Indian Firms in Germany: Recent FDI Trends & Critical Success Factors

With 190 subsidiaries and 23 600 employees on their payrolls as of August 2010, Indian companies have been at the forefront of emerging market investors in Germany. This article provides an update on trends of Indian FDI in Germany and examines some critical success factors responsible for the performance of Indian subsidiaries. The results are based on a study by the authors at Hamburg University of Technology (TUHH).

Introduction

Remarkable economic growth of the past decade in India coupled with sustained and continuous liberalization of outward foreign direct investment (FDI) regime has opened an attractive arena of global opportunities for Indian firms. While the companies are faced with increased competition at their home turf, domestic and overseas success has put significant slack resources at their disposal. As several recent studies of quarterly results of Indian companies have revealed that many firms have been registering an increase of 30% and above in net profits for some time.

Exposure to global competition has forced firms to build world-class technical and managerial capabilities. Encouraged by Government support to outward foreign direct investments (FDI) Indian firms have rapidly emerged as a significant source of FDI. Between March 2001 and March 2010 India's outward FDI stock, according to official figures, has increased more than 28-fold, from US $ 2.6 billion to US $ 77.6 billion. Considering that many outward investments are either channelled through foreign-based special purpose vehicles (SPVs) or carried out via daughter concerns already located abroad, the real value of FDI stock can be expected to be much higher.

In a significant contrast to their Chinese counterparts, private sector Indian firms have so far tended to prefer developed Western countries for their investments. Germany, along with the USA and UK has emerged as a primary target for Indian FDI. The largest economy in Europe provides not only attractive market opportunities - with its established technological prowess, high-quality infrastructure and reliable institutional set-up, Germany is considered an excellent investment target by many Indian firms in their pursuit of newest technologies and commercially viable cutting-edge innovations.

Recent Developments in Indian FDI in Germany

The stock of Indian FDI in Germany is estimated at about € 4.125 billion as of mid-August 2010. Even though 2009 and the ongoing 2010 have not seen any "big-ticket" investment coming to Germany, some 12 FDI projects could be monitored between January 2009 and mid-August 2010. These projects had an estimated volume of about US $ 125 million. Six of the projects were green-field investments while the others involved acquisitions. Apollo Tyres, Motherson Sumi, the Ruia Group, and Kiri Dyes & Chemicals were amongst the investors. Additionally, one investment of an estimated value of € 30 million was made by Megha Mittal, daughter-in-law of steel tycoon L.N. Mittal. This investment is however not included in our figures since the Mittals are headquartered outside India. The federal state of North Rhine-Westphalia (NRW) continued to outperform other states in attracting Indian FDI with as many as 8 of the new projects having an NRW connection. This is probably also a positive recognition of the effort that the investment promotion agency NRW Invest has been undertaking to attract Indian investments.

In a significant contrast, Indian FDI stock in France, the second largest European economy, has been estimated at a much lower € 363 million and 8 000 employees.

The year 2009 also saw two prominent cases of "Indian" insolvencies in Germany that involved Reliance Industries (Trevira) and the

Table 1: Developments in Indian FDI in Germany between January 2009 and August 2010

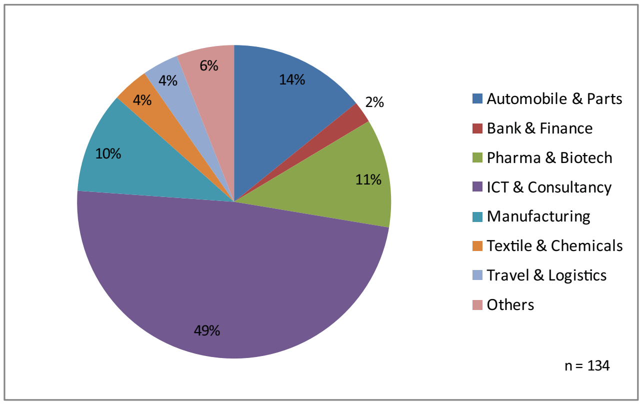
Key indicators	Dec. 2008	Aug. 2010
No. of Indian MNCs in Germany	123	134
No. of subsidiaries of Indian MNCs in Germany	167	190
Full time employees of Indian MNCs in Germany (March 2009)	20 000	23 600 *
Estimated stock of Indian FDI in Germany	4 billion	4.125 billion

This number would increase by approx. 3 600 if we were to include the Mittal group in this list

Sakthi Group. These two companies together provided employment to over 2 600 people in Germany. Of late, there have been some speculations about the wind energy firm Suzlon intending to reduce its stake by 25% in the Hamburg-based REpower. There has, however, been no official confirmation of such press reports.

Taking into consideration the investments and divestments in this period, we could count 134 India-headquartered MNCs and their 190 subsidiaries (majority stakes and wholly-owned businesses) active in Germany as of mid-August 2010. Figure 1 shows the sectoral composition of Indian MNCs in Germany. The share of automobile sector firms increased from 11% to 14%, while the share of IT sector firms decreased slightly from 52% to 49% as compared to 2008; even through the absolute numbers increased for both the sectors. Other sectors registered minor shifting of their shares in the overall composition.

Figure 1: Sectoral composition of Indian MNCs in Germany



Employment generation in Germany

According to a recent study by IBM Business Services, Indian firms accounted for 3% of all new jobs created by foreign investors in Germany in year 2008. Indian firms, excluding the Mittal Group, provided approx. 23 600 full-time, regular jobs in Germany.

Some firms such as Tata Consultancy Services (TCS) and Infosys have announced plans to increase headcount in Germany and to recruit more local people. This move may be expected to give a boost to their respective German operations.

Performance of Indian firms in Germany

As per a study by the *Hindu Business Line* about 40% of all Indian MNCs suffer from negative performance of their overseas subsidiaries. In order to make a first-hand impression about the performance of Indian firms in Germany and the relevant success factors, an empirical survey amongst subsidiaries of Indian firms in Germany was conducted. The survey was conducted in the autumn of 2009 and 21 Indian firms participated in the survey. Despite its tentative character owing to a relatively small sample, this explorative study delivers some very useful insights, as has been confirmed in various expert interviews.

Seven of the firms were from the IT sector, 4 from automotives, 4 from pharmaceuticals and the rest from diverse other branches. Even though average "firm age" was 5.25 years, only 6 firms had been actually active in Germany for more than 5 years. Except for 3 joint ventures all other firms were wholly-owned subsidiaries.

Self-perception of success

Participants were asked to evaluate the success of their German operations on a scale of 1 ("totally failed") to 6 ("very successful"). On aver-

Figure 2: Self-perception of success by subsidiaries of Indian firms in Germany

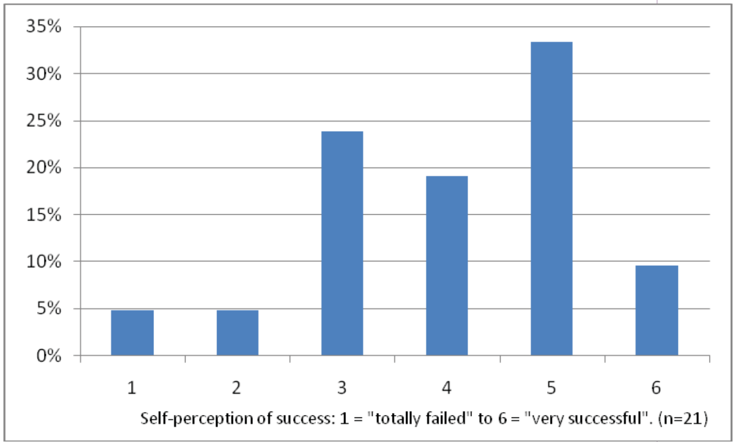


Table 2: Prominent Indian employers in Germany in fiscal year 2008-09

No.	German Firm	Indian Stakeholder	Employees
1	Corus Deutschland GmbH	Tata Steel	6 100
2	Mittal Group§	L.N. Mittal & Family	3 600
3	Novelis Deutschland GmbH	Hindalco (Aditya Birla Group)	2 264
4	SONA BLW Präzisionsschmiede GmbH	Sona Group	1 586
5	REpower Systems	Suzlon Energy Ltd	1 288
6	Mahindra Forgings Europe AG	Mahindra Group	1 039

Source: Authors' compilation based on companies' annual reports and/or newspaper reports

§ The investor is of Indian origin but not an India-headquartered corporate house

Table 3: Most and least successful groups of Indian firms in Germany (scale 1 to 6)

Ranking	Group	Self-evaluation
	5 most successful groups	
1	Automotive firms	4.8
2	Firm age >5 years	4.6
3	IT and engineering firms	4.3
4	No change in the business model of the parent	4.3
5	Wholly-owned subsidiaries	4.1
	5 least successful groups	
1	Change in the business model of the parent	3.8
2	Joint ventures	3.7
3	Share of expatriates in workforce 75%	3.5
4	Other industry sectors (excluding IT, Auto, Pharma and Textiles)	3.3
5	Textiles	3.0

age, the respondents evaluated their success with 4. About one third of all participants had a below-average self-perception of success.

Table 3 shows a list of different groups of participants and their self-perception of success. Apart from sector-specific success (Auto and IT) it seems that operational experience in Germany ("firm age") influences the success positively. Similarly those firms seem to do better whose parent concern in India did not have a change in the business model. On the other hand joint ventures and high rate of expatriates in the workforce seem to negatively influence the firm performance.

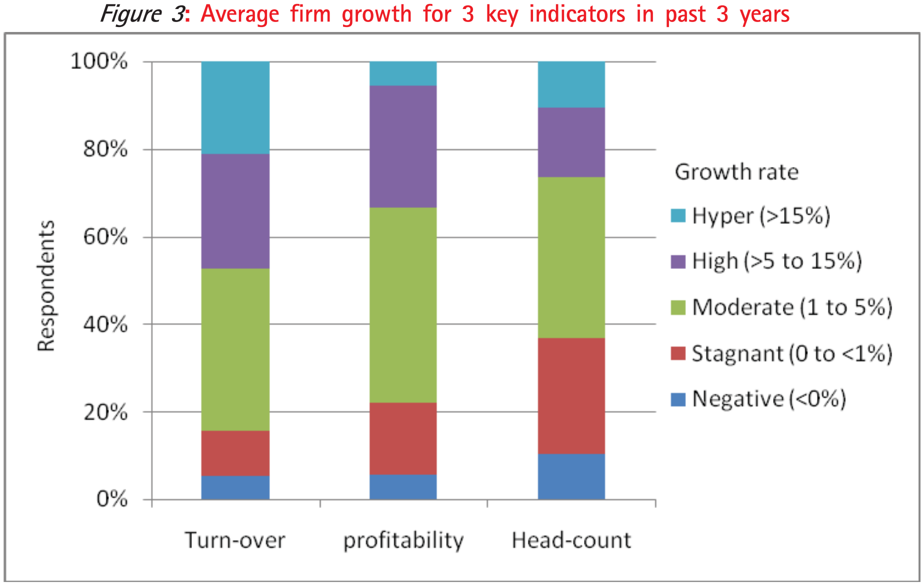
Liability of "foreignness"

In some instances, firms reported post-acquisition difficulties such as lower turn-over, increased attrition, extended recruitment time, or reduced quality perception. The silver lining on the cloud, however, was that these developments did not seem to be systematic to all Indian acquisitions. Especially firms with a longer presence in Germany or having a higher degree of local management were less likely to face such difficulties. Post-acquisition success therefore seems to correlate with managerial actions and image perceptions in the market.

Measurement of firm performance

Survey participants were asked about average growth in turn-over, profitability and head-count in previous 3 years. Most firms reported moderate to high success. Whereas 2 survey participants reported high or hyper success on all counts, none had a negative or zero growth for all indicators. However the growth in turn-over did not necessarily lead to higher profitability and that not to higher headcount.

Figure 3: Average firm growth for 3 key indicators in past 3 years



Critical success factors

Sixteen factors were identified in the study that potentially had an impact on firm performance. A comparative analysis showed that firms were more successful when they could muster organization capabilities to overcome regulatory and bureaucratic hurdles and find a right mix of strategic and operational autonomy. Companies that competed solely on the basis of lower price were found to be on a disadvantage vis-á-vis firms that had an enhanced focus on superior quality and image. Successful firms were more often able to attract and retain local talent. Finally, the ability to bridge cross-cultural gaps in the working styles of the headquarters and the German subsidiary played an important role in success.

Out of the 16 success factors 8 were identified as important based on their rankings relative to success of the respondent. They, in turn, were clustered into 3 critical groups. A hierarchical summary of most important critical success factors can be found in *Table 4*.

Table 4: A hierarchical summary of critical success factors for Indian firms in Germany

No.	Critical Success Factor
1	Organizational capabilities
	- Ability to overcome bureaucratic hurdles and regulatory restrictions
	- Right mix of strategic and operational autonomy
2	Compelling business proposition
	- Enhanced focus on quality and image (cost factor alone does not help)
	- Intensify value-for-money appreciation by customer
	- Enable an extensive level of after-sale services
3	Strategic planning and management of human resources
	- Attract and retain local talent with excellent career opportunities
	- Seek management with excellent knowledge of local market
	- Implement an active program to bridge cultural differences

Summary

The study confirmed the growing role of Germany for Indian FDI and vice versa. As the trade ties between the two countries intensify and more Indian companies venture abroad, Germany will become indispensable for many Indian firms. Owing to geographical, cultural and linguistic distance, Germany, however, continues to be a tough market for some Indian firms. Nonetheless, as the study shows it is possible, with careful cultivation, to achieve extraordinary success in this highly attractive market.

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