AEPR Asian Economic Policy Review JCER

doi: 10.1111/j.1748-3131.2008.00109.x *Asian Economic Policy Review* (2008) 3, 242–261

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

Nagesh KUMAR†

Research and Information System for Developing Countries

The recent spate of large cross-border acquisitions – for example, Tata Steel–Corus, Hindalco–Novelis, and Tata Motors–Jaguar/Land Rover – 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 foreign direct investment 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 multilocation 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.

Key words acquisitions by Indian companies, emerging multinationals, India, Indian multinationals, internationalization of Indian companies, outward investment, 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. 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 the Indian economy along with trade in goods and services and inward foreign direct investment (FDI). India's emergence as a source of

*An earlier version of this paper was presented at the Sixth Asian Economic Policy Review Conference on New India, held in Tokyo on April 19, 2008. A version was also presented at the United Nations University–Maastricht Economic Research Institute on Technology, Maastricht, on 13 June 2008. It has benefited from comments of Eisuke Sakakibara, Shujiro Urata, Isher Ahluwalia, Takatoshi Ito, Hadi Soesastro, Makoto Kojima, Hal Hill, Marcus Noland, Chalongphob Sussangkarn, Jung-Hwa Lee, Mohamed Ariff, Chia Siow Yue, Hideki Esho, Colin McKenzie, Luc Soete, Suma Athreya, and Rene Belderbos. However, the usual disclaimer applies.
†Correspondence: Nagesh Kumar, Director-General, Research and Information System for Developing Countries, Core 4B India Habitat Centre, Lodi Road, New Delhi 110003, India. Email: nkumar@ris.org.in

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, the 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 toward 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, a fast-track route was introduced, and investment limit was raised from $2 million to $4 million. Beyond $4 million, approvals were considered under Normal Route at the Special Committee level. Investment proposals in excess of $15 million were considered by Ministry of Finance with the recommendations of the Special Committee and generally approved if the required resources were raised through the Global Depository Receipt (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 $50 million. Companies were allowed to invest 100% of the proceeds of their American Depository Receipt/GDR issues for acquisitions of foreign companies and outward direct investments. The limit was raised in March 2002 to $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 up to 100% of their net worth. This limit was raised further to 200% of net worth in 2005, to 300% of net worth in 2007, and finally to 400% of net worth in 2008 to facilitate large acquisitions as the foreign exchange reserves of India built up (Gopinath, 2007). 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; namely, restrictive policy during 1978–1992, permissive policy during 1992–2003, and liberal policy, since 2003 (Nayyar, 2007).

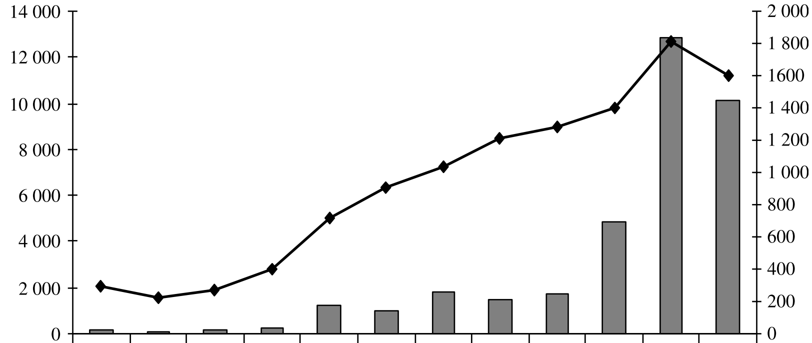
Recognition of the outward investments for competitiveness of enterprises has also resulted in the creation of financing facility for outward investments by Indian companies through the Export-Import Bank of India. The Export-Import Bank has extended term loans to Indian companies for funding their investments in overseas affiliates ever since its inception in the early 1980s. Currently, the bank's Overseas Investment Finance 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% to 20% 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 buyouts 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.[1] The issue of ownership advantages, which is central to the 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 the 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 $1.5 billion per annum. Since 2005–2006, the outward investments have climbed new heights as apparent from Figure 1. In 2005–2006, the magnitude of outward investment by Indian companies was nearly $5 billion and it jumped to $ 12.8 billion in 2006–2007. In the first 9 months of 2007–2008, Indian companies had already invested over $10 billion.

To put the magnitudes of Indian outward FDI 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 United Nations Conference on Trade and Development (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% of global outflows in 2006 compared to just 8% 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 (Lall, 1983, Wells, 1983, Kumar, 1998, Aykut & Ratha, 2004, UNCTAD, 2005, 2006; Goldstein, 2007; *The Economist*, 2007; among others). Their importance as sources of FDI has gone up in recent years with their combined share



	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

Figure 1 Outward foreign direct investment (FDI) by Indian enterprises, 1996–2008.
Note: *for April–December 2007.
Source: Author based on Ministry of Finance and RBI data.

Table 1 Foreign direct investment (FDI) outflows from emerging countries ($ million)

	2003	2004	2005	2006
World	560 087	877 301	837 194	1 215 789
Developed economies	503 966	745 970	706 713	1 022 711
Developing economies	45 372	117 336	115 860	174 389
Share in total (%)	(8)	(13)	(14)	(14)
South Africa	565	1 352	930	6 674
Share in developing countries (%)	(1)	(1)	(1)	(4)
Brazil	249	9 807	2 517	28 202
Share in developing countries (%)	(1)	(8)	(2)	(16)
China	2 855	5 498	12 261	16 130
Share in developing countries (%)	(6)	(5)	(11)	(9)
India	1 879	2 179	2 495	9 676
Share in developing countries (%)	(4)	(2)	(2)	(6)
Total share of four 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 online UNCTAD's FDI database and UNCTAD *World Investment Reports* (2004, 2007).

going up from 12% in 2003 to 16% in the next 2 years to a staggering 35% 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. It remains to be seen whether the increase was 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 the British Virgin Islands and Cayman Islands, and could be attributed to round tripping.

In terms of absolute magnitudes, the share of outward FDI from India in outflows from developing countries at 6% compared to 9% for China is impressive considering the fact that the 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 outward FDI in GFCF was higher for India than China in 2003–2004, roughly comparable in 2005 and again in 2006. Outward FDI/GFCF ratio for Brazil and South Africa is higher than China and India.

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 (2008) has identified 100 companies (Global Challengers) from rapidly developing economies 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 Boston Consulting Group 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 (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 a much higher proportion of international sales at 47% compared to just 17% in case of Chinese companies. A striking difference is the fact that all the 20 Indian companies are publicly traded

Table 2 Key characteristics of Indian and Chinese globalizing companies

	India	China
No. of companies in Boston Consulting Group 100	20	41
Average size ($ 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
Merger and acquisition deals by sample companies	26	17
Proportion of matured markets in merger and acquisition deals	68	78

Source: Compiled from Boston Consulting Group (2008). CAGR, compound annual growth rate.

companies and none of them is state owned, while 29 of the 41 Chinese companies are state owned. A greater proportion of acquisitions (78%) by Indian companies were in developed countries compared to those by Chinese companies (68%). Therefore, the 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.

Another study suggests that the bulk of the Chinese outward FDI is concentrated in Hong Kong (64%), Cayman Islands (15.6%), and Virgin Islands (3.5%), 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 (namely, CNPC, CNOOC, and SINOPEC), which are driven by natural resource-seeking motive, although some manufacturing companies, such as Lenovo, TCL, and 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

3.1 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%) remained concentrated in developing countries. However, in the new millennium the developed countries have become the new focus of activity with nearly 54% 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 multibillion-dollar deals have been in the developed countries.

3.2 Evolving sectoral composition

The sectoral distribution of outward FDI flows has also changed over time as summarized in Table 4. It is apparent that in the pre-1990 period, the bulk of outward FDI was concentrated in the manufacturing sector and in the services sector in a nearly two-thirds and one-third proportion, respectively, with a negligible share of the extractive sector. In the 1990s, the proportion changed gradually in favor of services with information technology (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 4 years

Table 3 Geographical distribution of approvals of outward foreign direct investment (FDI) from India, 2006 ($ million)

	Up to 1990	1991–1995	1996–2002	2002–2006
South-East and East Asia	80.79	191	703.6	1 486.46
South Asia	20.91	59.11	164.53	108.21
Africa	37.83	63.02	734.36	1 569.82
West Asia	21.54	95.38	410.89	513.62
Central Asia	23.2	13.99	38.28	138.67
Central and Eastern Europe	6.56	37.31	1 750.03	1 081.9
Latin America and the Caribbean	0.58	8.36	253.18	454.18
Developing countries	**191.52**	**468.21**	**4 054.91**	**5 352.92**
Share in total (%)	(86.09)	(63.80)	(63.33)	(46.20)
Western Europe	17.29	149.4	789.52	4 084.23
North America	13.51	110.79	1 546.41	1 632.58
Developed countries	**30.89**	**256.6**	**2 348.18**	**6 233.91**
Share in total (%)	(13.89)	(34.97)	(36.67)	(53.80)
Total	222.46	733.82	6 403.09	11 586.83

Source: Research and Information System for Developing Countries database.

of the current decade for which data is available, the extractive sector has enhanced its importance with more than a fifth of all approvals by value. The manufacturing sector has regained its importance with 56% share of approved investments while the share of services sector has gone down to nearly 23%. 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.

3.3 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 outward 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 $4.74 billion. In 2007, Indian companies are reported to have spent $32.73 billion on overseas merger-and-acquisition deals (India Brand Equity Foundation, 2008). However, large acquisitions generally involve leveraged buyouts based on capital raised in international capital markets and are not reflected in the outward FDI figures.

In terms of the entry strategies of Indian companies, the acquisition of Tetley by Tata Tea in 2000 for $407 million was perhaps a turning point. It was the first time that an Indian company acquired a major industry champion in the West that was 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

Table 4 Sector-wise distribution of outward foreign direct investment (FDI) from India ($ million)

	Pre-1990	1991–1995	1996–2000	2001–2004
Extractive	**4.04**	**1.53**	**59.61**	**979.42**
Share in total (%)	(1.82)	(0.21)	(1.71)	(20.86)
Exploration and refining of oil	0.02	1.52	59.58	913
Exploration of minerals and precious stones	4.02	0.01	0.03	66.42
Manufacturing	**145.22**	**406.2**	**1 224.96**	**2 647.6**
Share in total (%)	(65.28)	(55.38)	(35.19)	(56.39)
Oilseeds, food products, and 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, and carpets	20.55	11.45	16.95	6.74
Chemicals, petrochemicals, and paints	7.82	52.95	39.17	2 114.2
Drugs and pharmaceuticals	4.72	54.48	168.1	223.32
Rubber, plastic, and tyres	2.32	2.84	82.95	25.34
Cement, glass, and building material	4.19	27.47	52.31	2.84
Metals	16.17	14.38	36.29	43.12
Electrical and electronic equipment	2.11	6.42	84.44	16.39
Automobiles and parts thereof	3.21	2.93	21.07	59.05
Gems and jewelry	0	6.25	11.59	14.62
Electronic goods and consumer durables	0.27	8.82	11.93	4.98
Beverages and tobacco	3.24	17.61	124.43	16.05
Engineering goods and industrial machines	8.53	13.35	52.86	8.33
Fertilizers, pesticides and seeds	39.93	32.87	294.09	3.68
Miscellaneous	2.59	76.89	106.68	17.15
Services	**73.2**	**325.77**	**2 196.4**	**1 068.24**
Share in total (%)	(32.91)	(44.41)	(63.10)	(22.75)
Information technology, communication, and software	5.64	120.84	1233.54	746.46
Hotels, restaurants, and tourism	24.96	52.88	59.56	16.1
Civil contracting and engineering services	1.8	2.45	14.12	14.7
Consultancy	0.43	1.53	6.53	2.8
Trading and marketing	12.47	90.89	5.56	3.11
Media broadcasting and publishing	0.01	0.5	739.13	77.12
Financial services and 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**	**3 480.98**	**4 695.26**

Source: Research and Information System for Developing Countries database.

Table 5 Cross-border merger and acquisition purchases by Indian companies, 2004–2006

	2004	2005	2006
Acquisitions (number)	64	91	133
Value of acquisitions ($ million)	863	2 649	4 740

Source: compiled from UNCTAD (2007).

vertically with the front end of Tetley, giving it 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.[2] 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 learned that it is an extremely painstaking and slow process and is prone to high risks, as demonstrated by Titan Industries' experience. Titan Industries attempted to break into the stronghold of 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.[3]

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

4. Changing Motivations and Ownership Advantages

4.1 Market-seeking to strategic assets-seeking strategies

The changing entry strategies in favor 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 a 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 (Kumar, 1996).

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 a local presence, outward investments were undertaken by Indian companies to support their exports. Hence, outward FDI during the 1990s comprised generally the trade supporting type. The geographical coverage began to shift in favor 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 the globalization of operations and increasing their 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 outward FDI during the current decade has been dominated by strategic asset 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 research and development centers. Other motivations have included access to natural resources such as minerals. Some acquisitions by Indian companies have been driven by a 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.

4.2 Sources of ownership advantages for Indian enterprises

The theory of the 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 outward FDI. Enterprises based in the industrialized countries have emerged as multinational enterprises 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

Table 6 Select major acquisitions by Indian companies since 2000 by motivation

Indian firm	Target firm	Country	Industry	Value ($ million)	Year
Strategic assets seeking					
Metals and products					
Tata Steel	Corus Steel	UK	Steel	12 100.00	2007
Tata Steel Ltd.	Millenium Steel Plc.	Thailand	Steel	175.0	2005
Tata Steel	NatSteel Asia Pte.	Singapore	Steel	283.7	2004
Hindalco	Novelis	USA	Aluminum	6 000.0	2007
Ispat Industries Ltd.	Finmetal Holdings	Bulgaria	Steel	300.0	2005
Pharmaceuticals					
Dr. Reddy's	Betapharm Arzneimittel GmbH	Germany	Pharmaceuticals and health care	570.3	2006
Ranbaxy Laboratories Ltd.	Terapia SA	Romania	Pharmaceuticals and health care	324.0	2006
Matrix Laboratories	Docpharma NV	Belgium	Pharmaceuticals and health care	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
Fast moving consumer goods					
Kraft Foods Ltd.	United Biscuits	UK	Food and beverages	522.0	2006
Tata Tea	Tetley Group	UK	Food and 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 and beverages	220.0	2006
United Spirits	White & Mackay	UK	Food and beverages	1 110	2007

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	1 700	2006
Videocon International	Thomson SA (CRT business)	Europe, China, Mexico	Electronics	289.2	2005
Opto Circuits India Ltd.	Eurocor GmbH	Germany	Medical equipment	600.0	2005
Information and communication technology					
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	1 400.0	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	1 100	2007

Source: Author based on information from Federation of Indian Chambers of Commerce and Industry, India Brand Equity Foundation, and media reports.

independence, under the import-substituting industrialization policy pursued by the government (Lall, 1986; Kumar, 1996, 2007a). Sometimes, these included the 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 USA 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 programs.[4]

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 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 and a sports utility vehicle Safari, Tata Motors eventually went on to develop the world's cheapest car priced at $2 500 in 2008 meeting contemporary emission and safety standards, which has been recognized by the global industry leaders as revolutionary.[5] The development of Nano, which includes 34 patents, involved setting new benchmarks in terms of automobile design[6] and involved teams working at research and development centers of the company located in India, the UK, Spain, and South Korea. Another Indian auto company, Mahindra, designed and launched a sports utility vehicle Scorpio that is considered 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 the attention of established multinational enterprises 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.[7]

Accumulated learning and 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 the skills and organizational capability to manage large operations, but also the 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 multidomestic operations with production centers 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 have 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 on Indian stock exchanges for decades and are actively quoted. A number of them have also listed themselves at the New York Stock Exchange and have followed Generally Accepted Accounting Principles of the USA systems of accounting and corporate governance. Their healthy balance sheets and their proven organizational skills have enabled them to attract the attention of international banks and financial institutions for funding their leveraged buyout programs.

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 4 200 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 favorable effects on the ability of Indian enterprises to invest abroad. The effect of firm size on the probability of FDI outflows was also strongly favorable but with a nonlinear inverted U-shaped. Exporting enterprises were found more likely to undertake outward investment. The ability to export in a way already reflects international competitiveness and some ownership advantages. Further analysis observed some variation in the 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 outward FDI activity of Indian enterprises that the nature and characteristics of overseas operations of

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 engineering, palm oil refining, rayon, paper	Information technology services, pharmaceuticals, etc.	Metals, pharmaceuticals, 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, South Korea, Singapore, South Africa)

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, Indian companies largely operated small operations as 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 the pharmaceutical industry), or access to customers (as in the case of Novelis or Corus in the Western world), or access to clients (as in the 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). The scales and magnitudes involved are large and the entry mode is often acquisition. These acquisitions are producing a new set of global leaders, for example, Tata Steel becoming the fifth largest steel producer in the world after acquiring Millennium Steel, NatSteel, and Corus; and Suzlon Energy, becoming the fifth largest producer of wind turbines.

The phased evolution of Indian enterprises has some similarities with the South Korean companies during 1980s through greenfield investments and acquisitions during the 1990s to acquire scales and global footprints, or Japanese companies in the 1970s and 1980s, respectively.[8] 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 is similar to that followed by Japan and South Korea. On the other hand, China and many countries of the Association of South-East Asian Nations (ASEAN) have pursued a policy dominated by liberal FDI involvement in export capability development. Hence, most of the enterprises undertaking FDI in the case of China are state-owned enterprises rather than private sector enterprises.

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 fulfilling the objectives of the 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 the low cost back end of an Indian company with a front end having an 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% 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 USA and the UK, among other countries. With the consolidation of the two, the combined entity derives 84% 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% to 70% and thus reducing the dependence. It helps both the companies to hedge their margins while giving them a global presence.

Tata–NatSteel–Millennium–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 customers of acquired companies 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 South-East 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 South-East 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 South 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 (Kumar, 2007b). How successful Indian companies will be able to gear up to the challenge of tapping the potential synergies and enhance stakeholder 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, 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 in the fact that as many as 145 Indian companies have participate in the United Nations Global Compact, the world's largest voluntary CSR initiative, compared to only 65 in Japan.[9] 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 13 000 workers of the company besides operating several schools for underprivileged children. The 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.[10] 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 $450 million a year from sharing technical ideas and joint procurement of raw materials (*The Economic Times*, 2007).

For the home economy, too, the effect of outward FDI could be either negative or positive. If outward FDI is able to generate enhanced competitiveness of Indian companies and help them expand their operations, it could raise home country welfare. However, if the outward FDI 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 of the existing regulations restricting the 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 $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 favorable 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 labor following the acquisition, the effect of such acquisitions will be favorable. A recent study analyzing the factors determining international competitiveness (measured in terms of export-orientation) of Indian enterprises for a panel data for 4 200 companies, in terms of firm size, technological activity, and foreign affiliation, among others, found a favorable effect of outward FDI on export orientation (Kumar & 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 multilocation 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 led to a considerable restructuring of Indian industry which emerged from it leaner, more efficient, and competitive. The exposure also gave the Indian firms global ambitions and also the confidence to pursue them. In some ways, the Indian experience follows Japanese and Korean tradition of enterprise development policies, which may have lessons for other developing countries.

The acquisition-based strategy of internationalization adopted by Indian enterprises in recent years by acquiring strategic assets, such as technology, known brands, access to customers, and global footprints for jumpstarting 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 workers' rights from the beginning (Marsh, 2007b).

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 watch industry in Europe, or the rejection of the Indian Hotels Co.'s recent bid by Orient-Express in the USA on the ground that "Indian ownership would tarnish its premium image" (Johnson, 2007). On the other hand, with their cost-effective technologies and skills, Indian companies could find a greater acceptability and success in other developing countries.

Notes

1 Similarly, Indian companies may have benefited from the networks of nonresident Indians living in different countries especially with respect to information on investment opportunities. However, this will be effective only with the ownership advantages of the investing companies.
2 See Tata Tea Ltd's profile in India Brand Equity Foundation (2007).
3 See Titan Industries Ltd's profile in India Brand Equity Foundation (2007).
4 Indian companies were among the first to bring down the prices of basic first-line antiretroviral regimens for the treatment of HIV/AIDS to less than \$100 per year compared to \$10 000 charged by Western pharmaceutical companies in Africa. See, for more details, See Kaiser Family Foundation.
5 See Narayan (2008).
6 Reportedly, Nano's length is 8% smaller but the inner space is 21% larger than the Suzuki-800, the least expensive car up until that time in India. It survived a frontal crash at 48 km/hour and was in compliance with Euro IV norms. See *Business World*, January 28, 2008.
7 M.V. Kamath, the CEO of ICICI Bank (India's largest private sector bank), has also emphasized 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*, March 31, 2007.
8 See *The Economist*, April 7, 2007. Also see Kumar (1998).
9 See www.unglobalcompact.org.
10 See interview with Roger Maddison, the National Officer (automotive industry) of the UK's largest union, Unite, in *Outlook Business*, April 19, 2008, pp. 48–49.

References

Aykut D., Ratha D. (2004). South-South FDI flows: How big are they? *Transnational Corporations* **13** (1), 149–177.

Boston Consulting Group (2008). *The 2008 BCG 100 New Global Challengers*. Boston: Boston Consulting Group.

Caves R.E. (1971). International comparisons: The industrial economics of foreign investment. *Economica* **38**, 1–27.

Dunning J.H. (1979). Explaining changing patterns of international production: In defence of the electric theory. *Oxford Bulletin of Economics and Statistics* **41**, 269–96.

Goldstein A. (2007). *Multinational Companies from Emerging Economies: Composition, Conceptualization and Direction in the Global Economy*. Houndsmills, Basingstoke: Palgrave Macmillan.

Gopinath S. (2007). Overseas investments by Indian companies – Evolution of policy and trends, keynote address at the International Conference on "Indian Cross-border Presence/Acquisitions"; January 19, Mumbai (posted at the website of Reserve Bank of India).

Hagiwara Y. (2006). Outward investment by China gathering stream under the go global strategy. *Economic Review* **1** (17), Tokyo: Bank of Tokyo-Mitsubishi UFJ.

Hymer S.H. (1976). *The International Operations of National Firms: A Study of Direct Foreign Investment*. Boston: MIT Press.

India Brand Equity Foundation (2007). *Going Global: Indian Multinationals*. New Delhi: IBEF.

India Brand Equity Foundation (2008). Indian investments abroad. [Cited April 14, 2008] Available from http://www.ibef.org/economy/indianinvestmentsabroad.aspx.

Johnson J. (2007). India's empire builder. *Financial Times* December 30.

Kaiser Family Foundation. HIV/AIDS reporting manual, p. 63. Available from http://www.kff/hivaids/upload/7408_02sec18.pdf.

Kumar N. (1996). India: Industrialization, liberalization and inward and outward foreign direct investment. In: Dunning J.H., Narula R. (eds), *Foreign Direct Investment and Governments*. London: Routledge, 348–379.

Kumar N. (1998). Emerging outward foreign direct investment from Asian developing countries: Prospects and implications. In: Kumar N. (ed.), *Globalization, Foreign Direct Investment and Technology Transfers*. London: Routledge, 177–194.

Kumar N. (2007a). Emerging TNCs: Trends, patterns and determinants of outward FDI by Indian enterprises. *Transnational Corporations* **16** (1), 1–26.

Kumar N. (2007b). *Regional Economic Integration, Foreign Direct Investment and Efficiency-seeking Industrial Restructuring in Asia: The Case of India*. RIS Discussion Paper no. 123, Research and Information System for Developing Countries, New Delhi.

Kumar N., Pradhan J. (2007). Knowledge-based exports from India: Recent trends, patterns, and implications. In: Kumar N., Joseph K.J. (eds), *International Competitiveness and Knowledge-based Industries in India*. New Delhi: Oxford University Press, 53–96.

Lall R.B. (1986). Multinationals from the third world: Indian firms investing abroad. Delhi: Oxford University Press.

Lall S. (1983). Multinationals from India. In: Lall S. (ed.), *The New Multinationals: The Spread of Third World Enterprises*. New York: John Wiley & Sons, 21–87.

Marsh P. (2007a). Robust demand bolsters Tata-Corus. *Financial Times* October 3.

Marsh P. (2007b). Winning hearts and minds in Holland. *Financial Times* October 3.

Nagaraj R. (2006). Indian investments abroad: What explains the noom? *Economic and Political Weekly* **XLI** (46), 4716–4718.

Narayan D. (2008). The making of a modern classic. *Business World*, 28 January, pp. 36–42.

Nayyar D. (2007). The internationalization of firms from India: Investment, mergers and acquisitions. SLPTMD Working Paper Series no. 004, University of Oxford, Oxford.

Puri L. (2007). The CEO as CIO: An interview with the head of India's top private bank, *McKinsey Quarterly*, 31 March. Available from http://www.mckinseyquarterly.com.

The Economic Times (2007). Tata lays out light touch Corus integration plan. *The Economic Times*, 29 November, p. 7.

The Economist (2007). Globalization's offsprings. *The Economist*, 7 April, p. 9.

UNCTAD (2004). *World Investment Report 2004*. New York: United Nations.

UNCTAD (2005). *Internationalization of Developing Country Enterprises through Outward Foreign Direct Investment*. Issues Note by the UNCTAD Secretariat, TD/B/COM.3/EM.262/2.

UNCTAD (2006). *World Investment Report 2006, FDI from Developing and Transition Economies: Implications for Development*. New York: United Nations.

UNCTAD (2007). *World Investment Report 2007*. New York: United Nations.

Wells L.T. (1983). *Third World Multinationals-The Rise of Foreign Investment from Developing Countries*. Cambridge, MA: MIT Press.

