

Project Proposal

The Emergence of Indian Multinationals

An Empirical Study of Motives, Status-quo and Trends of Indian Investments in Germany

A project of:

Research Project Global Innovation
Institute of Technology and Innovation Management
Hamburg University of Technology (TUHH)
Schwarzenbergstrasse 95 E
21073 Hamburg, Germany

www.global-innovation.net

Project work: Jayachandran Kandiappan Mani

Project supervision: Dipl.-Kfm. Rajnish Tiwari

Start: April 2008

Proposed duration: Six months

Project Status: In Progress

Keywords: Internationalization of Research and Development; Overseas R&D; Globalization; Global Innovation; FDI; Outbound FDI; Outward FDI; Overseas Investments; FDI by Indian Firms; Foreign Direct Investment in Germany; FDI by emerging countries

Kurzbeschreibung des Projektes

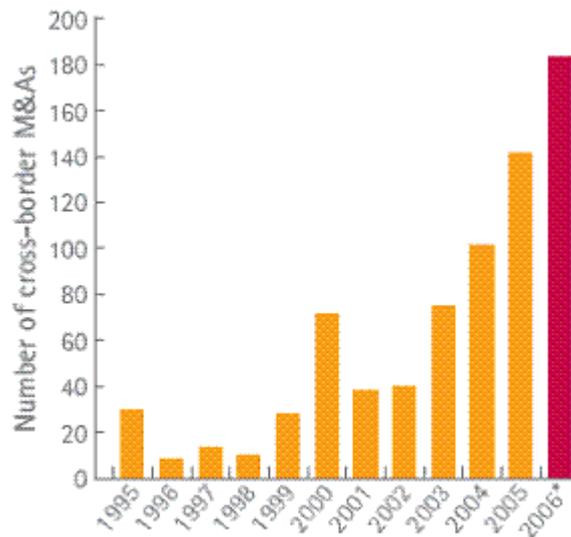
Indische Unternehmen expandieren zunehmend ins Ausland. Über 200 indische Unternehmen haben mittlerweile eine Niederlassung oder Joint Venture in Deutschland. Sie sichern Berichten zufolge bis zu 10.000 Arbeitsplätze hierzulande.

Im Rahmen dieses Projektes werden Auslandsdirektinvestitionen indischer Unternehmen („Outbound FDI“) untersucht. Im besonderen Fokus stehen dabei die Investitionen indischer Unternehmen in Deutschland. Unter die Lupe genommen werden nicht nur der Status-quo sondern auch die Motive, Herausforderungen, Trends sowie der in Indien geltende Regulierungsrahmen für Outbound FDI. Zudem soll die Rolle des Standortfaktors „Wissen“ (z.B. spezialisiertes Know-how und die hervorragende Infrastruktur für Forschung und Entwicklung in Deutschland) untersucht werden.

Die Studie ist Teil des Forschungsprojektes Global Innovation am Institut für Technologie- und Innovationsmanagement (TIM) der Technischen Universität Hamburg-Harburg (TUHH).

Background

India's outbound deals, which were valued at US\$ 0.7 billion in 2000-01, increased to US\$ 4.3 billion in 2005, and were estimated to further cross the mark of US\$ 15 billion in 2006; see Figure 1.



* Annual forecast for 2006 based on data for first 7 months
Source: Accenture analysis of Thomson Financial data

Figure 1: India's cross-border M&A deals
(Source: Accenture, 2006)

The total outbound cross border deals for the year 2007 have been estimated at 240 with a value of US\$ 32.73 billion [IBEF, 2007], thereby registering a staggering growth of over 100%. In fact the inbound FDI to India has been superseded by the outbound FDI of Indian firms.

However, there seem to be considerable differences between these figures and the figures of actual approvals and outflows as reported by the Reserve Bank of India. Between April and December 2007 the RBI approved 1595 proposals for outward FDI amounting to US\$ 18.44 billion. Almost half of the outward FDI (43%) between April and December 2007 was reported to have flown into manufacturing sector. The main recipients were Singapore (37%), the Netherlands (26%) and the British Virgin Islands (9%), reports the Reserve Bank of India; see RBI (2008).

Tata group, Bharat Forge, Infosys, Wipro, ONGC, Ranbaxy and other such Indian companies are venturing overseas and expanding at a "breakneck speed" [Rodrigues, 2006 p.16]. There is a great dynamism amongst Indian companies to globalize and in the years to come we may expect many more Indian multinationals. They will include in increasing numbers not only large firms but also medium-sized firms, see e.g. Gopinath [2007 p.6].

Figure 2 gives an insight into this trend, according to which India's outbound FDI rose by an average annual rate of over 50% between 1992 and 2004, the highest growth in the group of surveyed countries. This was in direct and stark contrast to negative outbound FDI by India in years 1980 to 1991.

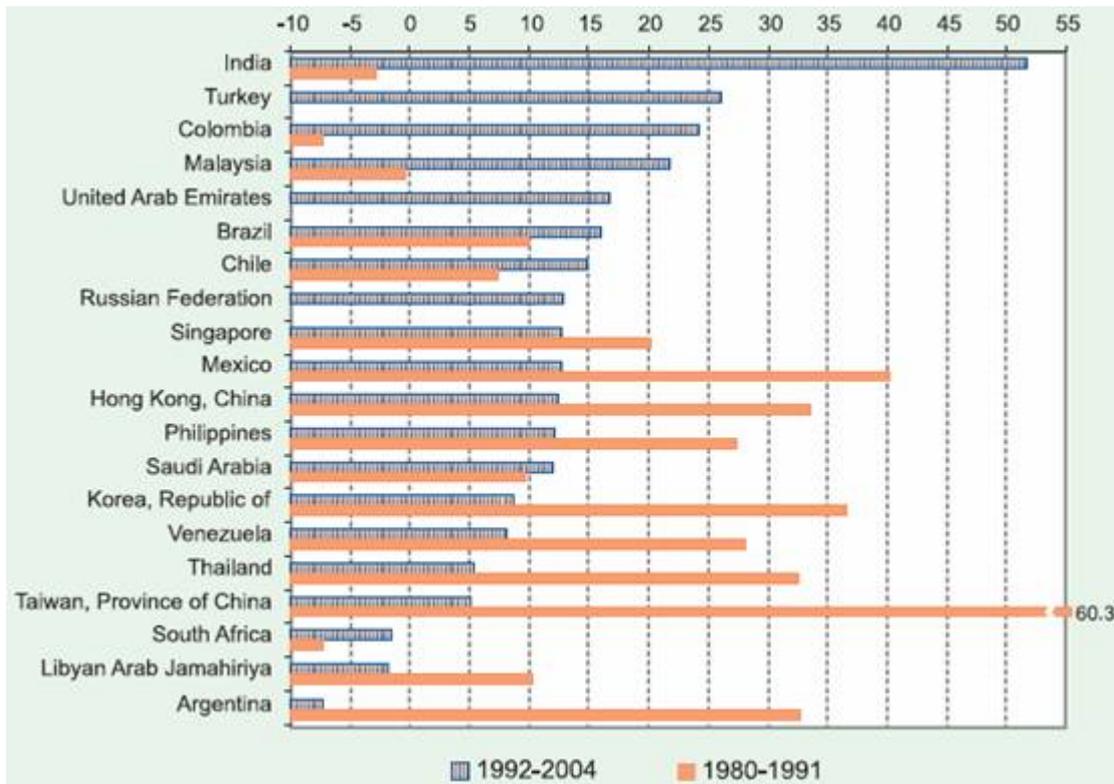


Figure 2: Annual average growth rates of outward FDI flows (3-year moving average, percentage)
(Source: UNCTAD)

The average deal size also has increased from US\$ 32 million in 2005 to US\$ 47 million in the first half of 2006. Despite this trend, however, the size of India's acquisitions is still roughly half the size of average global M&A deals [Accenture, 2006 p.11].

According to a joint finding by two European investment bodies from France and Germany (*Invest in France* and *Invest in Germany*), the FDI outflow from India to the European Union (EU) were expected to cross the mark of US\$ 25 billion in 2007 from an estimated US\$ 16 billion in 2006 [IBEF, 2007]. Total employment provided by Indian companies in Germany was estimated at more than 10.000 workplaces in 2006 [Groene, 2007 p.81].

One main reason for the Indian companies to invest in Germany seems to be the access to technologies and technology infrastructure besides market-seeking; see for instance Gopinath [2007].

But the know-how transfer is a complicated process and not as easy as it may seem to be. There may be legal complications involved. For instance even though Suzlon has acquired a share of 86.5% in Repower AG, the access to technologies possessed by Repower is not "freely" transferable due to legal provisions and complexities which require an additional "Beherrschungsvertrag" (control agreement) [Kruempel, 2008]. But there may also be organizational, cross-cultural and managerial problems which may be obvious at the beginning. Moreover there may be false expectations resulting from incorrect estimations.

Objectives

The overseas investments, which started of on a small scale, have reached to globally visible levels with big acquisitions being announced by large firms regularly. More than 240 Indian firms are registered in Germany [FICCI & KPMG 2007 p. 5] and the number is constantly growing. So it is of immense interest to analysis the trends, factors and challenges faced by the Indian firms towards investment in Germany and the opportunities and challenges they face in R&D. The following topics will be analyzed to realize these objectives:

1. Understand the patterns of outbound foreign direct investment by Indian firms, for instance motivations, the role of government policies & procedures, status quo, and expected trends
2. Understanding Indian investments in Germany
3. Motivation specific to Indo-German context, especially the role of technology-seeking (R&D) ("make and/or buy");
4. Experience of Indian firms in Germany (opportunities and challenges faced);
5. Management strategies to optimize investment outcome ("successful operations")
6. Come up with suggestions for (policy) improvement, if/where applicable.

The results and recommendations of this study will help Indian companies, which intend to invest in Germany for technology acquisition to better judge their options and to calibrate their strategy. On the other hand it will also provide German firms, and more importantly institutional players, with a better understanding of the situation thereby enabling better coordination and policy framework.

The study is being carried out at TIM/TUHH within the framework of [Research Project Global Innovation](#).

Proposed Methodology

To meet the above objectives the following procedure will be followed:

1. Available literature resources and various statistical data will be analyzed to understand patterns and modes of global investment by Indian firms
2. Government policies and procedures for outbound investment will be studied from Indian ministry of finance and Reserve bank of India
3. Foreign (inbound) investment policies of Germany will be studied
4. A literature review will be made to identify the relevant research issues which form as a base to the questionnaire and empirical study
5. A suitable questionnaire for an empirical survey of Indian firms in Germany will be prepared and forwarded to the Indian companies in Germany to identify relevant concerns and issues
6. The results will be interpreted and recommendation will be formulated

References

- Accenture (2006): "India goes global – How cross-border acquisitions is powering growth", Accenture, www.presidencia.pt/archive/doc/India_Goes_Global.pdf Viewed: 15-01-2008
- FICCI & KPMG (2007): "India and Germany - Two great countries engaging to take economics to a new level a knowledge paper", Knowledge Paper, KPMG www.in.kpmg.com/pdf/India_Germany.pdf viewed 21-04-2008.
- Gopinath, S. (2007): "Overseas investments by Indian companies - evolution of policy and trends", International Conference on Indian cross-border presence/acquisitions, Mumbai, 19 January 2007 www.bis.org/review/r070122c.pdf Viewed: 27-12-2007
- Groene, M. (2007): "Indian investments abroad - a performance overview", Indo- German Chamber of Commerce, Duesseldorf, Germany. www.indo-german.com/facts.htm Viewed: 15-11-2007.
- IBEF (2007): "Indian Investments abroad", India Brand Equity Foundation (IBEF) www.ibef.org/economy/indianinvestmentsabroad.aspx Viewed: 12-02-2008
- Kruempel, M. (2008): "Inder wollen Windkraffirma schroepfen", in: Financial Times Deutschland, www.ftd.de/unternehmen/industrie/314303.html Viewed: 12-02-2008
- RBI (2008): "Indian Investment Abroad in Joint Ventures and Wholly Owned Subsidiaries: 2007-08 (April-December)", Reserve Bank of India - Bulletin (April 2008), pp. 579-585.
- Rodrigues, R. (2006): "Going global", India brand equity foundation (IBEF) www.ibef.org/download/cover_story_30nov06.pdf Viewed: 20-11-2007

For further enquiries, please contact:

Rajnish Tiwari
Research Project Global Innovation
Institute of Technology and Innovation Management
Hamburg University of Technology (TUHH)
Schwarzenbergstrasse 95
21073 Hamburg (Germany)

Tel: +49 – (0)40 – 42878 – 3776
Fax: +49 – (0)40 – 42878 – 2867
E-Mail: rajnish.tiwari@tuhh.de
WWW: www.global-innovation.net