Indian Foreign Direct Investments in Germany: An Overview

Key Results of a TUHH Study

“The Emergence of Indian Multinationals: An Empirical Study of Motives, Status-quo and Trends of Indian Investments in Germany”

Rajnish Tiwari & Jayachandran K. Mani
Institute of Technology and Innovation Management, TUHH
Research focus:

- Fuzzy Front-end of Innovation
- Intellectual Property Rights
- Open Innovation
- Innovation in SMEs
- Globalization of R&D
- Mobile Commerce / Banking

Research Project “Global Innovation”

Innovation management related research with focus on Indo-German context and SMEs
Indian Engagement in Germany

Between 2001 and 2006 there were 32 M&A deals by Indian firms in Germany. In contrast, only 21 deals by Chinese firms were reported by the Bundesverband Mergers & Acquisitions, a national body for M&A, for the same period.

The share of emerging and developing countries in M&A activities in Germany has more than doubled from 5% to 11.4% in 2 years between July 2005 and June 2007.

(Deloitte, 2007)
Motivation for the Present Study

- Outward foreign direct investments (FDI) by Indian firms have gained tremendous momentum in recent years (India’s worldwide FDI stock: March 2005: $ 10 billion; March 2008: $ 46.2 billion)

- Strong Indian focus on Germany: In 2008, on average, every month saw at least one M&A deal in Germany involving Indian firms.

- India’s FDI stock in Germany (over $ 4 billion) has surpassed Germany’s official FDI stock in India ($ 2.3 billion).

- So far there has not been any scientific / academic research on Indian FDI (motives, experiences, employment effects etc.) in Germany.

„The Emergence of Indian Multinationals: An Empirical Study of Motives, Status-quo and Trends of Indian Investments in Germany“

A study by TIM/TUHH within the overall framework of “Research Project Global Innovation“
## Greenfield investments

<table>
<thead>
<tr>
<th>Year</th>
<th>Primary</th>
<th>Manufacturing</th>
<th>Services</th>
<th>Others</th>
<th>All Sectors</th>
<th>All Sectors</th>
</tr>
</thead>
<tbody>
<tr>
<td>1961–69</td>
<td>0.60</td>
<td>1.50</td>
<td></td>
<td>2.10</td>
<td></td>
<td>3</td>
</tr>
<tr>
<td>1980–89</td>
<td>0.20</td>
<td>0.20</td>
<td>0.20</td>
<td></td>
<td></td>
<td>2</td>
</tr>
<tr>
<td>1990–99</td>
<td>0.20</td>
<td>13.70</td>
<td>2.30</td>
<td>7.50</td>
<td>23.80</td>
<td>47</td>
</tr>
<tr>
<td>2000–07</td>
<td>101.20</td>
<td>36.80</td>
<td></td>
<td>137.90</td>
<td></td>
<td>84</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>0.20</td>
<td>115.70</td>
<td>40.60</td>
<td>7.50</td>
<td>164.00</td>
<td><strong>131</strong></td>
</tr>
</tbody>
</table>


## Brownfield investments

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

Source: modified from Pradhan (2008), news reports
* Investment by ICICI not included

Under-reporting possible. As per India’s Finance Ministry Indian OFDI to Germany for the year 2006-07 were reported as just $ 68 million. The *Bundesbank* works with a comparable set of data.
"Indian" Firms in Germany

N = 123

Note: Data as of September 2008 *

* Number of Indian parent concerns. In case of multiple subsidiaries only one company is counted. Initially 148 firms were identified – Using Pradhan’s time series data (2007) the number increases to 171 – however only 123 seem to be operative at present.

The study counts only those firms as “Indian”, which are headquartered in India. Minority stakes, holding companies and non-corporate investments were excluded.

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<table>
<thead>
<tr>
<th>Sector</th>
<th>No.</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Auto</td>
<td>13</td>
<td>11%</td>
</tr>
<tr>
<td>Bank &amp; Finance</td>
<td>3</td>
<td>2%</td>
</tr>
<tr>
<td>Bio technology</td>
<td>3</td>
<td>2%</td>
</tr>
<tr>
<td>Ceramics</td>
<td>1</td>
<td>1%</td>
</tr>
<tr>
<td>Chemical</td>
<td>2</td>
<td>2%</td>
</tr>
<tr>
<td>Consultancy</td>
<td>12</td>
<td>10%</td>
</tr>
<tr>
<td>Electrical &amp;Electronic</td>
<td>5</td>
<td>4%</td>
</tr>
<tr>
<td>ICT</td>
<td>52</td>
<td>42%</td>
</tr>
<tr>
<td>Logistics</td>
<td>2</td>
<td>2%</td>
</tr>
<tr>
<td>Machinery &amp; parts</td>
<td>7</td>
<td>6%</td>
</tr>
<tr>
<td>Packaging</td>
<td>2</td>
<td>2%</td>
</tr>
<tr>
<td>Pharmaceutical</td>
<td>12</td>
<td>10%</td>
</tr>
<tr>
<td>Ferrous &amp; non-ferrous</td>
<td>2</td>
<td>2%</td>
</tr>
<tr>
<td>Textile</td>
<td>2</td>
<td>2%</td>
</tr>
<tr>
<td>Travel &amp; tourism</td>
<td>3</td>
<td>2%</td>
</tr>
<tr>
<td>Wind energy</td>
<td>2</td>
<td>2%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>123</td>
<td>100%</td>
</tr>
</tbody>
</table>

**Note:** Data as of September 2008

“Indian” Firms in Germany

The study counts only those firms as “Indian”, which are headquartered in India. Minority stakes, holding companies and non-corporate investments were excluded.

Rajnish Tiwari & Jayachandran K. Mani

Research Project: [www.global-innovation.net](http://www.global-innovation.net)

Jan. 2009
Indian Subsidiaries in Germany: Popular Locations

Location of Indian MNE's subsidiaries (sorted on cities)

In total 167 subsidiaries (firms and branch offices) belonging to 123 Indian MNEs

Approx. 20,000 employees and 1,000 apprentices
Methodology of the Empirical Study

- Expert interviews
- Questionnaire design
- Pilot studies
- Survey
- Data analysis

<table>
<thead>
<tr>
<th>Experts</th>
<th>Organization</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mr. Gero Winkler</td>
<td>Handelskammer Hamburg, Hamburg, Germany</td>
</tr>
<tr>
<td>Mr. Dirk Matter</td>
<td>Indo-German Chamber of Commerce, Düsseldorf, Germany</td>
</tr>
<tr>
<td>Mr. Stefan Matz</td>
<td>HAT Hamburg Business Development Corporation, Hamburg, Germany</td>
</tr>
<tr>
<td>Mr. Walter Stechel</td>
<td>German consulate General, Munich, India</td>
</tr>
<tr>
<td>Dr. Tilo Mandra</td>
<td>Invest in Germany GmbH, Berlin, Germany</td>
</tr>
<tr>
<td>Dr. Jaya Prakash Pradhan</td>
<td>Institute for Studies in Industrial Development (ISID), New Delhi, India</td>
</tr>
<tr>
<td>Dr. Amal K. Mukhopadhyay</td>
<td>Cosentino, Hamburg, Germany</td>
</tr>
<tr>
<td>Dr. Amal K. Mukhopadhyay</td>
<td>HAT Hamburg Business Development Corporation, Hamburg, Germany</td>
</tr>
<tr>
<td>Dr. Amal K. Mukhopadhyay</td>
<td>HAT Hamburg Business Development Corporation, Hamburg, Germany</td>
</tr>
<tr>
<td>Mr. Wolfgang Höltgen</td>
<td>German-Indian Business Center Hannover, Germany</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Type of R&amp;D</th>
<th>India</th>
<th>Germany</th>
</tr>
</thead>
<tbody>
<tr>
<td>Basic Research</td>
<td>50%</td>
<td>30%</td>
</tr>
<tr>
<td>Applied Research</td>
<td>50%</td>
<td>70%</td>
</tr>
<tr>
<td>Product Development</td>
<td>80%</td>
<td>82%</td>
</tr>
<tr>
<td>Process Development</td>
<td>64%</td>
<td>75%</td>
</tr>
</tbody>
</table>

Survey results:
- 50% of participants responded positively to the question about the impact of innovation on business success.
- 80% of Indian participants rated innovation as critical for business success, compared to 64% of German participants.

Rajnish Tiwari & Jayachandran K. Mani
Research Project: www.global-innovation.net
Jan. 2009
General Information about the Survey

- Questionnaire-based Survey – all known Indian firms in Germany (148) were contacted by post (based on extensive desk research)

- Usable responses from 21 firms with 43 branches in Germany (17% of the total sample) (25 firms had ceased to exist)

- Respondents: Primarily members of top management (7 Indians, 14 Non-Indians – of which 12 German – managers)

- Industry sectors: IT (11), Automotive and Automotive Components (6), Wind Energy (2), Pharmaceuticals (1) and Logistic (1)

- Except for 3 Indo-German Joint Ventures, all other respondent firms were wholly-owned subsidiaries of India-based MNEs

- The “oldest” subsidiary in the sample was active in Germany since 1991, the “newest” ones (2) were established in 2008 itself

- 10 were founded as greenfield investments while 11 had been acquired
16 respondents (76%) reported high growth in past 3 fiscal years (rest: no information).

15 respondents reported a similarly impressive growth in employment in Germany (one negative growth; rest: no information)

The 21 respondent firms employed 3,225 people on full-time basis on an annual average (in last fiscal year).

The survey participants reported a positive employment effect of acquisitions for Germany: 189 jobs were moved from India to Germany, 155 from Germany to India
In many cases (50%), the initial investments did not exceed € 5 million.
The largest initial investment reported was between 30-50 million.
Since 2004 a trend of larger initial investment may be observed.

12 out of 20 respondents made subsequent investments including acquisitions.

16 participants reported plans of further investments to the tune of € 270 bis 600 million.

Amount of TOTAL investments by the respondents in Germany in million euros. n = 21.
Motives for Investments

Significant sectoral differences were found between Automobile and IT industries: The former often sought access to technology in order to strengthen their R&D.

Neither transaction costs nor “restrictive” government policies back home were cited as important reasons for investments in Germany.

Top investment motives for Indian firms in Germany. 1 = non-relevant; 6 = highly relevant:

- Proximity to customers/suppliers
- Developing products for Germany
- Understanding German market
- Build base for Western Europe
- Acquire technology

n ~ 21
### Criteria for Selecting Location in Germany

<table>
<thead>
<tr>
<th>Criteria</th>
<th>Overall (n~21)</th>
<th>Automobile (n~6)</th>
<th>IT (n~11)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Proximity to customer</td>
<td>3.8</td>
<td>2.5</td>
<td>4.7</td>
</tr>
<tr>
<td>Presence of industry cluster</td>
<td>3.9</td>
<td>2.7</td>
<td>4.0</td>
</tr>
<tr>
<td>Availability of skilled labour</td>
<td>3.8</td>
<td>3.8</td>
<td>3.1</td>
</tr>
<tr>
<td>Accidental (e.g. Investment by acquisition)</td>
<td>3.8</td>
<td>4.3</td>
<td>2.9</td>
</tr>
<tr>
<td>Connectivity to India by air</td>
<td>3.0</td>
<td>2.3</td>
<td>3.7</td>
</tr>
<tr>
<td>Cosmopolitan society</td>
<td>3.0</td>
<td>1.8</td>
<td>3.5</td>
</tr>
<tr>
<td>Presence of research institutes and universities</td>
<td>2.9</td>
<td>4.0</td>
<td>2.8</td>
</tr>
<tr>
<td>Government policies &amp; subsidies</td>
<td>2.3</td>
<td>3.2</td>
<td>1.9</td>
</tr>
<tr>
<td>Presence of Indian community</td>
<td>1.8</td>
<td>1.5</td>
<td>2.2</td>
</tr>
</tbody>
</table>

Possible explanation for the sectoral variation: Service sector companies (IT) need to put greater emphasis on customer proximity. They also have more expatriates.
To some extent there were differences of perception amongst Indian and German participants: For instance, Indian managers saw language problems more critically (3.8) than did their German colleagues (2.3), who obviously had a home advantage.
Summary and Outlook

- Germany – without being properly reflected in the official statistics – has evolved into a major destination for Indian FDI.
- Indian investments have been associated with positive employment effects for Germany.
- Visa and work permit issues pose a major challenge for expatriates.
- Indian firms are by and large satisfied with their business here: “We are very happy“ (to quote one participant). This fact is also corroborated by subsequent and planned investments by the most participant firms.
- It is imperative to offer cross-cultural trainings to better coordinate the day-to-day business interaction and increase the efficiency of work-flow.
- There should be greater emphasis on student and internship exchange programmes between the universities and firms of two countries.
For further information

Dipl.-Kfm. Rajnish Tiwari
Research Project Global Innovation
Institute of Technology and Innovation Management
Hamburg University of Technology (TUHH)
Schwarzenbergstr. 95, 21073 Hamburg
Tel. +49-(0)40-42878-3776 / Fax: +49-(0)40-42878-2867

tiwari@tuhh.de

www.global-innovation.net

www.tuhh.de/tim