The Theoretical Value of Studying Indian Multinationals

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The rise of new multinationals in countries like India provides an opportunity to revisit and carefully construct theories of how firms internationalize—a topic on which extant theory is weak. Indian firms are "infant MNEs," unlike Western firms that are "mature MNEs." Indian firms are also internationalizing in a very different global context, and can do so on the basis of different competitive advantages, than MNEs that came before. Finally, research on Indian MNEs can help identify generic strategies for internationalization, examples of which are provided in the article. By pursuing the lines of inquiry proposed, research on Indian MNEs can contribute not just to better local practice but also to broader theory building about early-stage internationalization.

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This essay draws heavily on the author's two papers ("Why Study Emerging-market Multinationals?" and "What Have We Learned about Emerging –market Multinationals?") in Ravi Ramamurti & Jitendra V. Singh (eds.) (2009), Emerging Multinationals in Emerging Markets, Cambridge, UK: Cambridge University Press.

Research on Internationalization of Indian Firms

Research on India's emerging multinational enterprises (MNEs) may be intrinsically rewarding for India specialists, but to interest the broader community of international business (IB) scholars, it must contribute to IB theory more generally. In this essay, I will suggest a few ways in which such a contribution might be made. My argument, quite simply, is that the extant IB literature on how firms become multinationals is rather limited and that research on the internationalization of Indian firms provides an opportunity to broaden and deepen that literature.

The limitations of extant IB theory on internationalization arise partly from the circumstances under which the IB field was born: its birthplace was the United States and the time was the late 1950s through late 1960s, when the Academy of International Business was created (1959) and its official research organ, the *Journal of International Business Studies*, was first published (1970).

As such, it was natural for the intellectual pioneers of the field to focus on US multinationals or to extend their perspective at most to European multinationals. By this time, as shown in Table 1, European firms had built extensive networks of foreign subsidiaries, although a good part of it was in shambles after WW II, and US firms had built their own international networks, as seen in the increase in US share of the world's stock of outward FDI from only 6 percent in 1914 to fully 55 percent in 1969.

Table 1: Share of Selected Countries in Worldwide Stock of Outward FDI (OFDI), various years

Region/ Country	Years				
	1914	1969	1980	1990	2006
Europe[#]	93%	43.2%	41.1%	49.5%[#]	57.0%[#]
U.K.	50%	16.2%	14.1%	12.8%	11.9%
France		na	4.2%	6.1%	8.7%
Germany	43%	na	7.5%	8.5%	8.1%
Netherlands		na	7.4%	6.0%	5.2%
United States	6%	55%	37.7%	24.3%	19.1%
Japan	0%	1.3%	3.4%	11.2%	3.6%
Emerging Markets[@]	0%	0%	12.7%	8.3%	12.8%
Worldwide OFDI stock (US$ Bill.)	n.a.	n.a.	571	1791	12474

[#]Europe's share fell secularly from 1914 to 1980 but then began to reverse course, with the growth of intra-EU FDI, following the Single European Act of 1986 and the creation of the euro.
[@]Reported as "developing economies" in UNCTAD's FDI statistics
Source: Ramamurti (2009a):15

In other words, when the IB field was born in the United States, many American and European firms had already established vast international networks and foreign operations. In the 1970s, these MNEs faced challenges such as how to manage their vast networks or how to expand them at the margin into new host countries—not how to take the baby steps of internationalization, which is the challenge facing many Indian firms today. Only business historians, such as Mira Wilkins or Geoffrey Jones, paid attention to how U.S. or European firms became multinationals in the first place; most others took the extensive internationalization of Western US firms for granted and focused on the challenges that followed. The rise of new multinationals in countries like India thus provides an opportunity to revisit and carefully construct models and theories of early-stage internationalization. Because this process is unfolding before our eyes, it might be easier to glean insights about

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causation that would be missed in retrospective historical research, but it also means that conclusions about the effectiveness of evolving internationalization strategies may have to be very tentative.

Table 2: Stages of MNE Evolution

	Stage 1: *Infant MNE*	Stage 2: *Adolescent MNE*	Stage 3: Mature MNE
Importance of home-country based advantages	High	High to Medium, and falling	Medium to Low, and falling
Technological capabilities	Weak (reliant on borrowed technology)	Medium (catching up on established technologies)	Strong (developing or starting to develop cutting-edge technologies)
Ratio of exports to overseas production	Exports exceed overseas production	Exports and overseas production in balance	Overseas production exceeds exports
Geographic footprint	Few countries in home region, unless EMNE is pursuing the low-cost partner strategy	Several countries, with emphasis on home region	Dozens of countries, in all major regions
Brand	Strong at home, unknown abroad	Strong at home, up-and-coming abroad	Strong global brand
Examples	Most EMNEs	Korean MNEs, such as LG or Hyundai	Western and Japanese MNEs, such as IBM, Siemens, Sony, or Toyota

Source: Adapted from Ramamurti (2009b): 420.

Stage of Internationalization

This brings me to the first two limitations of extant IB theory from an Indian point of view: it is not just overly influenced by the US or Western European experience—a point frequently noted by emerging-market IB scholars—but also by the study of "mature MNEs"—a point that is generally less widely recognized (Ramamurti 2009b). I will deal later with the Western-bias in IB theory and how research on Indian firms can help remedy the problem, but for now will focus on the role of MNE's "stage of evolution."

As shown in Table 2, one can think of a firm evolving in three stages from a pure domestic player to a mature MNE

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like GE, Unilever, or Toyota. In Stage 1 (infant MNE), the firm's competitive advantages are still deeply rooted in the home market, it lacks cutting-edge technologies, relies more on exports than overseas production, has subsidiaries in a few foreign countries, is focused typically on markets within its home region, and possesses no global brands. Such a firm is sometimes referred to as the "international firm" rather than the "multinational firm," because it has limited investments in overseas subsidiaries. Most Indian MNEs today would fall into this category. Even Dr. Reddy's, for instance, which had made some of the largest overseas investments (as of 2007), had only 22 percent of its property, plant, and equipment abroad.[1]

In Stage 2 (adolescent MNE), the firm begins to develop new competitive advantages by virtue of its international presence, relies on a balanced mix of exports and foreign production, has increasing assets abroad, and possesses fledgling global brands. Tata Steel may have entered this stage with its acquisition of Corus Steel, which catapulted the share of overseas production from a small fraction of total production to more than half of the total in 2008-09. But in 2009 no Indian MNE had reached Stage 3 (mature MNE), in which the firm's international competitive advantages were not tied to capabilities and resources developed in the home market, in which overseas production was a large multiple of exports from India, and in which the firm possessed strong global brands and cutting-edge technologies.

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In comparing Indian MNEs with Western MNEs, one must keep in mind that some of the observed differences may arise from differences in their stage of evolution rather than their countries of origin. For instance, Indian MNEs do not possess strong global brands, whereas Western MNEs do; but this difference simply reflects the fact that Western MNEs are at Stage 3 and have invested in brands for decades, whereas Indian MNEs are at Stage 1 and have only begun to do so. When Coca-Cola internationalized during World War II to serve overseas US servicemen, its brand was unknown outside the US, but within two decades it owned one of the world's most precious brands. Likewise, few Indian MNEs own global brands today but many of them will do so in two or three decades. Thus, after correcting for differences in stage of evolution, Indian MNEs may be as reliant (or non-reliant) on global brands as Western MNEs. This

1 Out of Rs. 9.09 billion in total property, plant and equipment, only Rs. 2.02 billion was located overseas, all but 2% of it in North America and Europe (Dr. Reddy's Annual Report 2005-06: 201).

is the kind of insight that a study of Indian multinationals can yield, although some insights will surely be rediscoveries of old insights that have been forgotten or ignored. I suspect, for instance, that a review of historical studies of how Western firms became MNEs will show that none of them possessed strong global brands at the outset. After all how could any firm own global brands when it was embarking on internationalization? Brands are location-bound assets and must be created afresh in each new market. Yet it is not unusual for IB researchers to assume that Western MNEs always possessed the competitive assets they possess today.

One research design suggested by the above discussion is comparing Indian MNEs of today with Western MNEs—or even Japanese, Korean, and Taiwanese MNEs—of yesteryear, when they too were Stage-1 “infant MNEs.” An example of such a design is Athreye and Godley (2009), which compares the contemporary experience of Indian pharmaceutical firms trying to close the technological gap vis-à-vis Western rivals with the 1940s experience of US pharmaceutical firms trying to do the same in antibiotics vis-à-vis European firms. In this case, holding stage-of-MNE-evolution constant required the authors to vary both the country-of-origin of firms and timing, which create analytical problems of their own, even with industry held constant.

As the Indian experience with internationalization grows, intra-India variance in stage-of-evolution will increase. Already, one can discern Indian MNEs that were born before economic liberalization (i.e. pre-1991) and those that were born post-liberalization; the former include most of the leading Indian MNEs, while the latter includes firms like Suzlon, and numerous IT, BPO, and pharmaceutical start-ups. Therefore in the future it will become possible to compare firms in different stages of MNE evolution with a purely Indian sample and to understand when and why Indian firms transition from one stage to another, and so on.

Firm-specific Advantages of Indian MNEs

There is a widely held view in IB that firms looking to expand across borders must have significant firm-specific advantages (FSAs) that can offset the liabilities of foreignness they will face abroad (Hymer 1976, Zaheer 1995). For Western MNEs those FSAs often consist of cutting-edge technologies, marketing prowess, strong brands, and so on. Indian MNEs, like those from other emerging economies, typically do not enjoy these advantages. Observers sometimes conclude incorrectly that emerging-market MNEs have no FSAs because they do not possess the traditional FSAs enjoyed by Western MNEs. This is merely another example in which IB ideas that originated in the industrialized-country context are sometimes mechanically and inappropriately applied in emerging market contexts (see, for instance, Mathews 2002 or Luo & Tung 2007).

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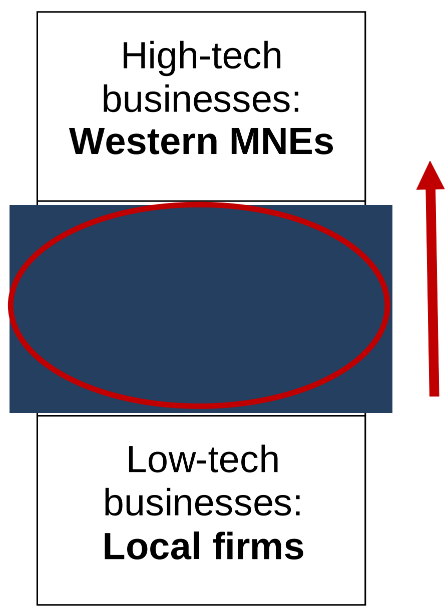
Several studies, including our own, have argued that Indian firms do possess FSAs, albeit different ones from those possessed by Western MNEs (Wells 1983, Ramamurti 2009b: 404-10, Guillen & Garcia-Canal 2009: 30-32). These include project management and technology absorption skills, operational excellence, frugal engineering, ability to operate in difficult institutional environments, and so on. It took a great deal of research to identify and empirically confirm the FSAs of Western MNEs (summarized, for instance, in Caves 2007). A similar effort is required to unearth the FSAs of emerging-market MNEs.

While empirical work on Indian MNEs may begin by using the known FSAs of Western MNEs, such as their technological leadership (measured by R&D-intensity) or their brands (measured by advertising-intensity), it must not stop with that. A more open-minded search for FSAs is likely to yield richer dividends. It is reasonable to expect that because India is a late-industrializing country (Amsden 2001) playing catch-up with Western firms in a more integrated and "flatter "global economy, its firms may internationalize on the basis of very different competitive advantages than those enjoyed by Western firms today or even when the latter were infant MNEs. I find, for instance, that many Indian MNEs, like those in other emerging economies, operate neither in high-tech industries, where Western MNEs are likely to be in the lead, nor in low-tech industries, where local firms in most host countries (including other emerging economies) are likely to be on solid ground. Mid-tech industries appear to be the strategic sweet-spot for many emerging-market MNEs, including Indian MNEs, although they are likely to strive to move up the technology curve over time and some are already at the global technology frontier in their industries (Fig. 1). One can develop an argument about why late-mover (emerging-market) firms in mid-

Fig. 1: Strategic Sweet Spot Occupied by Many Emerging-Market MNEs



#Emerging-Market MNEs

Source: Ramamurti (2009b): 415

tech industries might have the edge over first-mover rivals from industrialized countries. In-depth studies of Indian firms can explore the validity of propositions of this sort, shed light on the relationship between FSAs and a firm's home-country context, and provide insights into the origin of firm capabilities and international competitive advantages.

Macro International Context

One of the problems with comparing MNEs at different points in time, even in the same industry or from the same country, is that the state of the global economy may have changed significantly in the interim. However, the value of working through difficult comparisons of this sort involving counterfactual scenarios is that it forces us to think about how temporal shifts in the global economy may have affected the internationalization process. For instance, it is clear that Indian MNEs are internationalizing in a very different global context than MNEs that came before, including even Japanese and Korean MNEs of the 1960s and 1970s. Since the 1990s, domestic and foreign markets have become more open than in earlier decades, following the collapse of Communism, the conclusion of the Uruguay Round trade deal, and the creation of the World Trade Organization. Many countries deregulated and privatized telecommunications, which, along with radical changes in information and communications technology, including the rise of the Internet, dramatically altered the boundaries of the firm and the costs of doing business across borders. These developments fuelled the outsourcing and offshoring trends, resulting in the vertical disintegration of firms and the lowering of entry barriers for emerging-market MNEs (Evans & Wurster 2000). At the same time, the digitization revolution allowed for trade in services that were previously non-tradable, which made possible Indian MNEs like Infosys, TCS, and Wipro. As the transaction costs of coordination and internationalization fell, the value chain was "sliced and diced" and dispersed globally, including to emerging markets. Capital markets also became more open and integrated than ever before, making it easier for Indian MNEs to raise foreign equity capital and debt or to list their shares on foreign stock exchanges (Farrell, Folster & Lund 2008). Globalization of the investment banking, private equity, and venture capital industries, as well as accounting, law, and management consultancy firms, brought world-class services right to the doorstep of many Indian MNEs. The emergence of a global labour market for senior management also allowed Indian MNEs to staff their upper ranks with internationally-savvy executives if they wished, as Ranbaxy and Suzlon did (Michaels, Handfield-Jones & Axelrod 2001). Developments of this sort created "global gateways" (Williamson & Zeng 2009) through which Indian MNEs could internation-

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alize—gateways that were not available even in the 1960s and 1970s. Ghemawat (2007a, 2007b) may be right that the world was not as flat as Friedman (2005) claimed in his best-selling book, but it was certainly flatter in the 2000s than at any time before.

Shifts in the macro international context have no clear place in IB theory even though they profoundly affect the ease or difficulty with which firms can internationalize. Mathews (2002) views the rapid pace of internationalization by emerging-market MNEs as one of their distinctive features, but that feature may in fact be a consequence of internationalizing in a flatter world. After all, many 'born-global' firms in developed economies also internationalized rapidly in the flatter world (Knight & Cavusgil 1996). Failing to correct for large shifts in the state of the global economy can lead to misleading conclusions about how Indian (or emerging-market) firms differ from MNEs that came before or about why the internationalization strategies of Indian firms vary significantly between one time period and another, for example, between the first wave of outward expansion (1970s) and the second wave (1995 onwards). Thus, among other things, research on Indian MNEs can shed light on the role of macro international context on internationalization strategies.

Strategic View of Internationalization

Research on Indian MNEs can also strengthen IB theory by taking a strategic view of internationalization, by which I mean looking at internationalization from an integrated, top-management perspective, rather than the more common approach in IB of looking at it in a piecemeal fashion, i.e. by focusing on one aspect or the other of the process rather than its totality. For example, some IB studies focus on country competitiveness and cluster formation, others on FSAs or motivations for internationalization, and still others on choice of target markets, modes of entry, or operational challenges of managing human resources, political risks, and the like. Each provides a useful perspective on internationalization but none looks at how these decisions relate to one another to form a coherent or incoherent strategy.

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Like most academics, IB researchers work with backward-looking data and try to explain the past, whereas CEOs work with forward-looking data and try to create the future. The two perspectives don't always mesh easily, but IB researchers must try harder to connect with practitioners and their view of the world. One way to do that is to take a strategic view of internationalization, and research on Indian MNEs can contribute to that effort.

There is a well developed literature on the strategy of single-country firms—

which is in fact the domain of mainstream Strategy research. There is also a widely accepted taxonomy of strategies of mature MNEs, as seen in the works of Porter (1986) and Bartlett & Ghoshal (1989), which gave us categories such as the multi-domestic, global, and transnational strategies. More recently, Ghemawat (2007b) has proposed the Adaptation-Aggregation-Arbitrage model for thinking about the strategic choices facing mature MNEs. But there is as yet no scheme or taxonomy for describing the strategies of 'infant MNEs' as they engage in building global presence. This case falls between the cracks—between mainstream strategy scholars who are hesitant or unable to incorporate international diversification into their models and IB scholars who are preoccupied with the mature MNE. With the large number of Indian firms struggling to craft internationalization strategies, Indian researchers have the opportunity to make a useful contribution to the theory and practice of both Strategy and IB.

Our own work on Indian MNEs suggests a few generic strategies for early-stage internationalization that I will briefly discuss here to illustrate my larger point about the practical value of connecting islands of IB theory (for a fuller discussion, see Ramamurti & Singh 2009b). Each generic strategy described below leverages different country-specific advantages (CSAs) and firm-specific advantages (FSAs), targets different foreign markets, and results in distinct internationalization paths.

Let me begin with one such strategy that is important but not novel. That is the case of the *natural-resource vertical integrator,* which hails either from a country richly endowed with natural resources (e.g. Russia) or one with a large domestic appetite for natural resources (e.g. China or India). In the former case, the firm engages in cross-border forward integration to secure downstream markets, often in the West, while in the latter case it engages in cross-border backward integration to secure upstream resources, often in resource-rich developing countries (Indian examples include firms like ONGC, IOC, and HPCL). Despite the trend of vertical disintegration in many industries, natural-resource firms continue to place value on being vertically integrated—from resource extraction all the way to processing, distribution, and marketing. Outright state ownership, or heavy state regulation by home and host governments, is still the norm in these industries for both Western MNEs and emerging-market MNEs, and business is usually intertwined with politics. Although this case often involves large overseas investments, not much is new or novel about this internationalization strategy, compared to that of Western or Japanese predecessors in the same industries (see, for instance, Vernon 1983). This is one of those rare instances in which history may be repeating itself.

However, there are other types of internationalization strategies, which, even if not entirely novel, have not been explicitly recognized in the mainstream IB literature. One such case is the *local optimizer*, which derives its FSAs from optimizing products and production processes for the distinctive conditions of the home market, e.g. serving low-income consumers in countries with under-developed "hard" and "soft" infrastructures (Wells 1983, Khanna & Palepu 2005). As discussed earlier, the resulting products and processes may be well suited to other emerging markets as well, thereby providing a basis for internationalization. Thus, a rugged low-cost vehicle designed for India's middle-class consumers and its bad roads may have a ready market in other emerging markets. Such firms are likely to find that products optimized for emerging markets are sub-optimal for high-income countries; therefore, they may be stymied in their efforts to break into developed-country markets.

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In contrast to the local optimizer strategy is the *low-cost partner* strategy, in which companies like Infosys or TCS work as low-cost supplier-partners to companies in high-wage countries. This strategy is particularly powerful in India, because it has a large pool of low-wage, skilled and unskilled workers, but it works less powerfully in middle-income or upper-middle-income developing countries, such as Argentina and Brazil. The target market for the exports of the low-cost partner is developed countries, where the potential for arbitrage is greatest. Up-market FDI in developed countries may follow as these firms try to move up the value curve by establishing a presence close to customers. The low-cost partner is also likely to expand into other emerging markets, not to necessarily to sell in those countries but to diversify the supply locations from which it serves customers in high-wage countries. Thus, its competitive foundations, motivations for internationalization, target markets, and internationalization paths are distinctly different from those of the local optimizer.

In our book we offer two other kinds of generic internationalization strategies—that of the *global consolidator* and the *global first-mover*—on which i will not elaborate here. The basic features of these different strategies are summarized in Table 3. Note that each leverages a different combination of India advantages, exploits different FSAs, and takes the firm to different target markets, ranging from other emerging economies to developed-country markets, and in some cases to both. Further research is needed to flesh out these strategies or to develop alternative configurations that have greater explanatory power.

Table 3: Generic Internationalization Strategies of Emerging-Market MNEs

Generic Strategy	CSAs	FSAs	Internationalization path	Examples
1. Natural-resource vertical integrator	• Natural resource endowment and/or • Large home demand for natural resources	• Privileged access to natural resources and/or • Privileged access to home markets	• Forward integration to downstream markets and/or • Backward integration upstream to secure natural resources	• Gazprom, Lukoil,, Norilsk, Vale, Anglogold, PTT • Petrobras, ONGC, Indian Oil, CNOOC, Chinalco
2. Local optimizer	• Low-income consumers Under-developed 'hard' and 'soft' infrastructures	• Ability to optimize imported products and processes to home market Local-customer intimacy and local embeddedness	• Target market: Other emerging markets	• HiSense, Mahindra & Mahindra, Tata Motors, Shoprite, Marcopolo
3. Low-cost partner	• Low-income labor • Size of skilled labor pool, including engineers/ scientists, etc.	• Process excellence • Project management • Ability to operate successfully in the adverse conditions of emerging markets	• Target market: Developed countries • Up-market FDI to move up value curve • Down-market FDI to diversify supply locations	• Wipro, Infosys, TCS, Dr. Reddy's, WEG, Sabo
4. Global consolidator	• Large and rapidly growing home market	• Production and project execution excellence • Late-mover advantages in scale organizational processes, technology • Strong position in home market, with strong cash flows	• Target market: Global Up-market FDI to acquire poorly-performing companies	• Tata Steel, Hindalco, South African Breweries, Lenovo, Wanxiang, Cemex

(Contd. on next page)

5. Global first-mover	• Large and rapidly growing demand in a new industry • Low-cost country for design, engineering, and production	• Close to global frontiers of technology • Strong position in home market, including, possibly, state support	• Target market: Global Up-market FDI to acquire key technologies or capabilities, and customer access • Down-market FDI to gain market access and/or to diversify production bases	• Embraer, Huawei, Suzlon Energy, Check Point, Teva

Conclusions

This essay offers suggestions on how research on Indian MNEs might contribute to IB theory. The aspects that I have stressed, such as the MNE's stage of evolution, macro international conditions, and generic internationalization strategies are ones that tend to be overlooked in IB frameworks. I have not stressed other important aspects, such as the infant MNE's home-country context (i.e. country-of-origin effects), nor industry effects, which are more widely studied and better understood. Indian research can shed light on how all these contextual factors shape internationalization. What I am proposing is not different from prior calls for bringing the context more explicitly into IB theory (see, for example, Cheng 2007, Meyer 2006, Tsui 2007). I am merely suggesting a few specific aspects of context that merit consideration by IB scholars.

I should mention in concluding that IB theory offers many important insights into internationalization that I may have appeared to gloss over. There is, for instance, work on the internationalization of Scandinavian firms, beginning in the 1970s, that led to the learning model of internationalization. There is also the CSA-FSA framework developed by Rugman (1981) or its variant proposed by Kogut (1985). And then there is the classic Product Cycle Hypothesis developed by Vernon (1966). My point is not that these are unhelpful or have become irrelevant, but that on the whole our understanding of early-stage internationalization is limited and piecemeal, and that IB scholars have had to turn repeatedly to a limited number of old ideas. It is about time we added to the intellectual frameworks inherited from pioneers of our field.

Our understanding of early-stage internationalization is limited and piecemeal, and that IB scholars have had to turn repeatedly to a limited number of old ideas. It is about time we added to the intellectual frameworks inherited from pioneers of our field.

The Ownership-Location-Internalization (OLI) paradigm, which is perhaps the bedrock of IB theory, connects several islands of IB theory into coherent answers to the question of why MNEs exist, but it, too, is inadequate as a guide for developing internationalization strategies, because it is static, highly abstract, and context-free. Indeed, the latter features account partly for its wide-ranging applicability and longevity (Eden 2003). The OLI paradigm answers the 'why', 'where', and 'how' questions of multinationalization in vertical compartments, taking them one at a time. It does not connect the answers horizontally to propose internally-consistent why-where-and-how strategies for internationalization. Research on Indian MNEs, and emerging-market MNEs more generally, provides the opportunity to make such horizontal connections between islands of IB theory, as well as develop new concepts, such as an MNE's stage of evolution or the macro international context, that may add analytical rigor to our understanding of the internationalization process.

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