Internationalization: Indian Firms Post Reforms in Europe

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Abstract – The Indian companies unleashed from license permit raj have taken the shot in arm with gusto and have embarked on expansion programmes scouring opportunities in what earlier were zones of no go because of socialistic agenda of Govt of yester years. This article study's the phenomenal change in historic context from 1991 onwards, especially to Europe and the impetus for it. In the process the article catches the patterns and trends in short overview along with synaptic case study of TCS.

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INTRODUCTION

The setting of the present study in India offers a fascinating environment for research on organizational change. The Indian economy has undergone significant institutional transformation over the last 15-17 years. After following decades of socialist-tending policies, a decisive break came in 1992, when the then government led by Prime Minister Narasimha Rao and Finance Minister Dr. Manmohan Singh acted to contain a balance of payments and economic crisis facing the country, by making a radical shift to an economic regime that embraced market forces. This change in policy direction has continued more or less evenly since, and has paid off handsomely, with the Indian economy moving beyond its earlier orbit of 2-3% p.a. annual Gross Domestic Product (GDP) growth rates to a 6-9% p.a. growth range. In the process, India has come to be a favorite of the international business and investment communities Raghuram Rajan, erstwhile economic counselor and director of the research department at the International Monetary Fund sums up the mood amongst international investors on India with the words: "India fever is sweeping through the world's investment community" (McKinsey, 2005).

At the same time, local Indian companies have taken advantage of the liberalized policy environment and their own entrepreneurial abilities, to face up to the challenges of competing in the global market place. Exports from the Indian economy have been growing at double-digit rates for the last several years, and recently there has been a very strong trend of outward foreign direct investment (FDI) and international merger and acquisition (M&A) activity by Indian companies. An Associated Chambers of Commerce, India (ASSOCHAM, 2009) study had predicted that in 2007 the amount of outgoing FDI from India at around USD 15 bn would exceed the amount of incoming FDI. The actual figure for outgoing FDI in 2009 turned out to be even higher at nearly USD 18 billion (Pradhan, 2009). This represents an 18-fold rise over a 7-year period,as the corresponding outward FDI figure for the year 2000 was USD 1 billion (Time, 2007). In the course of their internationalization process, Indian companies appear be moving beyond their reliance on traditional competitive advantages like lower labor and infrastructure costs and are rising up the value curve, by offering increasingly sophisticated products and services for international markets. At the same time Indian companies are also competing successfully internationally in areas like product and process design, marketing, branding, etc.

International management literature suggests that the success of global firms depends on their ability to cope with heterogeneous institutional, cultural and competitive environments, to coordinate geographically dispersed resources, and to leverage resources across national borders. In striving for global success, organizational design and transformation therein is considered an important organizational capability leading to competitive advantage . However, while there is a fair amount of research on organizational transformation and capabilities in multinational companies from developed economies, studies focusing on these aspects in firms from emerging economies are still rare.

Internationalization in Post reform era : Indian Inc. West Ward to Europe

Indian FDI to developed countries has occurred recently. Even if Europe is still lagging behind the United States the inflows have been gaining momentum since 2002. Actually, the presence of Indian investors dates back to the 1970s when Tata Consultancy Services set up its first office in London in 1975.Afterwards, acquisition deals were conducted by public enterprises (Burmah Oil) in oil refinery and the distribution sectors which were considered as strategic by Indian governments. This trend continued in the early 1990s when large Indian companies acquired state-owned enterprises from Central and Eastern Europe through tenders in those countries' privatization programmes. Indian companies then bought plants from the German *Treuhandanstalt* agency at very low cost after Germany's 1990 reunification. Subsequently, Indian companies took over some Russian state-owned enterprises in the wake of the Russian privatization programmes. Therefore, Indian companies such as Okay, Usha Rectifier or Dalmia acquired manufacturing footholds in Europe in the textile, electronic and chemical sectors. Apart from the business opportunity, the entry of Indian companies into Europe had more to do with familiarity with East German or Russian *kombinats* in terms of management and tradition of government involvement in manufacturing activities than in true synergies between both sides. This inclination is still alive: for example, Mahindra & Mahindra, India's largest tractor manufacturer, which also makes multi-purpose vehicles, made a bid to acquire a Romanian state-owned tractor maker in early 2006.

If along the 1990s, the entry of Indian investors into Europe through new business set-ups orM&As was relatively modest, the trend gathered pace in 2001 to accelerate in 2004, particularly for company creations.

A Multi-Faceted Entry Pattern

An interesting finding about the investments by Indian companies in Europe is the simultaneousness of diverse forms of entry: direct investment, M&As, and increasingly strategic alliances with large foreign multinational companies. In this sense, Indian companies are not following the historic path previously taken by Western multinational companies which was more of a sequential path, but are clearly grasping the globalization age and its opportunities and constraints. We have already provided some insights into direct investment and M&As, so let's now briefly supply more details about strategic alliances with Indian companies as partners. Following seminal contributions by authors such as Kogut and Zander(1992), a growing body of literature in the management field has emphasized the crucial role played by alliances in knowledge-intensive industries. Various research studies have underlined the complementarity of the intangible assets controlled by each partner. As a result it is not surprising to find Indian companies as partners in such settings due to their strong competitive advantage particularly in software and IT services, and the drug industry. If Indian companies, on the one side, are keen to participate in those arrangements, on the other, Western companies are also eager to engage in cooperation with Indian companies in order to tap useful resources and capabilities.

At first glance, the spatial projection of Indian companies' investments across Europe is quite different from that observed at macro level using FDI data (on a balance of payments basis);even though the United-Kingdom ranks as the first European host country in both cases .Britain is still a gateway to European markets: it provides a base for regional headquarters coordination and command activities (for example, TCS set up its regional headquarters in London in 1994 after first starting business there in 1975); and a springboard for the Indian companies willing to expand in Continental Europe. As for other countries, while France still ranks as the third most-favoured destination, there is a *chasse-croisé* between the Netherlands and Germany with the Netherlands ranking second for FDI flows and Germany holding the second place for the number of setting up operations and M&A deals. For Eastern European countries, the gap is more pronounced. These discrepancies can be explained by the use of a different computational base: FDI flows are computed in monetary value while setting up and M&A operations are the result of a mere arithmetic count. Therefore, there is no inconstancy between the two data sources: for example, the Netherlands' second rank is due to its fiscal attractiveness particularly for financial holdings, while Germany's second rank for the number of operations results from Germany's spatial centrality in an enlarged EU along with the density and diversity of German industry. Germany is also the first target for the acquisition of drug companies by Indian counterparts

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A Case in Pointer: TCS's expansion of its European base through organic growth

TCS is part of the Tata Group which was founded in the mid 19th century. TCS spreads over several business sectors. To date, the Tata Group with some 215,000 employees, is one of India's largest business conglomerates, with a turnover of 17.8 billion dollars in 2004-05, the equivalent of about 2.8 percent of India's GDP.TCS was set up in 1968 by pooling together the management talent from existing Tata companies. The idea was to create a new entity which could act as an information technology bureau for various Tata group members. Far from deterring entry, TCS appears to have facilitated the creation and expansion of indigenous companies, as a growing number of foreign companies were favorably impressed by what Indian companies had to offer in the software sector TCS is currently a leading IT services provider with a wide range of services across the entire information technology spectrum, such as consulting, IT services, business process outsourcing or BPO5, IT infrastructure services, engineering and industrial services, or product-based solutions. With a 2.2 billion dollar turnover for 2005-2006 — it was the first Indian IT company to cross the 2 billion turnover mark. It employed 60,000 consultants in January 2006 in 160 offices in 34 different countries.

With a 22 percent market share of global revenue, Europe is TCS's second-largest commercial partner although still lagging behind the United States. The company first opened a commercial office in London; another outpost was set up in Nyon, Switzerland as a partnership with a local new company with the view to enlarging TCS services' continental European customer base. In early 2000, the trend accelerated and more commercial offices and development centres were set up. As a result, TCS has a strong presence in highly urbanized areas across Europe. Organic growth initiated TCS's expansion strategy across Europe. The Indian software house has reinforced its historical base, the United Kingdom, concurrently with the opening of new commercial offices in Germany to complement those it already had in Munich and Düsseldorf. Subsequently, TCS expanded and strengthened its presence in Central Europe (Hungary, Poland and Romania) and in Russia. The size of the Hungarian subsidiary is expecting to grow from 300 to 1,000 employees in the three coming years. TCS is currently entering new markets through partnerships. By linking with UK's Pearl, it got a foothold in the management of pension funds and insurance. The new company, which became a TCS subsidiary after the transfer of the British company's payroll (950 out of 1,000), is in charge of BPO tasks. Subsequently, in 2005, TCS contracted with ABM-AMRO, a Dutch bank, for the provision of similar services.

Finally, TCS has partnerships with European companies in several countries. It started in 1985 with Switzerland's Teknosoft on a rather subcontracting basis, it then made arrangements with two German companies, a Danish company and, lastly, a Finnish one.

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