IS BUSINESS GROUP AFFILIATION PROFITABLE IN THE EMERGING MARKETS IN THE POST-PANDEMIC ERA? -AN ANALYSIS OF INDIA OFDI TALES

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Abstract

Indian economy has experienced a boom in outward FDI (OFDI) since 2006, which is primarily a two-stage process: one is the internationalization decision and the second is how much to internationalize. Indian firms have been actively making outward foreign direct investments (OFDI) in both developed and other emerging markets, amidst widespread institutional voids and without explicit support from policymakers. Erstwhile, business group affiliated firms were the major players for India's OFDI as being a part of the business group provided access to internal as well as external markets. Now, with the onset of Covid-19 and the new economic policy focused on "Atmanirbhar Bharat", there is an ambition for India to become an important player in the global supply chain. The paper definitely aims at providing a touch base for future research that encourages a structured dialogue between academia and policymakers and cross-disciplinary collaboration.

INTRODUCTION

International Business (IB) studies were mainly focused on Anglo-American firms at their nascence, and expanded to incorporate European and Japanese corporations. It was not until the recent decades that the studies have embraced developing countries, with a special focus on China and India. One of the issues in studying OFDI from developing economies is that the mainstream FDI theories are built on the observations of developed countries (The United States and European countries) and thus may fail to capture the unique characteristics of MNEs from developing economies (Moon and Roehl, 2001).

Until the initiation of broad-based structural reforms in 1991, India's OFDI policy was highly restrictive in nature. The government's stance on OFDI policy started shifting with the adoption of a new economic policy in 1991. The steady improvement in foreign exchange reserve position has encouraged progressive relaxation of OFDI policy and simplification of procedures, leading to a significant increase in OFDI flows from India after 2000. The financial sector reforms since 1991 have resulted into the creation of a more liberal, efficient, and transparent banking and stock market with adequate governance mechanisms

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(Ahluwalia, 2002). Furthermore, since OFDI requires approval, predominantly through foreign exchange reserves, it is postulated that a higher level of international reserves lead to the adoption of a more liberal policy on OFDI flows (Bano and Tabadda, 2015). The availability of financial resources and foreign exchange reserves enable firms to overcome one of the major constraints in their OFDI decision. Indian firms have been actively making outward foreign direct investments in both developed and other emerging markets, amidst widespread institutional voids and without explicit support from policymakers and stakeholders (Nuruzzaman et al., 2019).

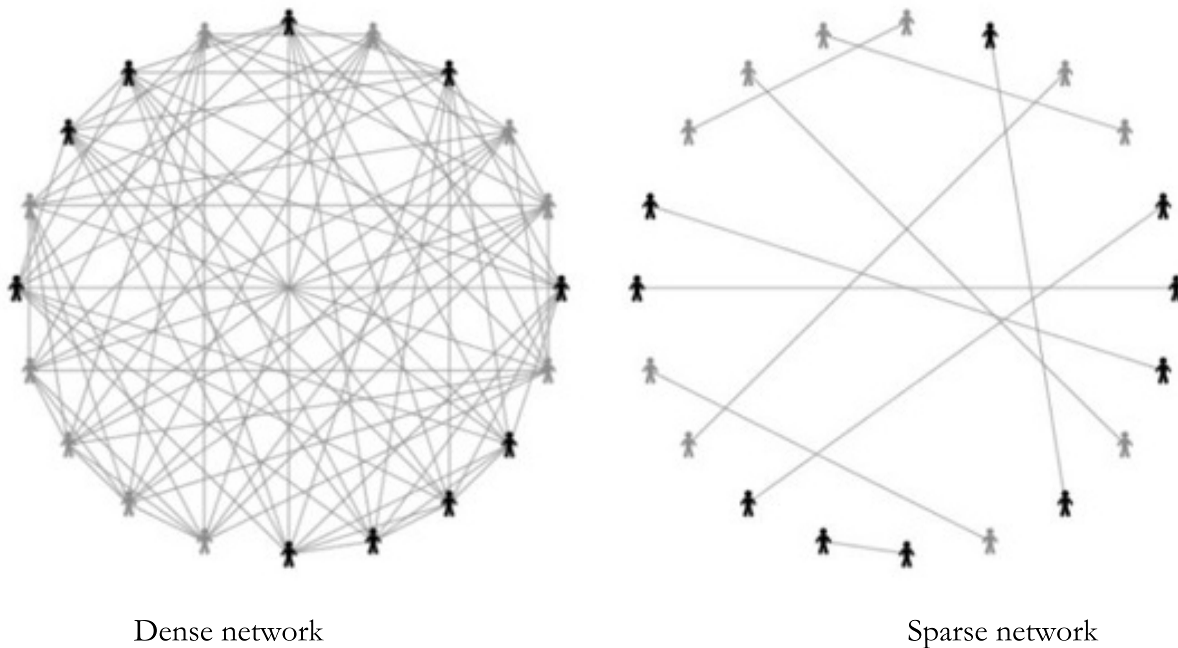
I mention a few relevant and significant studies to figure out the gap of existing literature on internationalization of Indian multinationals. Previous studies such as Das and Banik (2015) examined the location factors which influence OFDI from India. Hattari and Rajan (2010) dealt with the drivers of OFDI. Buckley et al. (2012) explored how host-home country linkage influences OFDI. Elango and Pattnaik (2007) investigated the significance of networks in building capabilities of firms to participate in internationalization. Gaur et al. (2014) investigated the factors that caused the shift of Indian firms from exports to OFDI. Pradhan (2004) explained the influence of firm-level attributes such as age, size, R&D intensity and export orientation on OFDI w.r.t Indian manufacturing sector. The study of Buckley et al. (2016) investigates how the external financial resources along with the internal resources of the firms impact the internationalization of Indian multinationals. Nayyar (2018) proposed a conceptual framework relating to the mechanism through which institutions at the sub-national level in India influence the propensity of firms to invest overseas.

TATA- INDIA'S LARGEST OFDI

Moreover, I cite one of India's largest conglomerate firms to showcase India's classic outward investment and global footprint. The TATA group was founded in 1874 by Jamsetji Tata, a Persian from the Zoroastrian community. It is at the vanguard of internationalization and its global presence makes it a useful case for scholars of international business for studying outward-investment decisions. The group has operations in several countries and export products and services to many nations owing to their competitive advantages in the sectors of information technology, communications, engineering, materials, energy and so on. The conglomerate strongly emphasizes corporate social responsibility and philanthropy, revolutionizing business practices in India and pioneering several firsts in the Indian industry. The onset of internationalization of TATA firms dates back to 1907 with the establishment of TATA Limited in London and then expanded its international presence by setting representative offices and subsidiaries in the USA, Europe, Singapore and Switzerland. The institutional reforms of 1991 and the election of Mr. Ratan TATA as the Chairman in the same year marked a new phase in the internationalization journey of the group manifested in the pace, scale, mode, and destination of overseas investments made by the affiliates. This includes the acquisition of British Tea company, Tetley Group (USD 432 million) by TATA Tea in 2000; Europe's second-largest steelmaker, Corus (USD 11 billion) by TATA Steel in 2007; British carmaker, Jaguar and Land Rover (USD 2.3 billion) by TATA Motors in 2008. These outward investments were driven with the motive of accessing markets and strategic assets in the developed economies and placed the group as a prominent player on the global stage. The historic TATA-Corus outward investment was built on a global strategy to address new markets. TATA steel is one of the most profitable steel companies in the world. The steel giant of India-TATA Steel after acquiring Anglo-Dutch steel firm Corus, Europe's second-largest steelmaker formed a notable deal ($12 billion) from the emerging-market private sector far from the government or state influence (Khanna, 2007).

Erstwhile, business affiliation groups were more significant for OFDI decisions. Given the advancement in digitalization, would business affiliation groups stay that influential for India's OFDI especially in the post-pandemic era?

Networks are an interconnected system that is built upon goodwill and trust which forms alliances among members, disseminates information, and provides tangible resources, financial and other kinds of support among each other. It links individuals through interactions that consist primarily of social exchanges, but information and business exchanges can also take place through them (Björkman and Kock, 1995). Members in the network communicate and construct consistency in order to create and maintain trustworthy, long-term relationships (Li et al., 2013). Thus, manager's and business owner's social networks may be valuable resources for the organizations. Granovetter (2005) defines norms as traditions that people agree on and behave accordingly. Norms are easier to be held and to be enforced in a denser social network. Thus, the increased density in network enables information, ideas and influence to be communicated more repeatedly and to be better enforced. Figure 1. shows the dense and sparse network with the same number of nodes within the network.



Dense network Sparse network

Figure 1: Dense and Sparse network: Interpersonal Ties and the Strength of ties

Institutional uniformity is absent in emerging markets; they fall short in varying degrees to support basic business operations. I believe- "institutional voids," christened in a 1997 HBR article—hampers the implementation of globalization strategies. The institutional void in product, labour, and capital market, as well as regulatory weakness and ineffective judicial system, makes it difficult and expensive for firms to conduct business operations in emerging countries like India (Khanna and Palepu, 1997).

BUSINESS GROUP AFFILIATION-PRE & POST PANDEMIC

Business group as a strategic network has helped to fill the institutional voids and were considered legitimate. Due to their strong position, credibility, and reputation in the home country, business group affiliated firms can access product, labor, and capital market relatively more easily than unaffiliated firms (Khanna and Rivkin, 2001). In other words, being a part of the business group provided access not only

to internal markets but also to external markets. Therefore, business group affiliated firms were the major players in India's OFDI.

Business groups can reduce information and knowledge barriers by providing financial and marketing support, information of opportunities in foreign markets, referrals, and knowledge of internationalization/international business know-how; thus, facilitating cross-border business operations and improving transaction cost efficiency with enhanced trust and solidarity (Cavusgil and Knight, 2015). In addition to this, business groups usually have contacts and/or affiliates in the foreign market that results in their ability to benefit from their relationships with important institutional agents such as policy makers, market regulators, etc. These contacts and/or affiliates are an important source of first-hand information about opportunities in the foreign markets, which is shared with other affiliates via formal and informal connections (Lamin, 2013). Affiliation to business networks enable firms to obtain knowledge regarding business practices, culture, norms, and about doing international business in general from other firms in the group, who have prior FDI experience and established clients and suppliers in the foreign markets thereby helping affiliated firms reduce uncertainty, bringing down the entry barriers and associated liability of foreignness involved in internationalization (Lamin, 2013). These information advantages and resources are not commonly available to unaffiliated firms who have to build it from the scratch, which is an expensive and time-consuming process.

Many researchers have recently adopted a network approach to examine firm internationalization from emerging markets. Although a degree of networking between firms and the external governmental entities can materially affect the process of their internationalization and is undoubtedly present in all economies and OFDI decisions as an outward foreign direct investment involves substantial resource commitment in an uncertain environment. The lack of information and knowledge about operating in foreign markets present an important impediment to firm's investment activities, that they overcome using traditional modes of internationalization such as exporting (Johanson and Vahlne, 1977) which embeds them into vital networks notably export networks (Johanson and Vahlne, 2009).

During and post-pandemic, Prime Minister of India Narendra Modi and the Government of India popularized "**Atmanirbhar Bharat**", a phrase articulated in the Hindi language which loosely translates to 'self-reliant India' in order to foster economic development in India. The new economic policy enacted in May 2020 about "Make in India for the world" emphasized on exporting and PLI (production-linked-incentive) scheme. Since 1991, the process of economic liberalization started, resulting in a new institutional regime. The intensity of institutional reforms caught firms unprepared to adapt to the changing economic order. In this context, business group's connections with important institutional actors helped reduce cognitive complexity owing to access to privileged information. Business group affiliation acted as complementary to reforms (Chittor et al., 2015), helped firms to adapt to institutional changes. However, the dual forces of adapting to the changing external institutional conditions and internal group mechanisms left deeply embedded affiliated firms less nimble and agile to respond to outward-oriented institutional reforms (Stucchi et al., 2015). The new institutional regime where the Indian government initiated outward-oriented institutional reforms, on the other hand, opened up various channels of internationalization, which presented an opportunity for less embedded stand-alone firms in a better position to take benefits and adapt their strategies to the new institutional logic and to take the first step towards internationalization as they are inherently responsive, nimble and agile.

DISCUSSION&CONCLUSION

Finally, the author suggests a post-pandemic increase in OFDI from India owing to the uprooting of economic globalization due to COVID-19. Global production networks being disrupted on a scale never

witnessed before; the pandemic has pushed countries to rethink their international trade strategies in order to reduce their vulnerability to global economic exogenous shocks. According to Zhan (2021), Director, Investment & Enterprise, UNCTAD: "GVC (global value chains) will undergo substantive transformation in the decade ahead, reshaping the global trade and investment landscape due to five major forces: economic governance realignment, the new industrial revolution, the sustainability endeavor, corporate accountability and resilience-oriented restructuring". This may offer a window of opportunity for governments to re-examine their approaches to investment attraction and retention. Now, with the onset of Covid-19 and the new economic policy focused on self-reliant India, PLI scheme, and exporting, there is an ambition for India to become an important player in the global supply chain. The national interests and institutional logic founded in the evolving institutional regime would facilitate more productive stand-alone firms gradually exploit and extend the export networks, and do OFDI.

One type of measure specifically can be very fruitful in the long term and thus deserve increased attention from policymakers. It is the development of a system regarding quality certification that is often required to enter into the supply chains of foreign firms, and improvements in digital infrastructure or integrating the use of information and communication technology (ICT) would allow firms to operate remotely both along global value chains and in reaching out to foreign markets. The key to understand GVCs is to comprehend MNEs that control them. Global value chains (GVCs) will undergo substantive transformation in the decade ahead, reshaping the global trade and investment landscape (Zhan, 2021).

This is why, it is crucial for supra-national organizations and country groupings, like the United Nations and the G20, to respond by advocating and facilitating cooperation in the area of international investments and trade policy. The West has always been complacent regarding OFDI from India as compared to China. One thing that can work in favor of India is that countries around the world are diversifying their supply chains and reducing their reliance on China. Probably, how the government's emphasis on exporting in the past led to increased FDI- mostly in the IT sector and now the manufacturing sector, which is currently being given a lot of focus-to increase exports; India will witness several outward investments spear-heading its global drive to growth and secure commanding heights in the OFDI scenario in years to come.

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