



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”

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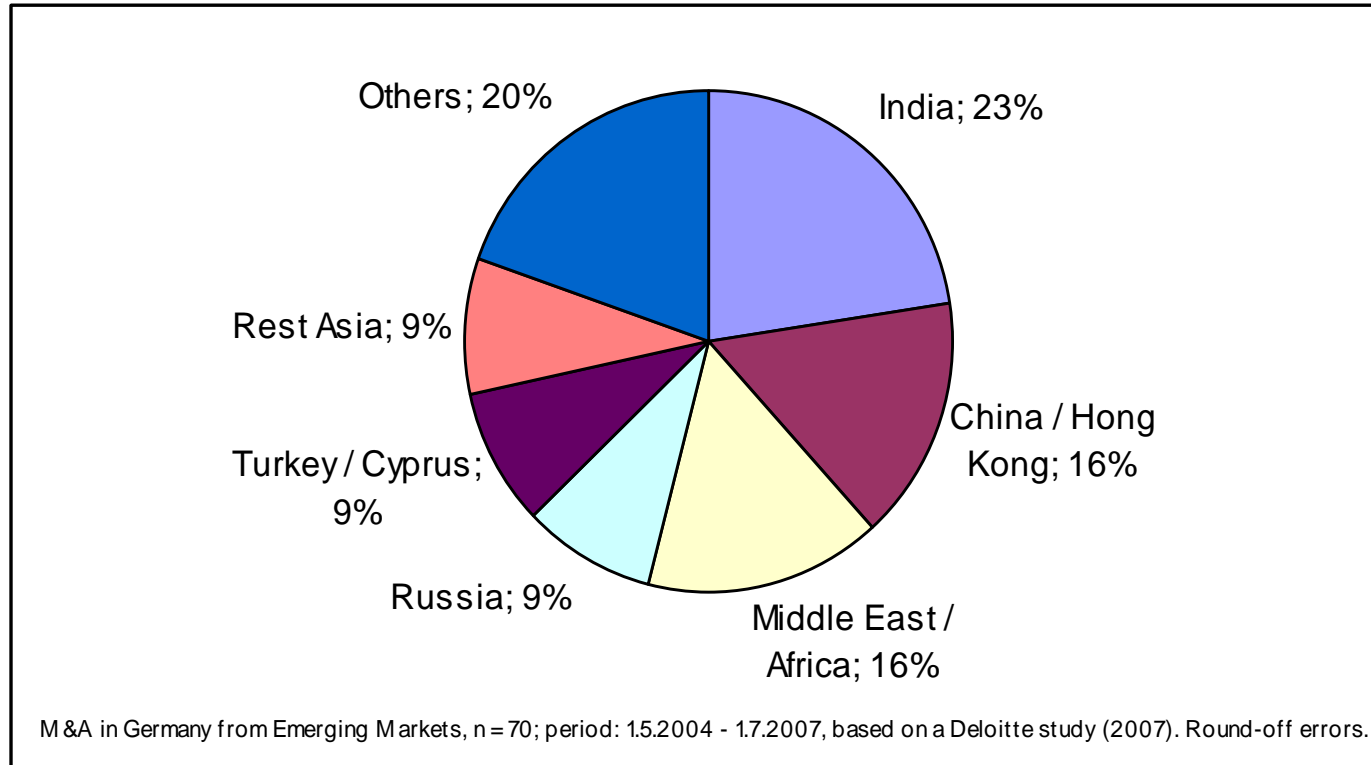
Research focus:

- 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



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)

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.



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“



Indian FDI in Germany



Greenfield investments

Year	FDI Value (USD million)					No. of Firms
	Primary	Manu- facturing	Services	Others	All Sectors	All Sectors
1961–69		0.60	1.50		2.10	3
1980–89		0.20			0.20	2
1990–99	0.20	13.70	2.30	7.50	23.80	47
2000–07		101.20	36.80		137.90	84
Total	0.20	115.70	40.60	7.50	164.00	131

Source: Pradhan, Institute for Studies in Industrial Development, (2008).

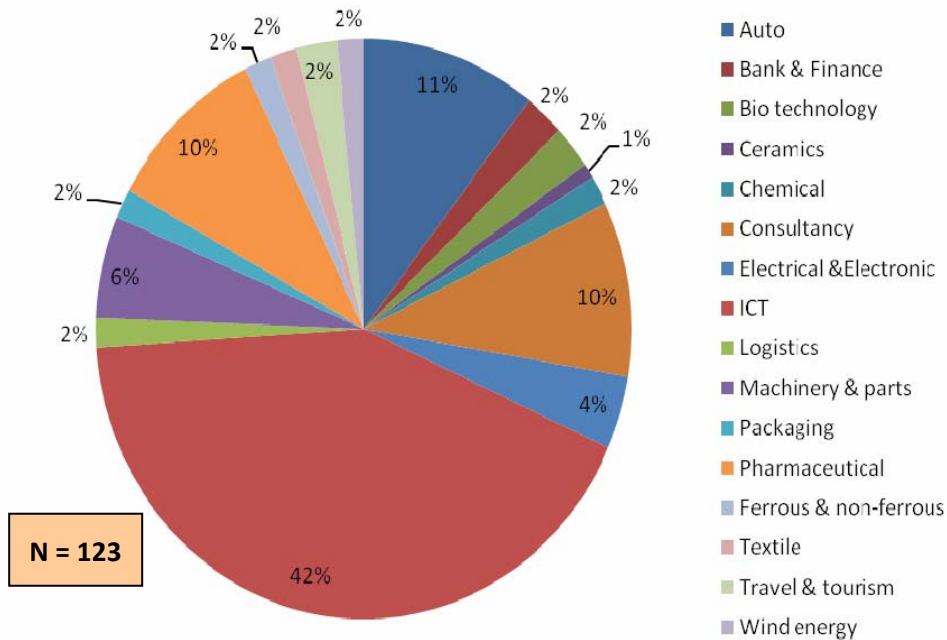
Brownfield investments

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

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 *

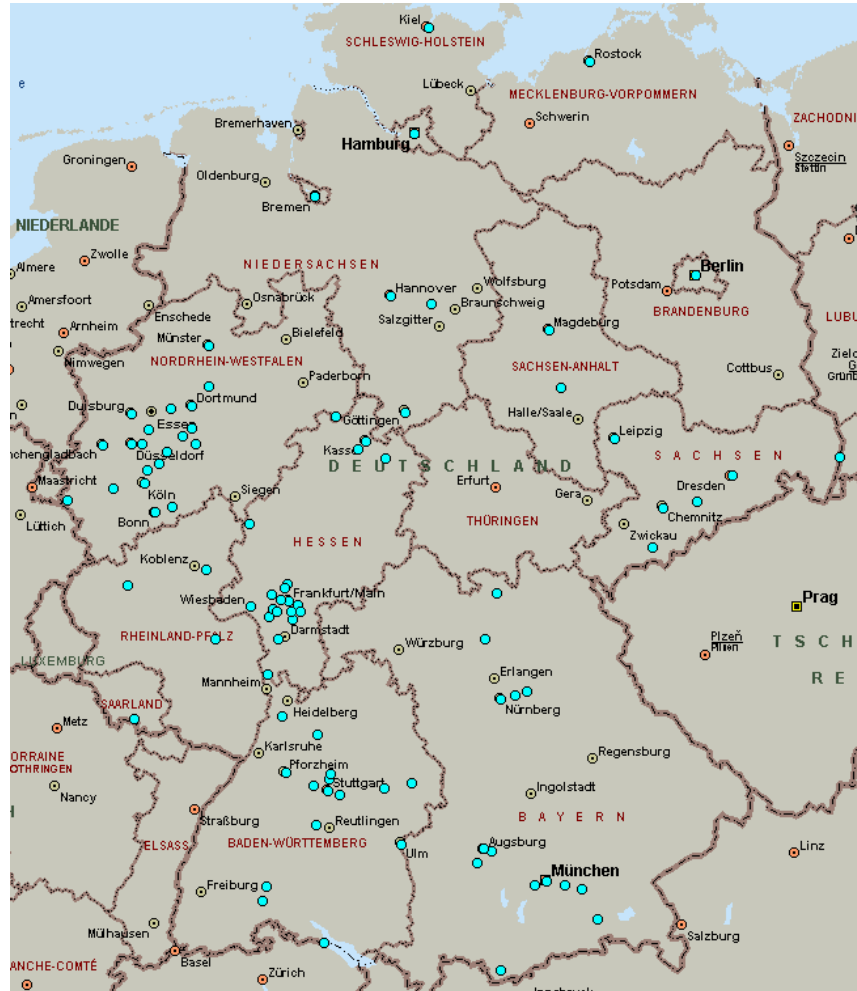
* Number of Indian parent concerns. In case of multiple subsidiaries only one company is counted. Initially 148 firms were identified – Using Pradhan’s time series data (2007) the number increases to 171 – however only 123 seem to be operative at present.

Sector	No.	%
Auto	13	11%
Bank & Finance	3	2%
Bio technology	3	2%
Ceramics	1	1%
Chemical	2	2%
Consultancy	12	10%
Electrical & Electronic	5	4%
ICT	52	42%
Logistics	2	2%
Machinery & parts	7	6%
Packaging	2	2%
Pharmaceutical	12	10%
Ferrous & non-ferrous	2	2%
Textile	2	2%
Travel & tourism	3	2%
Wind energy	2	2%
Total	123	100%

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



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



	Experts	Organization
1	Mr. Gero Winkler	Handelskammer Hamburg, Hamburg, Germany
2	Mr. Dirk Matter	Indo-German Chamber of Commerce, Düsseldorf, Germany
3	Mr. Stefan Matz Mr. Steffen Thormann	HWF Hamburg Business Development Corporation, Hamburg, Germany
4	Mr. Walter Stechel	German consulate General, Mumbai, India
5	Dr. Tilo Mandry	Invest in Germany GmbH, Berlin, Germany
6	Dr. Jaya Prakash Pradhan	Institute for Studies in Industrial Development (ISID), New Delhi, India
7	Dr. Amal K. Mukhopadhyay	ELGA Biotech, Hamburg, Germany
8	Mr. Gautam Chemburkar	KPMG, Hamburg, Germany
9	Dr. Dietrich Kebschull	IGEP Foundation, Gurgaon, India
10	Mr. Wolfgang Höltingen	German-Indian Business Center Hannover, Germany



1. General information about your firm in Germany

11. Please specify the primary industry sector your company is active in:

<input type="checkbox"/> Automobile & Automobile parts	<input type="checkbox"/> Chemicals
<input type="checkbox"/> Biotechnology	<input type="checkbox"/> Machinery and Machine Tools
<input type="checkbox"/> IT - Engineering services provider	<input type="checkbox"/> Pharmaceutical
<input type="checkbox"/> IT - Software development	<input type="checkbox"/> Textile
<input type="checkbox"/> Electrical and electronics manufacturing	<input type="checkbox"/> Other (Please specify): _____
<input type="checkbox"/> Energy	

12. Firm name: _____

13. No. of branches / locations in Germany: _____

14. Location of the headquarters / branches in Germany (please specify up to 3 locations):

Place/City	State (Bundesland)
1. _____	_____
2. _____	_____
3. _____	_____

15. Type of business activities of your company in Germany (multiple choice possible):

Production of goods/services Marketing R&D Customer Support / After-sale
 Other (please specify): _____

16. Year of the (first) investment/acquisition by Indian parent/share holder: _____

17. Please select the type of investment from your Indian parent organization / share holder:

wholly owned subsidiary Joint venture [_____ % of share]
 Equity [_____ % of share] Other (Please specify): _____

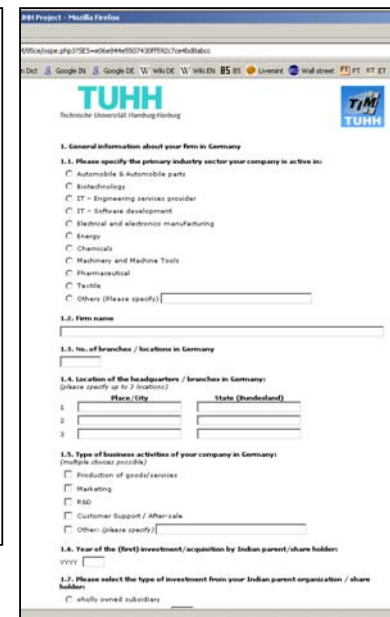
18. In case of a wholly owned subsidiary, please further specify the type of investment:

Green field investment Acquisition Merger

2. Information about your parent organization (or share holder) in India

21. Firm name: _____

22. Located in City/Place: _____ State: _____



1.1. Please specify the primary industry sector your company is active in:

Automobile & Automobile parts
 Biotechnology
 IT - Engineering services provider
 IT - Software development
 Electrical and electronics manufacturing
 Energy
 Chemicals
 Machinery and Machine Tools
 Pharmaceutical
 Textile
 Other (Please specify): _____

1.2. Firm name: _____

1.3. No. of branches / locations in Germany: _____

1.4. Location of the headquarters / branches in Germany (please specify up to 3 locations):

Place/City	State (Bundesland)
1. _____	_____
2. _____	_____
3. _____	_____

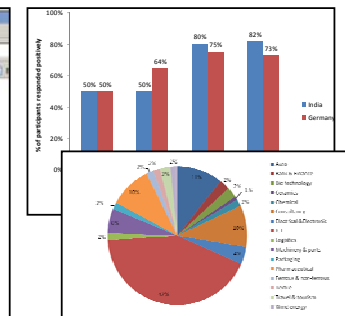
1.5. Type of business activities of your company in Germany (multiple choice possible):

Production of goods/services
 Marketing
 R&D
 Customer Support / After-sale
 Other (Please specify): _____

1.6. Year of the (first) investment/acquisition by Indian parent / share holder: _____

1.7. Please select the type of investment from your Indian parent organization / share holder:

wholly owned subsidiary _____

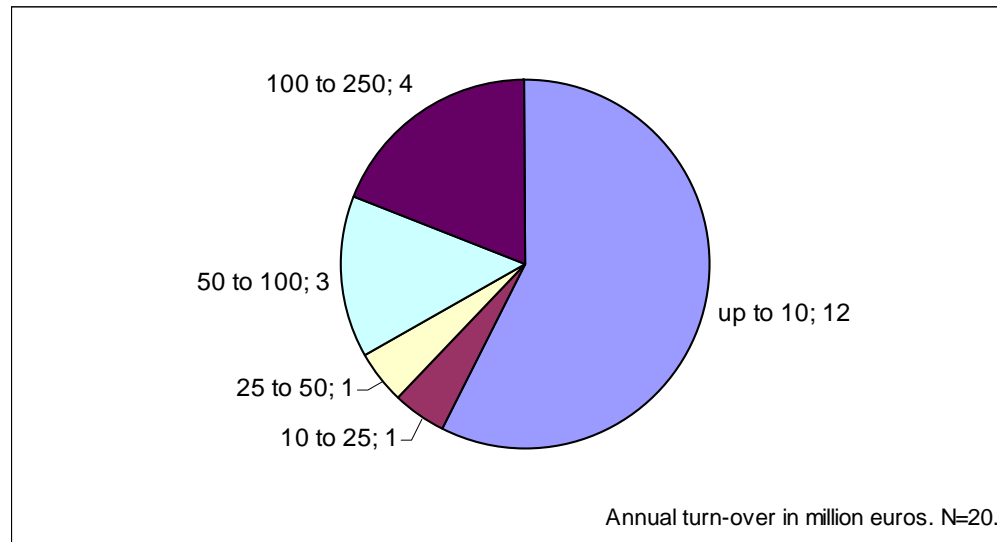




General Information about the Survey

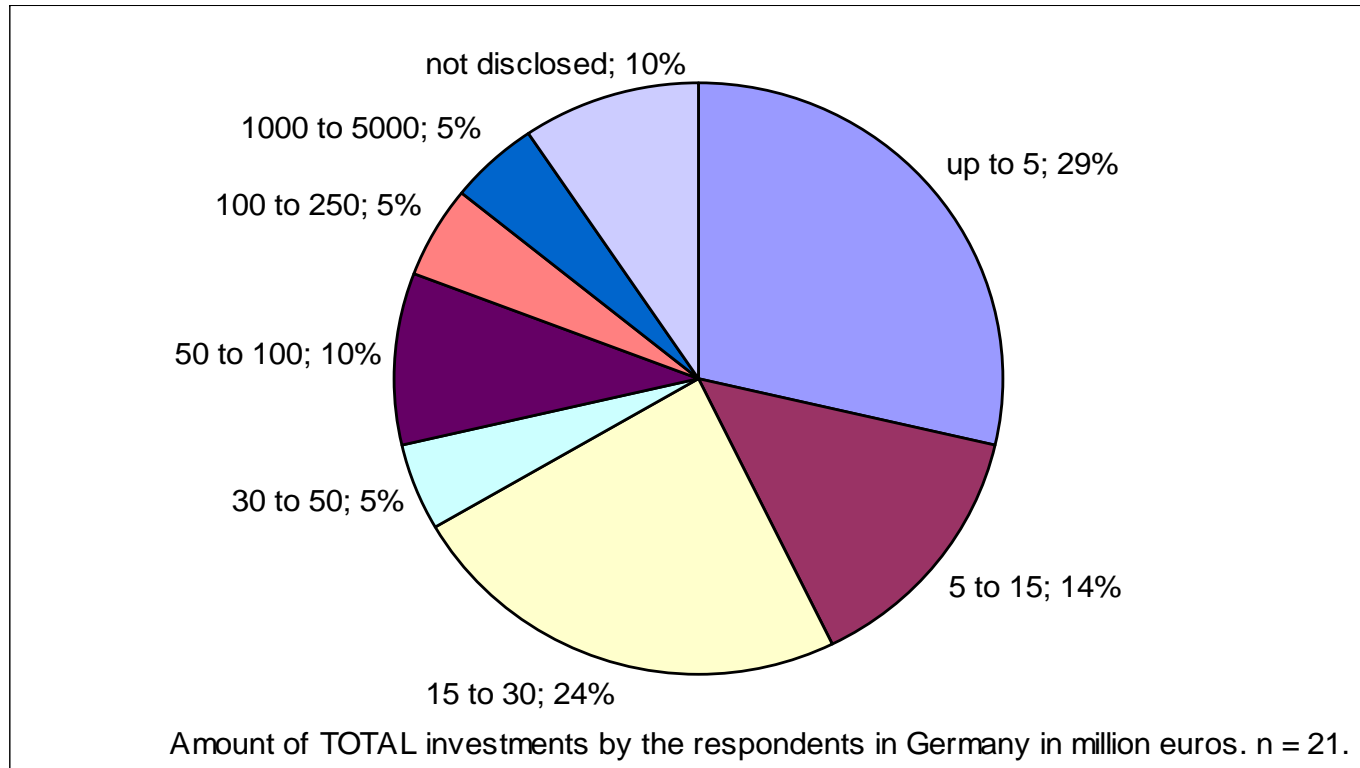


- Questionnaire-based Survey – all known Indian firms in Germany (148) were contacted by post (based on extensive desk research)
- Usable responses from 21 firms with 43 branches in Germany (17% of the total sample) (25 firms had ceased to exist)
- Respondents: Primarily members of top management (7 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

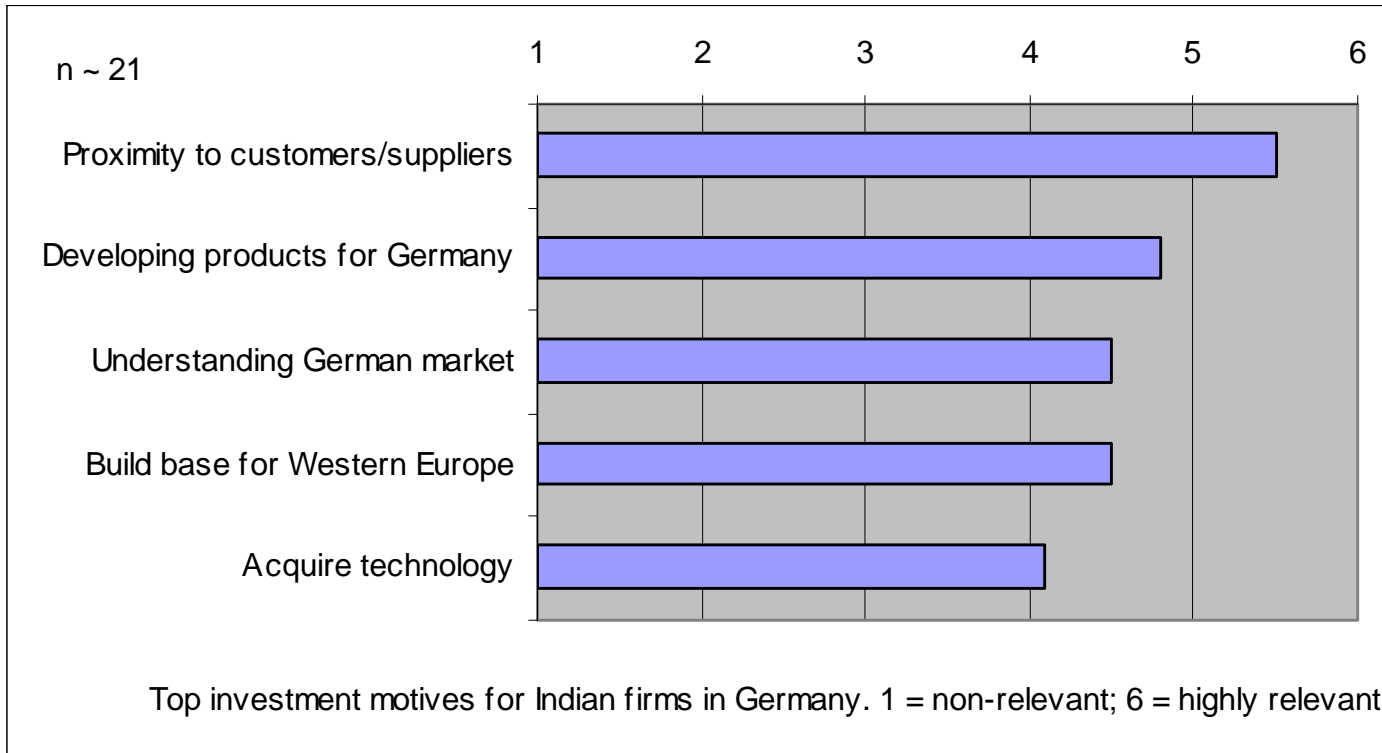


12 out of 20 respondents made subsequent investments including acquisitions

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

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.

Motives for Investments



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

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



Criteria (1 = not relevant at all...6 = highly relevant)	Overall (n~21)	Automobile (n~6)	IT (n~11)
Proximity to customer	3.8	2.5	4.7
Presence of industry cluster	3.9	2.7	4.0
Availability of skilled labour	3.8	3.8	3.1
Accidental (e.g. Investment by acquisition)	3.8	4.3	2.9
Connectivity to India by air	3.0	2.3	3.7
Cosmopolitan society	3.0	1.8	3.5
Presence of research institutes and universities	2.9	4.0	2.8
Government policies & subsidies	2.3	3.2	1.9
Presence of Indian community	1.8	1.5	2.2

Possible explanation for the sectoral variation: Service sector companies (IT) need to put greater emphasis on customer proximity. They also have more expatriates.



Challenges / Problems



Challenges (1 = not at all a problem...6 = a major problem)	Overall (n~21)	Automobile (n~6)	IT (n~11)
Difference in work culture	3.9	3.3	4.0
High operational cost	3.8	3.8	4.6
Getting work permit and visa	3.8	2.7	4.7
Finding qualified personnel	3.7	2.7	4.2
Expatriates' social integration in Germany	3.2	2.2	4.0
Language problems	2.8	1.8	3.9
High attrition rate among employees	2.7	1.8	3.0
Finding a suitable partner & location in Germany	2.0	1.3	2.6
Government approval processes in Germany	1.9	1.7	1.9

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

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