come down from 100 per cent to 70 per cent and thus reducing the dependence. It helps both the companies to hedge their margins while giving them a global presence.

Tata-NatSteel-Millenium-Corus or Hindalco-Novelis acquisitions are broadly on the same pattern bringing together Indian companies low cost production bases and their access to natural resource endowments in the home country (iron ore and bauxite respectively), with the access to processing technology and consumers has a potential to produce a win-win combination. There are some indications that such a restructuring and production networking is taking place. Apparently Tata Steel and NatSteel plants in different Southeast Asian countries are being covered by a scheme of regional production network involving pallets going from India to the NatSteel plants and special steels to come from NatSteel's Southeast Asia plants to India. This way the synergy or the locational advantages of India emanating from the iron ore deposits will be available to the NatSteel plants and their specialization for some special steels to Tata Steel, will be exploited for mutual advantage. Similarly, Tata Motors after acquiring Daewoo Motors of Korea in 2005 has begun a regional production networking strategy involving the smaller and medium capacity vehicles made at Indian plants and sold through Daewoo outlets and brands while heavy trucks made at Daewoo plant sold by Tata outlets in India and other countries under Tata brands.[13] How successful Indian companies will be able to gear up to the challenge of tapping the potential synergies and enhance stake holder value remains to be seen.

Some pointers are available to suggest that due care is being taken to ensure the chances of success. For instance, the Indian companies are showing due sensitivity to the concerns of employees of acquired companies. They are also conscious of their record in terms of corporate social responsibilities (CSR). One indicator of Indian companies' sensitivity and commitment to CSR is reflected from the fact that as many as 145 Indian companies have participate in the United Nations Global Compact, the world's largest voluntary corporate social responsibility initiative, compared to only 65 in Japan.[14] Tata Tea, as a part of their CSR initiative has turned their Munnar-based plantations to Kannan Devan Hills Tea Company owned and managed by 13000 workers of the company besides operating several schools for underprivileged children. Tata group also started professional schools in South Africa to train people in trades. The good record of Indian companies with respect to CSR has also helped them in their acquisition bids. For

instance, the trade unions at Jaguar and Land Rover plants supported Tata Motors bid for acquisition.[15] Indian companies are using 'light touch' integration seeking to exploit synergies, economies of scale and scope rather than hard mergers involving drastic restructuring for improving chances of success. Tata-Corus, for instance, is expecting to save US$ 450 million a year from sharing technical ideas and joint procurement of raw materials.

For the home economy too, the effect of OFDI could be either negative or positive. If OFDI is able to generate enhanced competitiveness of Indian companies and help them expand their operations, it could raise home country welfare. However, if the OFDI is undertaken at the cost of similar investments in the home country or crowds out investments from it, it could have adverse consequences. Again it is premature to judge the effects of these investments. In the 1980s, some outward investments were made because the existing regulations restricting expansion of existing firms (see Lall 1983). However, with gradual liberalization of the domestic trade and investment regimes and improvement in India's investment climate as reflected in sharply rising FDI inflows in recent years to US$ 25 billion in 2007, outward investments taking place at the cost of domestic investments do not appear justified. Furthermore, most of the large acquisitions are funded by leveraged buyouts. Hence, these do not involve substantial capital outflows from India that could be at the cost of domestic investments.

There could be a number of favourable effects of outward investments for the Indian economy resulting from exploitation of synergies, sharpening of international competitiveness of Indian enterprises, remittances of profits and dividends over time provided the acquisitions are successful and are able to leverage the respective strengths of the enterprises concerned. In case the production networking assists in enhancing the value addition and strengthening the place of India in the international division of labour following the acquisition, the effect of such acquisitions will be favourable. A recent study analyzing the factors determining international competitiveness (measured in terms of export-orientation) of Indian enterprises for a panel data for 4200 companies, in terms of firm size, technological activity, foreign affiliation among others, found a favourable effect of outward FDI on export orientation (Kumar and Pradhan 2007).

7. Concluding Remarks

The above discussion highlights the emergence of new corporate players on the global scene from an emerging economy. Their evolution is striking considering their origin in a low income country. Their ability to acquire much larger enterprises in the developed world reflects their confidence in managing the newly acquired entities successfully. It has been argued that the source of their ownership or competitive advantage lies in their accumulation of skills for managing large multi-location operations across diverse cultures in India and in their ability to deliver value for money with their 'frugal engineering skills' honed up while catering to the larger part of income pyramid in India.

Considering that nearly all the Indian enterprises undertaking outward investments had their origins in the period of import substitution based industrialization strategy and selective FDI policy regime, it would appear that the policy of infant industry protection with supportive institutional framework can assist in enterprise development by giving to them access to domestic market to grow and build capabilities. However, the protection needs to be phased out once the capabilities are built up to expose the enterprises to international competition and sharpen their competitiveness. In fact the reforms of 1991 have sparked of a considerable restructuring of Indian industry which emerged from it leaner, more efficient and competitive. The exposure also gave to the Indian firms global ambitions and also the confidence to pursue them. In some ways the Indian experience follows in the Japanese and Korean tradition of enterprise development policies and may have lessons for other developing countries.

The acquisition based strategy of internationalization adopted by Indian enterprises in the recent years by acquiring strategic assets such as technology, known brands, access to customers and global footprints for jump starting their internationalization, is challenging as it involves managing across diverse cultures and win over the confidence of workforce to successfully exploit the synergies. Indian enterprises hope to face this challenge with their skills in cross-cultural management honed in India, their emphasis on CSR and their sensitivities to the workers right from the beginning.[16]

Finally, as Indian enterprises emerge as leading players in their respective industry segments, they may face some protectionist tendencies in the potential host countries especially in the developed world. For instance, the resistance faced by an Indian firm in challenging the established players in the watches industry in Europe, or the rejection of the Indian Hotels Co.'s recent bid by Orient-Express in the US on the ground that 'Indian ownership would tarnish its premium image'. On the other hand, with their cost effective technologies and skills, Indian companies could find a greater acceptability and success in other developing countries.

Endnotes

1 See Gopinath (2007).

2 Similarly Indian companies may have benefited from the networks of non-resident Indians living in different countries especially with respect to information on investment opportunities. However, this will only be effective only with the ownership advantages of the investing companies.

3 IBEF (2008).

4 See Tata Tea Limited's profile in IBEF (2007).

5 See Titan Industries Ltd profile in IBEF ibid..

6 See Kumar (1996)

7 Indian companies were among the first to bring down the prices of basic first line anti-retroviral regimens for treatment of HIV-AIDS to less than US$ 100 per year compared to US$ 10,000 charged by the western pharmaceutical companies in Africa. See for more details Outlook Business, 19 April 2008.

8 see Cover story, Business World, 28 January 2008

9 Reportedly, Nano's length is 8 per cent smaller but inner space 21 per cent larger than Suzuki-800 the least expensive car till date in India. It survived frontal crash at 48 kmpl and was compliance with Euro IV norms. See Business World, ibid.

10 M.V. Kamath, the CEO of ICICI Bank (India's largest private sector bank) has also emphasized on this by saying 'having learnt to serve low income consumers cost effectively in India, ICICI Bank is now exploring other markets'. See interview with K.V. Kamath, McKinsey Quarterly, 31 March 2007.

11 See Economist, 7 April 2007. Also see Kumar (1998).

12 See Economist (2008).

13 See Kumar (2007b).

14 see www.unglobalcompact.org.

15 see interview with Roger Maddison, the National Officer (automotive industry) of the UK's largest union, Unite, in Outlook Business, April 19, 2008, pp48-9.

16 See Marsh (2007b).

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