Project Proposal

The Emergence of Indian Multinationals in Germany: An Analysis of the Critical Success Factors

A project of:

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

www.global-innovation.net

Project team: Dipl.-Kfm. Rajnish Tiwari and Chakra Banerjee

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Background

Emerging countries, especially the "BRIC" nations (Brazil, Russia, India and China), have of late emerged as a significant source of global foreign direct investments (FDI). For instance, India's worldwide FDI stock has grown 18-fold from $2.6 billion in March 2001 to $46.2 billion in March 2008 (Tiwari and Herstatt, 2009). In September 2008 the Indian FDI stock already stood at $55.9 billion, as per provisional data issued by the Reserve Bank of India.

FDI from emerging nations is no more singularly directed towards other developing nations ("south-south FDI"), the emerging market firms are increasingly looking towards established markets in Western Europe and North America. As a matter of fact the share of emerging economies' firms in M&A deals in Germany more than doubled from 5% to 11.4% between 2005 and 2007, according to one report (Deloitte, 2007).

In line with this trend, Germany has advanced to one of the focal points for Indian Multinational Enterprises (MNEs) in their pursuit of growth opportunities abroad. In 2008 at least sixteen M&A deals involving Indian firms could be monitored in Germany and the Indian FDI stock in Germany (over $4 billion) has surpassed Germany's official FDI stock ($2.6 billion) in India (Tiwari and Herstatt, 2009).

The tables below show the flow of Indian FDI in Germany both in terms of Greenfield and Brownfield Investments (source: Tiwari and Herstatt, 2009):

Greenfield Investments

Year	FDI Value (USD million)					No. of Firms
	Primary	Manu-facturing	Services	Others	All Sectors	All Sectors
1961–69		0.60	1.50		2.10	**3**
1980–89		0.20			0.20	**2**
1990–99	0.20	13.70	2.30	7.50	23.80	**47**
2000–07		101.20	36.80		137.90	**84**
Total	**0.20**	**115.70**	**40.60**	**7.50**	**164.00**	**131**

Brownfield Investments

Year	Value (USD million)	No. of deals
2000	?	1
2001	28.50	3
2002	3.00	2
2003	43.00	3
2004	140.00	6
2005	65.70	7
2006	838.36	11
2007	817.00	7
2008*	~ 1800.00	16
Total	**3733.56**	**54**

The prime motives emphasised for FDI by Indian MNEs in Germany are regarded as proximity to customers and suppliers, developing products in for the German market, building a base for European markets along with acquiring new technologies; see for instance Tiwari and Herstatt (2009) and Gopinath (2007).

While Indian investments in Germany are reaching new heights, at the same time some big subsidiaries of giant Indian MNEs are filing for bankruptcy. On June 3rd 2009, Indian giant Reliance Industries' German textile arm Trevira GmbH filed for insolvency owning to business slowdown in Europe. Reliance had acquired Trevira in 2004 for 80 million Euros and the company touched a turnover of 325 million Euros in 2008 (Hindu Business Line, 2009) before going bankrupt in 2009. Earlier on February

3rd 2009, Sakthi Germany GmbH a wholly owned subsidiary of Sakthi Sugars had filed for bankruptcy owning to liquidity problems (Hindu Business Line, 2009).

Similarly, Ranbaxy, India's leading pharmaceutical major started to scale down its European operations in order to cut the costs with a view to return to profitability. The company decided on a different strategy of 'bottomline' approach instead of 'topline' growth model in the third largest medicine market in the world. The company faced severe pricing pressures which eroded the profitability and reported a net loss of Rupees 761 Crores (INR) at the end of first quarter 2009 (Business Standard, 2009).

Apart from such drastic failures there have also been some reports of operational difficulties faced by subsidiaries of Indian MNEs in Germany; see Tiwari and Herstatt (2009).

Objectives

In light of the developments described above it seems to be of immense interest to conduct an analysis of the critical success factors for Indian investments in Germany. The study seeks to generate useful insights into the strategic factors that might be crucially influencing the success/failure of Indian investments in Germany. The following topics will be analysed to realize the objectives:

1. Understand Indian investment in Germany based on
    a. experience of Indian firms in Germany
    b. extent of their success
    c. challenges faced
2. Identify a key set of critical success factors that are important for carrying out business in Germany.
3. Understand Management strategies to optimise investment outcome ("how to be successful")
4. Come up with suggestions for improvement ("strategic issues"), if/where applicable.

Proposed Methodology

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

1. Available literature resources and various financial data will be analysed to understand the patterns of success and failure so as to benchmark the successful factors for investments.
2. A literature review will be made to identify the relevant research issues and developing a questionnaire for an empirical study.
3. A suitable questionnaire will be sent to senior level management of Indian companies operating in Germany.
4. Attempts will be made to speak to former management of those Indian companies which have ceased to exist, so as to identify the factors which led to failure.

5. The data from the questionnaire will be analysed, interpreted and recommendation will be formulated.

References

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