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The New Logic of Indian Ventures Abroad: Three Case Studies

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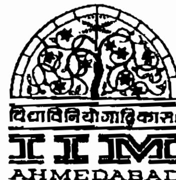

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Abstract

This paper reports the findings of a study to understand the logic of Indian ventures in the 1980s and beyond. Three case studies are analyzed in detail. The motives behind these ventures are compared with the motives of Indian ventures set up in earlier decades. Major differences are found here. Our modern ventures appear to be set up in pursuit of market knowledge development and control of marketing mix, rather than in search of growth opportunities in protected environments. Implications for theory, and for Indian managers, are also drawn.

Key Words

MNCs, India, Foreign Ventures, Internationalization

The New Logic of Indian Ventures Abroad: Three Case Studies

Introduction

Indian companies have been setting up operations abroad since the Birla Group put up a textile machinery plant in Ethiopia in the 1960s. Until recently (roughly 1992), however, the Indian government had always looked askance at such ventures abroad. Indian companies wanting to send capital abroad were invariably suspected (rightly or wrongly), of attempting an 'end - run' around the draconian FERA (Foreign Exchange Regulation Act) laws, which tightly controlled all foreign exchange transactions.

Over time, the attitude of the Indian government has been changing. It is now becoming easier for such ventures to become part of an Indian company's international strategy. What is even more interesting, and this is the subject of the present paper, is that Indian companies are beginning to look at foreign ventures in strictly business and strategic terms. There is thus a new logic driving Indian companies to set up ventures and subsidiaries abroad. It is this logic which we shall examine here, through three recent caselets.

Previous Work on MNCs

Most work on MNCs has concentrated on firms from developed countries (Kindleberger, 1979; Aggarwal, 1988). The literature on the internationalization process (Johanson and Wiedersheim - Paul, 1975; Johanson and Vahlne, 1977) also discusses the evolution of companies through the various stages of international activity, from exports all the way to full-fledged multinational companies. More recent work like Ghauri, 1990, has also shed light on the behavior of developed country firms in developing countries.

However, there has been relatively little work on MNCs from developing countries. Wells, 1983, is probably the first comprehensive work on this subject. This study finds that MNCs from 'Third World' countries tend to rely on small scale manufacturing, flexibility, niche strategies, and special products, to survive in foreign markets. Such firms are also found to flourish where there are strong ethnic populations from the MNC's home country. Buckley (1989), by focusing on small and medium companies, brings out many issues which are relevant to us, if only because companies from developing countries tend to be small by global standards. For instance, he points out the importance of information gathering costs for a small company. We shall find that such forces may be important in motivating Indian companies to set up operations abroad.

The first comprehensive work on MNCs from India is by Balakrishnan, 1982. We discuss this work in some detail below.

The Old Logic of Indian Ventures Abroad

K. Balakrishnan, 1982, is probably the seminal work on Indian ventures abroad. To summarize some of his findings, which cover the period of the 1950s, 60s, and 70s, the logic driving Indian ventures abroad appears to have been some mix of the following:

1. Fear of MRTP (the Monopolies and Restrictive Trade Practicees Act, twin brother to FERA): many large Indian business houses had begun to fear that they would be prevented from growing too big in India. Growing abroad was the only possible option for them.
2. The need to find a new hunting ground: closely related to the above is the fact that many business houses simply did not know what to do with the bright, aggressive young scions of the family who returned to India with degrees from top foreign universities, and desperately needed a challenge worthy of them. Finding new hunting grounds for these young lions was a family necessity. Ventures abroad was one solution - several of these young people were sent off to Malaysia and Thailand and Kenya to cut their teeth and show what they could do.
3. To protect export markets: Economies like Sri Lanka, which were attractive to Indian companies as export markets, but which constantly threatened to build fortress walls to keep out foreigners, naturally attracted Indian ventures. Some textile machinery companies appear to have been driven by such considerations.

Tables 1 and 2 show some statistics relating to the broad pattern of Indian ventures abroad.

South East Asia appeared to be the most popular place to set up Indian ventures. Malaysia accounted for a large number of these ventures (17 out of 56). There were two reasons for this, as Balakrishnan, 1982, points out: Malaysia had been strongly pushing for labor-intensive technologies, which Indian companies naturally were best at, and had provided all kinds of tax incentives for such foreign companies to set up production in Malaysia. At the same time, Malaysia protected local industry (including Indian ventures) from competition by building high tariff walls. This pattern was repeated in country after country in South East Asia and even Africa. Nor was this pattern restricted to developing countries alone - an Indian company had set up a paper factory in Nova Scotia in response to Canadian incentives aimed at developing this 'backward area'.

Although African ventures had a high failure rate, Kenya was an exception. Balakrishnan, 1982, attributes this partly to the presence of a strong Indian ethnic population there. This finding is consistent with the Wells (1983) observation that such ventures draw upon ethnic populations for support.

The overall pattern of success and failure of Indian ventures abroad is extremely revealing. Balakrishnan, 1982, classifies them in two dimensions. One dimension captures whether the venture competed on cost or on differentiation. The other dimension captures the venture's target market: whether the output was intended for a global market, or for a purely local one. Table 3 shows this 2-way classification system in the form of a matrix (reproduced from Balakrishnan, 1982).

The highest failure rates were seen in the quadrant where Indian ventures had to compete on brand/ image (differentiation) in global markets, whereas the lowest failure rates were seen in the quadrant where Indian ventures competed on cost in local markets alone.

In summary, the 'old logic' of Indian joint ventures may be described as follows: seek avenues for growth because there are none at home, look for other countries where you can compete on cost in a small, protected local market, preferably with strong Indian populations - in short, look for a newer, smaller, 'India'.

The New Logic of Indian Ventures

Since the Balakrishnan study covered ventures set up in the 1950s, 60s and 70s, we embarked on a project to study ventures set up in the 1980s and beyond.

Selection of Companies

As a first cut, questionnaires were mailed to every venture listed in the official records of the Indian Investment Centre, as of March 1991. This should, by law, cover the entire universe of Indian ventures (total 159). Many of these ventures remain only on paper, of course.

Responses were obtained from 22 companies. Of these, only 6 fit our requirements: they should have become fully operational in the 1980s or later, they should have indicated in some detail the kind of business they were engaged in abroad, and they should be willing to have the researcher visit them for further study. Such a low response rate was, perhaps, not surprising, given the kind of atmosphere of mistrust then prevailing, as mentioned in the introduction (this project began in mid-1992).

Of the 6 companies, 2 were eliminated after some follow-up: 1 because it appeared that the venture had not really been operational for a few years, and another because it appeared to be a very small and insignificant operation.

The researcher then visited each of the 4 remaining companies with a request for cooperation in writing cases on their experience, to be taught in MBA courses and used in other academic work. One company refused such permission outright, on the ground that the atmosphere was not yet right for such full disclosure. The other 3 agreed on the condition that their names not be disclosed and that no financial information be sought. The researcher proceeded with these case studies, under these stipulations.

Methodology

The researcher spent several days at each company site, talking to senior managers in charge of the ventures abroad, including several hours with the Vice President of the relevant divisions. Such interviews were usually semi-structured, with a small set of general open-ended questions.

In each case, publicly available information on the ventures abroad, as well as on the Indian parent, was also collected. The final result was a small caselet on each company's experience with foreign ventures.

The advantage of this case method is that we were able to develop a relatively deep understanding of the motivations of our sample companies, and the way their ventures were being managed. Leonidou, 1995, among others, has noted the need to use qualitative methods in such empirical research.

In many instances, we had to search through the company to locate managers who had made some key decisions in the past. Had we relied entirely on a survey / questionnaire approach, we would not have been able to find some of these people, and our understanding would have remained quite superficial. In any case, given the response rate to the initial questionnaire, it is doubtful that the sample size would have been much larger even with the survey /questionnaire approach.

Limitations and Pitfalls

Since not much was known in India about these ventures, we could not get much by way of outside perspectives on them, from industry experts or other outside observers. Thus, in every case, we are relying almost entirely on the statements and observations made by the managers of the companies,

themselves. Again, in no case were we able to travel abroad to observe the venture first - hand. These handicaps must be borne in mind while evaluating the findings of this study. Finally, the size of the sample is quite small, and generalizations must be made with extreme caution

Description of the Companies Studied

We shall refer to the 3 companies as Company A, B and C.

Company A is an automobile manufacturer. It has only one venture abroad, in Greece. This is a joint venture with a local Greek distributor.

Company B is a manufacturer of dyes and dyes intermediates. It also has two ventures abroad, one in the U.S. and one in Thailand. We focus on the U.S. venture, which is a joint venture with a U.S. partner.

Company C is a manufacturer of pharmaceuticals. It has several ventures abroad, one of which, in Thailand, we discuss here .

Table 4 provides some descriptive data on these companies. All three ventures became fully operational in the early 1980s (from 1980 to 1983), and are still active today (1996). All 3 ventures are said by their parent companies to be performing very well.

Motivation for Venturing Abroad

Company A

Company officials claim that, way back in the late 1970s, they could see the dim outlines of 'Fortress Europe' looming in the not-so-distant future. Since exports was a strategic priority for the company, establishing a foothold in Europe became a necessary 'insurance policy'. Greece was chosen for the foothold in Europe because it was seen as being part of any emerging European market, while, at the same time, being small enough and unsophisticated enough for an Indian company to survive in.

The company also saw the need to make an endless series of local adaptations to its product - a different set of headlights for Germany, a different kind of look for Greece, a different tread of tires for a third country. The company decided that a strong local presence, working directly with the marketplace, was necessary, if the company was to make such adaptations effectively.

Their distributor in Greece was agreeable to a joint venture, and so it was born.

Company B

Company B was a leader in the Indian dyes business. In particular, it excelled in the fine art of finished dyes, where colors and fashions rule. Unlike dyes intermediates, which are relatively undifferentiated products, finished dyes are highly sensitive to the exact application, conditions of application, and colors and shades desired. Again, finished dyes have to marketed like consumer products - in smaller batch sizes, and with extremely quick response times to changing customer demands.

The company saw that it could not possibly succeed in such a fast-changing environment unless it immersed itself in the market, and set up operations close to the final consumer. In this case, the business logic of cultivating U.S. consumers required it to set up a venture in North Carolina, close to the cotton textile industry in the U.S. Its partner is a local dyes manufacturer, who is no longer able to produce in the U.S, for reasons we shall shortly see.

Company C

Company C is unique among Indian companies in that it competes internationally with branded products. In the Balakrishnan, 1982, study, this is a quadrant Indian companies should have difficulty surviving in.

Since the company had chosen to compete with branded drugs, it saw the need to move close to its final markets in order to be able to control its distribution channels and protect its brands. To ensure a stable market for its drugs, the company needs to maintain close relationships with the local Food and Drug Administrations. The company has decided that, in order to maintain effective links with such agencies, it needs to look and talk like a local company, something it cannot do from India.

Unlike the other companies, Company C has a number of ventures abroad, each of them with this same broad charter. The venture we shall discuss is the one in Thailand. While it does have local partners, there is no single major partner - local equity holdings are distributed among a number of local doctors. Thus, the Indian company retains effective management control.

What is worth noting here, in all 3 cases, is that these ventures are no longer motivated by fear of restrictive regulations at home, nor are they being tempted by the allure of a protected market

overseas. They are driven by a different kind of logic - an altogether more modern logic. This 'new logic' for venturing abroad may be summarized as follows:

1. The need to control distribution channels.

Many Indian companies recognize the difficulty of managing distribution abroad, and settle for a 'buy-back' arrangement, under which they act as OEMs to foreign companies. These 3 companies are not content with such a role. They want to actively manage their positioning in foreign markets, to control their distribution channels, and to manage their own brands. In order to do all these things, they have risen to the challenge of venturing abroad.

2. The need to respond quickly to changing markets.

Company B is particular, and Company A to a lesser extent, are clearly driven by this need.

In businesses driven by fashions and fast-changing consumer tastes, many Indian companies have decided to stick to un-differentiated products like grey fabric (in textiles), dyes intermediates (in dyes), or standard men's shoes (in leather footwear). Our companies have chosen the harder path and confronted this challenge head-on. Company B, in particular, could easily have been content to export dye intermediates from home base, and allow some large foreign company to handle the final step of transforming it into finished dye. Instead, it chose to do whatever was necessary to be able to understand and respond to the market on its own.

3. 'Quota-Jumping'.

Another modern motivation for ventures abroad is especially important in the textile industry. Though it does not come up in our 3 ventures, it is worth noting in passing.

The textiles business, an important export industry for India (textiles make up roughly 30% of India's exports in the 1990s), is shaped by the Multi Fibre Agreement (MFA), whereby developed countries restrict imports from specific developing countries through a system of quotas. In many categories of textiles, India has 'hit its quota', making export growth difficult for Indian companies. One solution, now being seriously pursued by at least 3 major Indian textile companies we know of, is to set up ventures in countries which are not covered by quotas - countries like Sri Lanka and Bangladesh, where quotas are either not operative or are not yet saturated. In some sense, this is the international equivalent of MRTP - an old dragon rises again!

Sources of Competitive Advantage

How do these companies manage to compete in these demanding conditions? The evidence of Balakrishnan, 1982, suggests that markets where global players can also play, as in Europe (Company A), U.S.A. (Company B) and Thailand (Company C), are distinctly hostile territory for Indian companies.

Understanding our companies' sources of competitive advantage may be important for any understanding of these ventures. Such an understanding also holds the key to understanding why such ventures are managed the way they are (which we shall turn to in the next section).

This general question may be broken down into two parts: how do they compete against local players, and how do they compete against global players. In some cases, of course, the local competitors and global competitors may be the same, as in the USA or Europe, for instance.

Competing against local players

Company A competes against local players (that is, Greek players) simply by having an unique product not manufactured anywhere else in the world. This is an old-style automobile, of World War II vintage, which still has considerable nostalgia value, but is not in any sense a product of today.

Company B's product - finished dyes, requires the use of an intermediate product whose production process is declared to be hazardous to the environment, at least in the U.S. The company gets this intermediate made in India, ships it to the U.S., and produces the finished dye in the U.S. This also explains why its partner has gone out of business - it does not have the luxury of manufacturing in India, where environmental regulations are considerably less stringent.

Company C competes with local companies simply by being bigger and better. Its marketing muscle, product range, and ability to manage costs, are far superior to that of any Thai competitor.

Competing Against Global Players

More interesting is the question - how do they compete against global players?

Company A is in a niche market which is not large enough to attract the global leaders like Suzuki. In addition, it has developed, over the years, a certain level of expertise in diesel engine design, which

its global competitors do not have. This is partly because diesel engines have a large market in India, in comparison with the rest of the world.

Company B, like some other Indian companies, has developed technical expertise in finished dyes over hundreds of years. this is an industry India has traditionally been very strong in. Also, the dyes are intended for use in fabrics to be marketed in hot, tropical climes like Florida and Central America. The development of textile dyes suitable to such conditions is a special strength this company has developed over the years in the similar climatic conditions obtaining in India.

Company C competes on price. It is able to price below its global competitors partly because its products, though branded, are not of its own development (though they are off-patent), and therefore it does not have to recover the kinds of R&D investments its global competitors have made. However, this would not prevent any of its global competitors from engaging in a price war to drive it out of Thailand. What ties the hands of the global competitors is their reluctance to price below the 'reimbursement prices' they have negotiated for the same drugs in the more lucrative markets of Europe.

What is worth noting about the competitive strategies of our three ventures, is that it is not tariff protection, not local tax incentives, not cheap labor, that they rely on for their competitive advantage, as their predecessors did (Balakrishnan, 1982). While some of their strategies and competitive advantages may not be sustainable in the long run, they are certainly of a more modern variety - niche products (company A), technical strengths (company B), and geographic focus (company C).

Managing Ventures Abroad

What do Indian companies contribute to their ventures abroad, and what do they expect to draw on local resources for? Unfortunately, not much is known about how ventures of the bygone era (that is, pre-1980s) were managed, so a direct comparison with past ventures cannot be made. We can, however, point out one or two rather surprising features of the way our Indian ventures are managed abroad.

1. Choice of Partner

If the local Indian population is to be a source of strength, as suggested by Wells, 1983, and Balakrishnan, 1982, one would expect our companies to look for partners in that community. In fact, if there is one thing top managers of all 3 ventures were agreed upon, it is that such a course is to be

eschewed at all costs. Indeed, company C had tried such an approach in another country earlier, and had failed miserably. All 3 ventures looked for partners who could help them meet local regulations and understand local markets - and insisted that a local entity would best fit the bill. Company C had no single partner - a number of local individuals held small equity stakes.

2. *Finance*

Until 1992, the Government of India prohibited Indian companies from contributing equity capital in the form of cash to any foreign venture. As a result, all 3 ventures had to contribute plant and equipment instead, and relied on local sources for financing, especially working capital needs for growth.

3. *Local government contacts*

In most cases, the local partner does appear to take the lead role when it comes to dealing with the local government, test and regulatory agencies, and so on. In the case of company C, the formal interface with local regulatory agencies is handled by the Indian company's managers, but the (several) partners certainly do their bit, as powerful influencers in the community.

4. *Technology*

Consistent with the fact that all 3 ventures have a strong product, we find that all 3 provided the major technological input into their ventures, directly from India.

5. *Product Design (basic)*

As a natural corollary, all 3 Indian companies also provided the basic product design, since this goes hand in hand with technology.

6. *Local Product Adaptations*

One real surprise was that none of the 3 companies relied much on a foreign partner or 'local expert' for help in developing local product adaptations. In the case of company A, the local partner did help the company interface with local regulatory agencies to understand the emission and safety requirements, but the engineering and design work was left to the Indian company. Company B and C developed these adaptations on their own.

7. Marketing Expertise

Here we have, perhaps, an even greater surprise. Only in the case of Company B did we find the local partner playing the major role in distributing and promoting the product. Company A's Greek partner did handle the distribution in Greece, because he was the distributor in Greece before the joint venture was formed, but he played only a minor role in marketing in the rest of Europe. Company C does its own marketing, with its partners contributing only word of mouth and goodwill to the effort. Company C officials report that, in some previous ventures, they had relied on a local partner to handle marketing and had had poor results. Only when they stepped in and took over the marketing themselves, were they able to get the venture back on course.

In the case of company C, the marketing appears to be handled in the local country itself, with little reference to home base. In company A, on the other hand, the Indian parent appears to play a strong role, sometimes appearing to handle all marketing directly from India.

Turning to the management of brand positioning, while one might expect the local partner to put his brand name on the product, or at least manage the brand, this does not appear to be happening in 2 out of 3 cases: company C manages its own brands, and so does company A.

Thus, the evidence seems to suggest that at least some Indian companies have the ability to market products outside India, and might even be better at it than their local partners.

8. Production Facilities and Management

Since the management of production involves the management of local labour and the development of local vendors, one would expect the company to look for a local partner to handle this aspect of the operations. In fact, however, only company B got its plant and equipment locally (from its partner). Even this happened only because the equipment was lying idle.

In all 3 cases, the Indian company determines the production systems and standards, and takes responsibility for hiring local production managers.

9. Top management

In all 3 ventures, the Indian company provides the top management for the venture, usually Indian expatriates. However, all 3 companies make a conscious effort to hire locals at all levels below the very top. The need to present a local face is cited as being paramount. We see this even in the choice

of partner above. In every case, the top manager sent from India is told to 'make it a career, not an assignment'.

Thus, we see that the Indian company appears to exert a great deal of control over the various functions of the venture abroad, even where it has a local partner, and despite being unable to finance the venture's growth from India.

Summary of Findings

One major finding of this study is that Indian foreign ventures, since the 1980s, appear to be motivated by a different set of considerations than were their fore-runners in earlier decades. The need to respond swiftly to local demands, and the need to control local distribution channels and brand positions, appear to be primary motivators for foreign ventures today. In this sense, the 'new logic' of foreign ventures is remarkably similar to the logic of MNCs from developed countries. We take this as an indication that Indian companies have come of age.

The way these ventures are managed is also consistent with the motivations for establishing them in the first place.

The Indian company appears to exert significant management control over important functions like marketing and technology. It is mainly in finance that they remain weak, mainly because of Indian government regulations. Indian companies appear to rely on local partners only to handle local government contacts and interfaces, not to help them manage local production or marketing.

Implications for Theory

One major implication of our study is that the general literature on internationalization is probably much more relevant to Indian ventures today than it was in the past.

However, our findings are consistent in some ways with Wells (1983), who suggests that such ventures would compete in niche markets with special products, as company A certainly does.

The models developed by Johanson and Vahlne, 1977, appear to be of some direct relevance to companies B and C. These kinds of models link the formation of ventures abroad with increasing foreign market commitment and a process of knowledge development. Company B, in particular, appears to be driven by a desire to immerse itself as completely as possible in a fast-changing foreign

market. This certainly fits the 'experiential knowledge' development mode of Johanson and Vahlne, 1977. Company A and C see their foreign ventures as ways of consolidating their hold on foreign markets (increasing commitment).

There is some also some direct support for the view (Reid, 1983) that the firm's decision on how to go international, is a dynamic and selective adaptation to market conditions. The decision of all 3 of our firms to set up ventures abroad can be seen in this context. Company A was driven by a fear of trade barriers as well as the need to master local market requirements, B by a desire to understand and respond swiftly to fast-changing market conditions, and C by a desire to control its brands and distribution in a dynamic, competitive market.

The concept of 'stages' of internationalization (Johanson and Vahlne, 1977, Rao and Naidu, 1992, etc.), which holds that firms start with exporting from home and then proceed to move through various stages, culminating in direct investment abroad, also receives some weak support here. In 2 out of 3 cases (company A and C), our firms began with direct exports from India and set up ventures abroad only to consolidate their positions abroad.

Implications for Managers

Lessons Indian managers can learn from the experiences of our 3 companies, can be summarized as follows:

1. Ventures abroad can be an effective way to learn to respond swiftly to changing foreign market conditions. Indian companies need not condemn themselves to become OEMs for foreign companies who would impose their own marketing strategies on the products. It is possible for them to manage their own brands and products, provided they have the required competitive advantages to draw upon.
2. Indian companies can hope to exert significant management control over their foreign ventures.
3. Presenting a local face appears to be absolutely critical to success - a foreign venture must look and talk like a local company. This will require Indian managers to learn to manage a foreign work-force - something they are perhaps not altogether ready for today.

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Table 1 - Historical Trends of Indian Ventures Abroad

Year	No. of ventures in operation	Indian Equity (Rs. million)
1965	6	13
1970	4	81
1981	115	355
1985	158	950
1990	159	1,082
Note: data before 1970 not fully reliable. At present exchange rates, 1 USD = Rs. 35 approximately		

Sources: Export - Import Bank of India, occasional paper #13, 1990, and Indian Investment Centre, Ministry of Commerce, New Delhi.

Table 2: Regional Distribution of Indian Ventures Abroad (1990)

Region	No.
SOUTH-EAST ASIA	56
Malaysia	17
Singapore	15
SOUTH ASIA	24
Sri Lanka	15
WEST ASIA	17
United Arab Emirates	8
AFRICA	29
Nigeria	14
Kenya	8
EUROPE	22
United Kingdom	13
USA	7

Source: Indian Investment Centre, as quoted in M.C. Bhatt, 'International Joint Ventures: A Note', Indian Institute of Ahmedabad, unpublished note, 1992.

Table 3: Classification of Indian Joint Ventures

Market Addressed	Basis of Competition	
	Cost	Brand Image
Local Only		
Global		

Source: K. Balakrishnan, 'MNCs from LDCs', Vikalpa, 1982

Table 4 - Summary Data on the Parent Companies of the 3 Ventures Studied (as of December 1993)

Company	Size (million U.S. dollars)	International business revenue as percent of total	Years in business	Years in international business
A	2,650	5%	55	13
B	620	10%	20	15
C	821	31%	15	12