Excellent target

Indian investment in Germany – recent developments and success factors

Indian firms lead the pack of emerging market investors in Germany, with about 188 subsidiaries providing employment to close to 23,500 people. This article provides an update on trends in Indian investment in Germany and examines the performance of Indian subsidiaries.

Economic liberalisation in India and the ensuing growth have opened up a wealth of opportunities for Indian companies. While firms are faced with increased competition on their home turf, domestic and overseas success has put significant slack resources at their disposal. As a recent study of 700 publicly-listed Indian companies has shown, firms registered a 36 per cent increase in net profits for the first quarter of 2010. Exposure to global competition has forced firms to build world-class technical and managerial capabilities. Encouraged by government support for outward foreign direct investment (FDI), Indian firms have rapidly emerged as a significant source of FDI. Between March 2001 and December 2009, India's outward FDI stock has increased more than 28-fold, from 2.6 billion US dollars to 77.3 billion US dollars, according to official data. In a contrast to their Chinese counterparts, Indian firms have tended to prefer developed Western countries for their investments.

Germany, along with the USA and UK, has emerged as a primary target for Indian FDI. Not only does the largest economy in Europe provide attractive market opportunities, Germany – with its established technological prowess, high-quality infrastructure and reliable institutional set-up - is also considered an excellent investment target by many Indian firms.

Recent Indian FDI in Germany

As of the end of March 2010, the stock of Indian FDI in Germany was estimated to be about 4.1 billion euros. Even though 2009 did not see any "big-ticket" investment coming to Germany, some ten FDI projects were recorded between 2009 and March 2010. These projects had an estimated volume of about 100 million US dollars. Five of these projects were greenfield investments, while the others involved acquisitions.

Apollo Tyres, Motherson Sumi, the Essar Group, and Kiri Dyes & Chemicals were among the investors. In addition, one investment valued at an estimated 30 million euros was undertaken by Megha Mittal, the daughter-in-law of steel tycoon, L.N. Mittal. This investment is not included in our figures, however, since the Mittals are headquartered outside India. The federal state of North Rhine-Westphalia (NRW) continued to outshine other states in attracting Indian FDI, with as many as seven of the new projects having an NRW connection.

2009 also saw two prominent cases of "Indian" insolvencies in Germany involving Reliance Industries (Trevira) and the Sakthi Group. These two companies together provided employment for over 2,600 people in Germany. Taking into consideration the investments and divestments in this period, we counted 132 India-headquartered multinational corporations (MNCs) and their 188 subsidiaries (i.e. majority stakes and wholly-owned businesses) active in Germany as of March 2010. The chart on the right side shows the composition of Indian MNCs by industry at the end of March 2010. The share of automobile industry firms increased while the share of IT industry firms decreased slightly compared to 2008. Other industries also registered a minor shift in their share of the overall composition. According to a recent study by IBM Business Services, Indian firms accounted for three per cent of all new jobs created by foreign investors in Germany in the year 2008. Indian firms, excluding the Mittal Group, provided around 23,500 regular full-time jobs in Germany.

Performance of Indian enterprises

About 40 per cent of all Indian MNCs suffer from negative performance by their overseas subsidiaries. In order to obtain a first-hand impression of the performance of Indian enterprises in Germany and the relevant success factors, we conducted an empirical survey among subsidiaries of Indian firms in Germany. The survey was conducted in the autumn of 2009, with 21 Indian firms participating. Despite its tentative character owing to the relatively small sample, this exploratory study delivers some very useful insights, as has been confirmed in various interviews with experts. Seven of the firms were from the IT sector, four from the automotive industry, four from pharmaceuticals, and the rest from various other industries. Although the average age of the companies was 5.25 years, only six firms had actually been active in Germany for more than five years. Except for three joint ventures, all the other firms were wholly-owned subsidiaries.

Participants were asked to evaluate the success of their German operations on a scale of 1 ("Totally failed") to 6 ("Very successful"). On average, the respondents evaluated their success at 4. About one-third of all participants perceived their success to be below average. Apart from sector-specific success (automotive and IT), it seems that operational experience in Germany (i.e. the age of the com-

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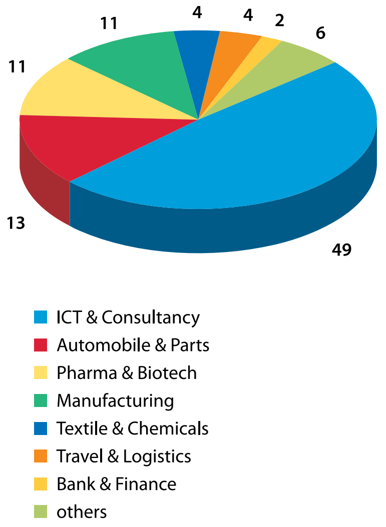
Photos: TUHH

Composition of Indian MNCs

(By industry, In per cent)



Base: 132 India-headquartered MNCs
Source: Tiwari, Herstatt: Indian Investments in Germany Revisited: A Study of Trends and Success Factors

pany) has a positive influence on success. Similarly, firms appeared to do better if their parent group in India had not made changes to the business model. On the other hand, joint ventures and a high rate of expatriates in the workforce appear to have a negative influence on company performance. In some instances, firms reported post-acquisition difficulties such as lower turnover, increased attrition, extended recruitment time and reduced quality perception. The silver lining to such clouds, however, was that these developments did not seem to be endemic in all Indian acquisitions. Firms with a longer presence in Germany or a higher degree of local management in particular were less likely to face such difficulties. Post-acquisition success therefore appears to correlate with managerial actions and image perceptions.

Survey participants were asked about average growth in turnover, profitability and headcount in the previous three years. Most firms reported moderate to high levels of success. Whereas two survey participants reported high or hyper success , none had negative or zero growth for all indicators. However, the growth in turnover did not necessarily lead to greater profitability and greater profitability did not necessarily lead to a higher headcount.

A comparative analysis showed that firms were more successful when they could muster organisational capabilities to overcome regulatory and bureaucratic hurdles and find the right mix of strategic and operational autonomy. Companies that competed solely on the basis of lower pricing were found to be at a disadvantage vis-à-vis firms that had an enhanced focus on superior quality and image. Successful firms were more often able to attract and retain local talent. Finally, the ability to bridge cross-cultural gaps was an important factor in achieving success.

Growing importance

The study confirms the growing importance of Indian FDI in Germany. As trade between the two countries intensifies and more Indian companies venture abroad, Germany will become indispensable for many an Indian firm. Because of its geographical, cultural and linguistic distance, however, Germany is not an easy market for many Indian MNCs. Nonetheless, as the study shows, it is possible - with careful cultivation - to achieve extraordinary success in the highly attractive German market.

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Prominent Indian employers in Germany

Fiscal year 2008-09

German enterprise	Indian stakeholder	Employees
Corus Deutschland GmbH	Tata Steel	6,100
Mittal Group*	L.N. Mittal & Family	3,600
Novelis Deutschland GmbH	Hindalco (Aditya Birla Group)	2,264
SONA BLW Präzisionsschmiede GmbH	Sona Group	1,586
REpower Systems	Suzlon Energy Ltd	1,288
Mahindra Forgings Europe AG	Mahindra Group	1,039

* Investor is of Indian origin but is not an India-headquartered company

Source: Authors' compilation

BPO industry

Strong growth

With projected growth rates exceeding nine per cent, back-office functions are driving steady growth in Germany's business process outsourcing industry (BPO). According to NelsonHall, annual growth rates for the German BPO market are forecast at around 7.2 per cent, with back-office activities even predicted to grow at 9.2 per cent. By 2013, the BPO market in Germany is expected to have reached an estimated volume of 14.4 billion euros. Approximately one third of German companies plan to outsource business processes within the next two-year period, creating a number of opportunities for international and domestic companies in a growing industry.

Increasing demand for business services in Germany is driven in part by the country's economic structure, which is characterized by a strong base of small and medium-sized enterprises (SMEs), which are typically not large enough to establish their own shared service centers. These companies provide the most significant outsourcing potential of non-core processes, but many have been hesitant to outsource back-office processes due to the absence of „onshore" German market service providers.

As Europe's largest market, Germany is an attractive location to serve local clients. A number of companies are currently active in the German market, either with their own subsidiary activities in Germany or in close strategic partnerships with local partners. However, market entry conditions remain attractive, as the BPO market is not dominated by any single player. The top 20 BPO providers claim less than 30 per cent of total market share.

When choosing where to best establish a business to serve a large customer base, Germany's highly trained personnel have contributed to its reputation as an attractive business location. The country's dual education system, which combines the benefits of classroom-based and on-the-job training, is critical to this industry. This model provides companies with access to a broad array of qualified and motivated employees at competitive costs. And with labor turnover rates as low as five to ten percent, substitute recruitment and training costs are kept to a minimum.

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