Chapter 5

Emerging Country Multinationals

In the past few decades, MNCs from emerging markets have appeared as important players in the international competitive environment. Catching up through fast growth rates, these emerging country multinationals are predicted to influence the international business environment tremendously. This Chapter presents the primary characteristics of emerging country multinationals and models of their international expansion.

Outward Foreign Direct Investment from Emerging Markets

Emerging countries are increasingly important for MNCs. Emerging countries are those markets in the transitional phase between being a developing country and a developed country. The *BRICS* (*B*razil, the *R*ussian Federation, *I*ndia, *C*hina and *S*outh Africa) economies are an example of such emerging markets.

Emerging Markets

These fast growing economies nowadays account for approximately half of all economic activities. They have large populations with *increasing disposable incomes*. They are therefore prominent targets for *resource seeking, efficiency seeking* and *market seeking* foreign direct investment by MNCs. However, their role in world economic activities is changing from a passive role as a source of inputs, products, technology or value-adding capabilities, commodities, or cheap labour to a more active role as a source of new competitors on international markets (Rugman/Collinson 2012, p. 637). This changing role of emerging markets thus changes *how*, *where* and *who* in the world does business.

FDI Inflows and Outflows

This trend is reflected in the development of global foreign direct investment (see Table 5.1). In 2012, developing countries accounted for more than half of global *FDI inflows*, exceeding the FDI inflows to developed countries. Almost half of the TOP 20 recipients of global foreign direct investment were developing countries. However, developing economies are not only recipients of global FDI; *FDI outflows* to developing economies have also grown significantly, accounting for more than 30% of global FDI outflows. Emerging markets, such as the *BRICS* countries, were among the leading sources of FDI from developing countries. In 2012, FDI from *BRICS* countries accounted for

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10% of the world total, with China as the third largest investor country in 2012, after the United States and Japan (UNCTAD 2013).

Table 5.1 *Global FDI Flows by Region (in billion USD)*

Region	FDI inflows			FDI outflows		
	2010	2011	2012	2010	2011	2012
World	**1409**	**1652**	**1351**	**1505**	**1678**	**1391**
Developed economies	696	820	561	1030	1183	909
Developing economies	637	735	703	413	422	426
Africa	44	48	50	9	5	14
Asia	401	436	407	284	311	308
East and South-East Asia	313	343	326	254	271	275
South Asia	29	44	34	16	13	9
West Asia	59	49	47	13	26	24
Latin America and the Caribbean	190	249	244	119	105	103
Oceania	3	2	2	1	1	1
Transition economies	75	96	87	62	73	55
Structurally weak, vulnerable and small economies	**45**	**56**	**60**	**12**	**10**	**10**
Least developed economies	19	21	26	3.0	3.0	5.0
Landlocked developing countries	27	34	35	9.3	5.5	3.1
Small island developing States	4.7	5.6	6.2	0.3	1.8	1.8
Memorandum: percentage share in world FDI flows						
Developed economies	49.4	49.7	41.5	68.4	70.5	65,4
Developing economies	45.2	44.5	52.0	27.5	25.2	30.6
Africa	3.1	2.9	3.7	0.6	0.3	1.0
Asia	28.4	26.4	30.1	18.9	18.5	22.2
East and South-East Asia	22.2	20.8	24.1	16.9	16.2	19.8
South Asia	2.0	2.7	2.5	1.1	0.8	0.7
West Asia	4.2	3.0	3.5	0.9	1.6	1.7
Latin America and the Caribbean	13.5	15.1	18.1	7.9	6.3	7.4
Oceania	0.2	0.1	0.2	0.0	0.1	0.0
Transition economies	5.3	5.8	6.5	4.1	4.3	4.0
Structurally weak, vulnerable and small economies	**3.2**	**3.4**	**4.4**	**0.8**	**0.6**	**0.7**
Least developed economies	1.3	1.3	1.9	0.2	0.2	0.4
Landlocked developing countries	1.9	2.1	2.6	0.6	0.3	0.2
Small island developing States	0.3	0.3	0.5	0.0	0.1	0.1

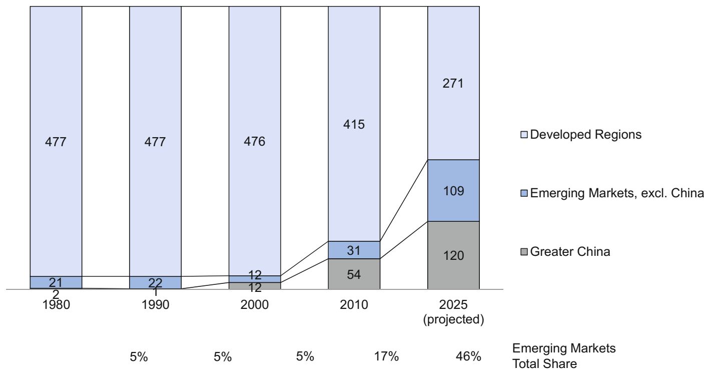
Source: UNCTAD 2013.

Role of Emerging Country Multi-nationals in Fortune 500

The transition of the role of *emerging markets* in international business is characterised by the rise of *emerging country multinationals*, MNCs whose origin is in emerging economies. By 2025, it is believed such companies will account for more than 45% of the *Fortune Global 500*, i.e., the top 500 world companies as measured by their revenue, rising from 5% in 1990 (see Figure 5.1). In 2009, emerging country multinationals generated approx. a quarter of all global FDI outflows; this is expected to surpass 50% in the next few years (Guillén/García-Canal 2011).

Figure 5.1

The Fortune Global 500 by Location



Source: McKinsey Global Institute 2013.

Characteristics of Emerging Country Multinationals

Definition

Emerging country multinationals are MNCs that are registered and based in emerging markets (Rugman/Doh 2008). MNCs with their origins in these fast growing economies have expanded around the world as key actors in global FDI and cross-border acquisitions. Several terms have been used to describe this phenomenon, such as "*emerging multinationals*", "*emerging market firms*", "*third world multinationals*", "*unconventional multinationals*" or "*emerging market multinationals*" (Guillén/García-Canal 2011, p. 15). Even though these emerging country multinationals are "far from homogeneous" (Lou/Tung 2007, p. 483), they share a number of *common characteristics* that distinguishes them from their competitors which originated in developed countries (see Table 5.2).

Speed of International Expansion

Probably the most striking is the *pace* with which emerging country multinationals expand into international markets and close the gap between their counterparts from traditional developed economies. In many cases, they start international expansion very early in their lifecycles (Goldstein 2007, p. 149) with an *accelerated speed* of internationalisation (Dunning/Kim/Park 2008, p. 175).

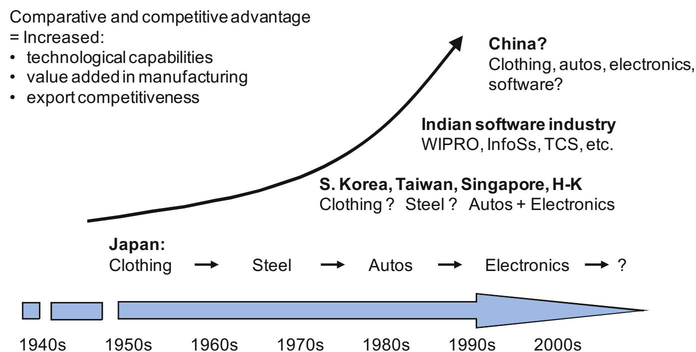
Table 5.2 Characteristics of Emerging Country MNCs and Traditional MNCs

Feature		Emerging Market MNCs	Traditional MNCs
Speed of Internationalization		accelerated	gradual
Competitive Advantages		weak: upgrading of resources required	strong: required resources available in-house
Political Capabilities		strong: firms are used to unstable political environments	weak: firms are used to stable political environments
Expansion Path	In Search of Markets	dual path: simultaneous entry into developed and developing countries	single path: from less to more distant countries
	In Search of Lower Costs	into less developed countries as home country development raises production costs	into less developed countries
	In Search of Strategic Assets	into more developed countries	into similar developed countries
Preferred Entry Mode		external growth: alliances, joint ventures, acquisitions	internal growth: wholly owned subsidiaries
Organizational Adaptability		high, because of their recent and relatively limited international presence, which enables them to adapt technologies to small-scale markets, excel at projects execution and adopt new technology quickly	low, because of their ingrained structure and cultures

Source: Guillén/García-Canal 2011, p. 17.

Emerging country MNCs have shown a rapid development of comparative and competitive advantages in a wide range of industries and seem to be catching up with developed country MNCs at high rates, thus showing a parallel development across these sectors (Rugman/Collinson 2012, p. 655; see Figure 5.2).

Figure 5.2 Development of Emerging Country Multinationals



Source: Rugman/Collinson 2012, p. 654.

Latecomers to International Markets

However, emerging country MNCs have to deal with the liability of being *latecomers* to the international markets, which is why some scholars label them as *latecomer firms* (Mathews 2006). This position represents a common *disadvantage*, one which they share in contrast to established MNCs from the advanced countries. Therefore, in many cases their marketing and technological skills and resources have to be built up from a weaker position.

To successfully grow in international markets, firms need to be able to adapt to the diverse conditions of a changing international environment. While traditional MNCs with long business track records often suffer from inertia and path dependence, emerging country multinationals enjoy higher *flexibility* and *freedom* to adapt to the requirements of internationalisation (Guillén/García-Canal 2011, p. 18).

Institutional Voids

Their origin from countries a tendency for *discretionary and unstable governments* provides emerging country multinationals with a specific skill – being able to deal with market restrictions, administrative, infrastructural and political difficulties and (in some cases heavily) regulated and rapidly changing institutional environments. This contextual embeddedness into an environment characterised by *institutional voids* has often been characterised as a liability of origin that needs to be overcome to succeed as a global player (Bartlett/Ghoshal 2000, p. 136). However, emerging country multinationals seem to have turned this liability into an asset, because it provides them with stronger *political capabilities* in contrast to traditional MNCs (Sauvant/Maschek/McAllister 2009, p. 8).

Closely connected to the institutional environment is the fact that *state influence* on emerging country multinationals is higher than for traditional MNCs (Peng 2012). State influence may take diverse forms, such as *political influence*, for example through subsidies (e.g. R&D subsidies), legislation, policies that promote internationalisation (e.g. go global policy in China, go-west policy in Russia) or prohibit internationalisation (e.g. restrictions to FDI in- and outflows).

State Ownership

Also, (direct or indirect) *state ownership* is quite a common phenomenon for emerging country multinationals, especially from the Russian Federation and China. Also, most companies in the oil and gas industry are state-owned. However, the internationalisation strategies of *state-owned companies* often have diverse, often non-economic motives. These motives may in some cases relate more strongly to *political objectives*, for example gaining influence over power distribution in international markets.

The relevance of state-owned companies in the global business environment is growing. For example, the number of *state-owned MNCs* that rank among the global players increased from 650 MNCs in 2010 to 845 in 2012. The majority of these state-owned MNCs originate in developing countries.

Their share of global FDI accounted for more than 10% in 2012 (UNCTAD 2013).

Trends in Emerging Country Multinationals' Internationalisation

Waves of Emerging Country Multinationals' Expansion

First Wave

Emerging market firms venturing into new markets is not a new phenomenon. In the 1970s and 1980s a first wave of MNCs from developing countries engaged in outward FDI. Back then, the internationalisation of the so-called *Third World Multinational Enterprises* was largely explained by advantages that stem from *low-cost production* using *labour-intensive* production techniques. The geographic scope of this first wave mainly focused on nearby markets, usually also developing countries. In this first wave, internationalisation was largely driven by constraints in the home country markets such as market restrictions or export difficulties (Mathews 2006, p. 7).

Second Wave

In the second wave, the phenomenon of internationalisation of developing country firms changed and was "less driven by cost factors per se, but more by a search for markets and technological innovations to compete successfully in the global economy" (Yeung 2000, p. 12). Thus, pull-factors drew emerging country multinationals into global activities (Mathews 2006, p. 7).

Industry Focus of Emerging Country Multinationals

Even though emerging country multinationals do not target homogeneous market sectors, in many cases, they (still) tend to involve *mid-tech* and *mature industries*. One of their strengths is the ability to adapt mature technologies to the specific conditions of local environments (Ramamurty/Singh 2009, pp. 415-417). In this vein, they act as imitators rather than as innovators and "have yet to achieve a distinctive global profile based on well-defined strategic competencies and differentiated brand names" (Sim/Pandia 2003, p. 38). However, some emerging country multinationals have matured from this imitator position to become leading global market players in their industries. Examples include the Brazilian firm *Embraer* in the aircraft industry, the Indian firm *Mahindra & Mahindra* for all terrain vehicles and the Chinese firm *CIMC*.

Emerging country multinationals are present across most industries. However, some core industries are of specific regional importance, in some cases with regard to specific countries (Graser 2011, p. 103):

- Major emerging country multinationals can be found in the *natural resource* sector (e.g. from Brazil, the Russian Federation or China) and in *public utilities* and *telecommunications*.
- Asian firms often focus on *high tech engineering* and *manufacturing*.
- Several major Indian MNCs focus their activities on the *pharmaceutical industry, IT* and *services* as well as the *automotive industry*.
- Because of their agricultural heritage, many emerging market players, especially from South America and Asia, operate in *food processing industries*.

Important emerging country multinationals are structured as *conglomerates*, diversified groups or business groups more frequently than their counterparts with origins in developed countries (Goldstein 2008, p. 92). These conglomerates provide advantages such as higher brand awareness and internal markets for resources such as monetary resources, as well as experts and management (Khanna/Palepu 2006).

Expansion Paths

The usual expansion path for emerging country multinationals tends to differ from that of most traditional MNCs. In terms of internationalisation direction, the main distinction is between "South-South investments" (Battat/Aykut 2005), also labelled as "*E2E investments*" (emerging market-to-emerging market), and "South-North investments":

- *South-South investments* are directed from emerging markets as home countries to other emerging markets as host countries. Usually, the motive of such internationalisation patterns is asset exploitation, thus exploiting existing competitive advantages, mainly searching for low-cost labour and market expansion.
- *South-North investments*, on the other hand, are directed from emerging markets to developed countries, mainly with asset seeking or asset-exploring motives. In addition to market seeking, emerging country multinationals strive for access to strategic assets such as technologies, brands or specific expertise.

Expansion into *developing countries* may be achieved faster, as emerging country multinationals can more easily transfer their home-grown competitive advantages to these more similar markets. This may serve as a basis to gain *operational experience*, grow in size and generate profits. However, venturing into *developed markets* provides emerging country multinationals with

new competitive advantages and thus an *upgrade of capabilities* and resources (Guillén/García-Canal 2011, p. 17).

Foreign Operation Modes

Emerging country multinationals also tend to differ with regard to the main *modes* they apply to enter new international markets. While traditional MNCs – at least in their earlier stages of international expansion – often showed a priority for *internal growth strategies* through wholly-owned subsidiaries, emerging country multinationals tend to choose entry modes based on *external growth* and cooperation. They show a preference for strategic alliances, joint ventures or mergers and acquisitions, particularly when expanding into developed countries. These foreign operation modes help them to overcome the *liability of foreignness* by gaining access to strategic assets, resources and capabilities by cooperating with partner companies in international alliances or taking over established players on the host country markets (Guillén/García-Canal 2011, pp. 17-18; see Chapters 17 and 18 for a discussion of foreign operation modes).

For *takeovers* of developing country firms, some emerging country multinationals have acted as "bargain hunters" and have taken over established firms that, however, suffered from weak business situations or even went bankrupt. For example, in March 2008, *Tata Motors* bought *Jaguar* and *Land Rover* when Ford was in financial difficulties (see the *Tata Motors* case study later in this Chapter).

Explaining Emerging Country Multinational Expansion

There are several approaches to explaining internationalisation patterns of multinational companies. One prominent approach is Dunning's eclectic paradigm, the *ownership location internalisation (OLI) framework* (see Chapter 14), which suggests that MNCs possess and leverage superior resources that enable them to successfully enter new markets. However, emerging country multinationals often do not possess a wide base of specific resources that provide them with ownership advantages. Even though they strive for lucrative international locations and internalise transactions, they typically do not possess superior expertise, technologies or management capabilities (Peng 2012).

Value-Creation Strategies in Foreign Markets

Resources, their *availability* for the firm, their *transferability* and their *substitutability* between markets play an important role in emerging country multinationals' *value-creation strategies*.

Value Creation Strategies of Emerging Country Multinationals

Table 5.3

Transferability between Markets					
		high		low	
Availability for the Firm	high	**I (Exploiters)**		**II (Defenders)**	
		Resource	Firm Example	Resource	Firm Example
		• know-how (marketing, brand & distribution	Astrid y Gastón, Concha y Toro, Bimbo, Pollo Campero	• market share	
		• market knowledge	América Móvil, Cemex	• customer-driven	Tenaris
		• innovative capability	Tenaris	• competitor-driven	América Móvil, Cemex, Politec
		• know-how (production)	Petrobas	• market-driven	Petrobas
	low	**IV (Others)**		**III (Resource Developers)**	
		EMNCs use another form of access to resources lacked (e.g., imports)		Resource	Firm example
				• leading technology/knowledge	Bimbo, Politec, Natura
				• financial resources	Cemex
				• know-how (marketing: brand & distribution	Bimbo
				• natural resources	Vale, Petrobas

Source: Losada Otalora/Casanova 2012, p. 9.

Based on these resource attributes, four internationalisation strategies can be distinguished (Losada Otalora/Casanova 2012, pp. 9-10; see Table 5.3):

- *Exploiters* create value by transferring resources developed in their domestic markets to international markets. Resources of this type are mainly *knowledge-based assets* such as brands or specialised production expertise.
- *Defenders* are companies that invest abroad to avoid loss of market share, i.e., a type of resource that is *non-transferable* between markets. The main objective is to invest abroad to defend their market position against market-driven threats such as growth constraints or market-dependence on a single or few markets.
- *Resource developers* create value abroad by acquiring marketing, technological, financial, or natural resources. This improves their overall global capabilities; however, they are non-transferable between markets.
- *Others:* The fourth category comprises companies that use other forms of access to resources, for example imports.

LLL-Framework: Linkage, Leverage, Learning

Firm-Specific Advantages

Despite numerous drawbacks, emerging markets are still regarded as sources of innovation. Starting from their home market conditions, emerging country multinationals have developed the capacity to innovate and continually build up sustainable *competitive advantages* that reduce their resilience on location-specific endowments (Rugman/Collinson 2012, pp. 655-656). Table 5.4 summarises the specific advantages of globally successful emerging country multinationals.

Mathews (2006) proposed the *LLL-framework,* which is closely connected to these firm-specific advantages of emerging country multinationals. In this framework, the international expansion of emerging country multinationals is driven by resource linkage, leverage and learning.

Linkage

Outward Orientation

Emerging country multinational internationalisation – as *latecomers* to the markets – start with a focus on resources, which can be acquired externally, i.e. on international markets, rather than their own advantages and capabilities. Emerging country multinationals take an *outward orientation* and seek to acquire resources and complementary assets, which can be accessed on the global market rather than in their home countries. Seeking for advantages outside their domestic markets with *resource seeking objectives* (see Chapter 4) in this vein is a prerequisite to overcoming the constraints and limitations of their domestic markets.

This outward orientation, however, is more risky than the more conservative inward focus. Therefore, forms of *collaborative strategic partnerships* in international markets such as joint ventures are important strategic choices to access external resources and – as discussed – are commonly chosen modes of foreign market entry strategies for emerging country multinationals. These forms of internationalisation are used to form *international networks* in which resources are linked up. In this way, emerging country multinationals are "drawing themselves into circuits of exchange and sources of advantage" (Mathews 2006, p. 18).

Table 5.4

Firm-Specific Advantages of Emerging Country Multinationals

Globalising…	Assets	Capabilities	Connections	Reputation
Innovation and Technology	patents, licenses, IPR. specialised tools, hardware, software, etc.	low-end (maintenance) to high-end (blue-sky R&D) expertise	strategic alliances, buyer and supplier links. R&D networks/global capability inputs	credibility, trust, track record, recognition
Marketing and Brands	own valued brands, logos, trademarks, awards, etc.	brand management protection, development of expertise	formal co-branding, supplier or buyer, distribution, and retailing affiliations	reputation for quality, price, innovation, etc., market positioning, brand recognition, market presence

Source: Rugman/Collinson 2012, p. 656.

Leverage

Knowledge-Sharing Networks

Establishing networks of resource exchange and exploitation can *leverage the linkages* between resources and competitive advantages. Leverage, therefore, refers to the emerging country multinationals' ability to take advantage of these unique capabilities in their *international network* of activities (Peng 2012). In this context, it is crucial to establish structures and processes that enable companies to effectively manage and utilise the resources and capabilities across the entire network. Emerging country multinationals, however, are able to leverage these resources by establishing *knowledge sharing* across the network. This may also include technology licensing contracts, imitation and reverse engineering (Mathews 2006).

Learning

Repetition of Linkage and Leverage

Thanks to linkage and leverage strategies, emerging country multinationals are more adapted to the global markets that are themselves increasingly interlinked. However, it is the subsequent learning processes that accelerate expansion patterns. Companies apply repeated linkage and leverage processes that lead to organisational learning processes.

The main ideas behind the LLL-framework are summarised in Table 5.5.

Table 5.5 Characteristics of the LLL-Framework

Criterion	LLL-Framework
Resource Utilisation	resources accessed through linkage with external firms
Geographic Scope	locations tapped as part of international network
Make or Buy?	bias towards operations created through external linkage
Learning	learning achieved through repetition of linkage and leverage
Process of Internationalisation	proceeds incrementally through linkage
Organisation	global integration sought as latecomer advantage
Driving Paradigm	capturing of latecomer advantage
Time Frame	cumulative development process

Source: Adapted from Mathews 2006, p. 21.

Models of International Expansion

The diverse directions, types and scope of emerging country multinationals' internationalisation strategies and patterns show that there is *no blueprint* for emerging country multinationals' international expansion. With particular reference industries, the phase in the companies' life cycles and the specific home country background, five models of international expansion can be differentiated (Accenture 2008, p. 10):

- *Full-fledged global players* are more established, comparatively older and have attained international presence and relevance in terms of size and geographic scope comparable to the big Western MNCs. Examples include *Bharat Forge* and *Tata Group* from India or *CEMEX* from Mexico.
- While global players expand their operations worldwide, the *regional players* among the emerging country multinationals limit their scope to neighbouring regional markets, usually those of higher cultural and geographic proximity. Often, these are young companies still in the early stages of internationalisation. The Polish Bank *PKO BP* or the Czech company *CEZ* are examples.
- *Global sourcers* focus on selling on their home country markets. However, resource restraints from their domestic markets force them to source internationally. Companies from the commodities industries or energy sector often follow this strategy, for example *China National Offshore Oil Corporation (CNOOC)* or *Reliance Petroleum Limited* from India, who source oil internationally to sell it primarily to their home country markets.
- *Global sellers*, on the other hand, seek market opportunities abroad and manufacture and source primarily on their domestic markets. The Russian energy company *SUEK* is an example.

- *Multi-regional niche players* are comparatively small companies that operate across multiple regions with a focus on specialised sectors. Innovative processes or technologies often form the basis for their expansion. *Holografika*, a Hungarian manufacturer of specialised display technology, is one such small global company, operating in a niche with a focused international scope.

Conclusion and Outlook

One of the most striking characteristics of emerging country multinationals is their *pace of international expansion* into global markets. However, this speed of internationalisation is also their most significant challenge for the future, along with a range of other challenges for future growth (Accenture 2008, pp. 45-46):

Challenges for Future Growth

- *Input constraints*: To guarantee future growth, emerging country multinationals need sufficient inputs such as capital, energy, raw materials, qualified employees, etc.
- *Increasing competition*: MNCs, especially emerging country multinationals, are growing in number and in size, so global competition is increasing. This might limit future growth opportunities.
- *Geopolitical risk*: Emerging country multinationals operating across geographic boundaries exhibit an increasingly complex cast of regulatory and policy actors, both at the global and regional level. Regulatory practices might limit their future growth paths or direction.
- *More diverse customers*: In the global market sphere, especially when entering wealthier economies, emerging country multinationals are exposed to customer sectors with increasingly different needs and demands, which might be difficult to serve with a one-size-fits-all-approach (see the discussion of the AAA-framework in Chapter 2). This reinforces the need to continue tailoring goods and services to regional needs, one of the key strengths of emerging country multinationals.
- *Higher-value innovation*: Emerging country multinationals will need to improve their innovation capabilities and progress up the value chain to access new markets. While their earlier innovation capabilities were largely due to the need to adapt and improvise in international markets, future challenges will be to engage in high-end research.

Emerging country multinationals are clearly well positioned for future growth. The forecast is that they will gain a further share in international markets in the future, turning them into *emancipated global players*.

Further Reading

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Case Study: Tata Group*

Profile and Company Structure

The *Tata Group*, founded in 1868, is a global enterprise headquartered in Mumbai, India. Among other areas, the *Tata* brand received worldwide recognition through *Tata Motors*, which is part of the *Tata Group*. *Tata Motors* won renown by launching a car with a selling price of one lakh (equal to USD 2,500 or EUR 1,500), the lowest price for a car at that time, and by acquiring *Jaguar* and *Land Rover* in 2008.

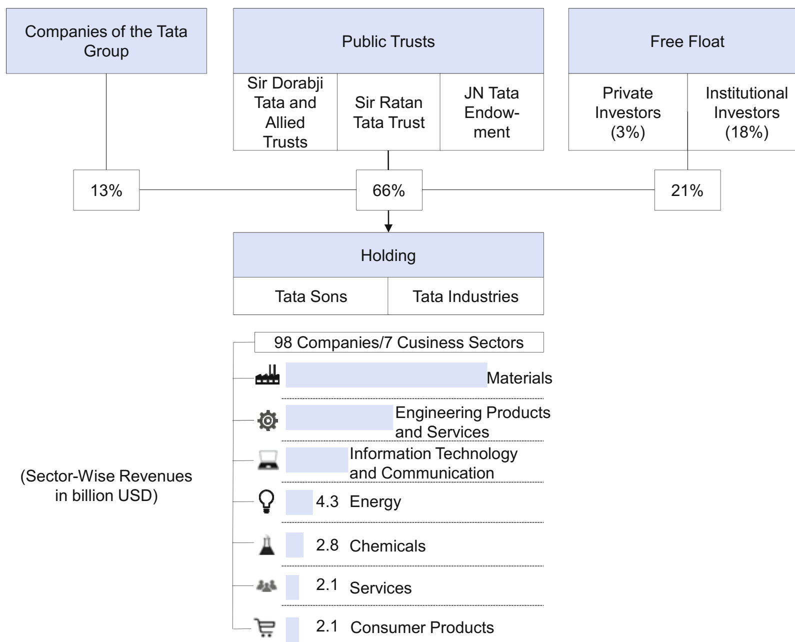
Besides *Tata Motors*, the *Tata Group* consists of about 100 operating companies in seven business sectors: communications and information technology, engineering, materials, services, energy, consumer products and chemicals. Each company in the portfolio, including well-known and respected companies like *Tata Steel*, *Tata Consultancy Services (TCS)*, *Tata Power*, *Tata Chemicals*, *Tata Tea*, *Indian Hotels*, *Tata Communications*, and *Tata Motors*, operates independently and has its own board of directors and shareholders (Lala 2007). According to their own reports, the companies operate in more than 100 countries across six continents and export products and services to over 150 countries. About 63% of their revenue of 96.79 billion USD in 2012/13 was generated from business outside India. With 540,000 employees across its companies, *Tata Group* is India's largest employer.

* Sources used for this case study include the website www.tata.com, various company reports and explicitly cited sources.

Since 2012, Cyrus Pallonji Mistry is chairman of the *Tata Group*. He is the first chairman from outside the *Tata* family. Around two-thirds of the parent firm, *Tata Sons Ltd.*, is held by philanthropic trusts (Srivastava et al. 2012). Through these trusts, *Tata Sons Ltd.* utilises on average between 8 to 14% of its net profit every year for various social causes, such as support for academic institutions, social and community causes and programmes for underprivileged people. Figure 5.3 shows the ownership structure and revenues for each business sector within the *Tata Group*.

Ownership Structure and Business Sectors within the Tata Group

Figure 5.3



Source: Schuster/Holtbrügge 2011.

Given the *Tata Group's* origin as a family-run company, it is closely linked to its surrounding community. This is clear from a quote by *Jamsetji Nusserwanji*, the founder of the *Tata Group*: "In a free enterprise, the community is not just another stakeholder in business but is in fact the very purpose of its existence" (Srivastava et al. 2012). The company fulfils its corporate social responsibility in various ways. It feels especially committed to five core values that – by its own account – drive all of the business activities:

Tata Code of Conduct

- *Integrity*: fair, honest, transparent in all dealings.
- *Understanding*: care, respect and compassion for customers and colleagues.
- *Excellence*: highest possible standards for goods and services.
- *Unity*: build strong relationships with partners and customers worldwide.
- *Responsibility*: What comes from the people goes back to the people many times over.

Formation and Early Development of the Tata Group

The *Tata Group* has its origins in 1868 when Jamsetji Nusserwanji Tata established a trading company in Bombay. Tata used early revenues to fund the *Tata Group's* first big industrial project in 1877: *Empress Mills*, a textiles venture set up in Nagpur in central India. Like many companies in emerging markets, *Tata* was not committed to specific products or fields. A fixed commitment would have been disadvantageous because market potentials for single products were usually not sufficiently profitable. At the same time potential customers in the emerging market had various needs that were not adequately met by existing offers. *Tata* reacted to this situation by offering a wide portfolio. In this way *Tata* made use of new market opportunities even though they had little to do with their previous business. Ravi Kant, Vice-Chairman of *Tata Motors*, describes this strategy as follows: "[We] look at opportunities in the market as they emerge. We then try to convert those opportunities into real business" (Crainer 2010, p 14). In that spirit, Tata opened up the *Taj Mahal Hotel* in Bombay in 1903. In subsequent years the *Tata Group* stuck to this strategy. In 1907 they diversified the coal and steel industry by founding the *Tata Iron and Steel Company*. In 1915, the company entered unknown territory once again by generating hydroelectric power from a site near Bombay.

Expansion through Ventures

From the 1930's, the *Tata Group* consolidated its business while still entering new areas, notably insurance and the production of soaps, detergents and cooking oil. The *Tata Group* continued to rely on expansions in the home market. Some prominent ventures include *Tata Chemicals* (1939); *Tata Motors* and *Tata Industries* (both 1945); *Voltas* (1954); *Tata Tea* (1962), now known as *Tata Global Beverages*; *Tata Consultancy Services* (1968) and *Titan Industries* (1984). Until the end of the 1980s this diversification was limited to the home market in India.

Development of the Tata Group since 1990

Only at the beginning of the 1990s did *Tata* become a *multinational company*. The groundwork was laid by changes in the political environment in India, leading to increasing liberalisation. At the same time, these changes were accompanied by the opening of the Indian market for foreign companies and investors. This resulted in a modified strategic orientation for the *Tata Group*: Growth was still generated through innovations in the home market. Further development of the Indian market through joint ventures with Multinational Corporations and expansion to foreign markets complemented the strategy.

Growth in the Home Market through Innovation and Joint Ventures

Liberalisation of the Indian Market in the early 1990s and innovation strategies led to new growth for many Indian companies. The goal was to harness market potential resulting from the changes in overall political conditions. The companies within the *Tata Group* also followed this approach.

Tata Motors

One example is *Tata Motors*. The precursor of this company was founded in 1945 as a truck manufacturer. Before the liberalisation of the Indian market the company gained a leading market position in commercial vehicles in India. The new market conditions at the beginning of the 1990s made it possible for *Tata Motors* to reach new customer groups by starting production of passenger cars. The company now faced the challenge of offering products to a segment that they had hardly any experience with at that time. Their goal was to gain experience in a new market area while keeping costs and risks for the company as low as possible. They now had to decide whether to imitate competing manufacturers' existing systems or work on their own innovations (Khanna/Palepu 2006).

Tata Motors decided to combine innovation and low costs: The company entered the car and utility segments with products such as the *Estate* (a station wagon), *Sierra*, and *Sumo* (a utility vehicle used in both urban and rural India for multi-passenger transportation). In 1998 and 2002, *Tata Motors* launched two very popular passenger cars, the *Indica* and the *Indigo* (Lala 2007). These innovations significantly expanded the company's customer potential and contributed to its growth (Krishnan/Jha 2011). At the same time the new products were oriented towards existing capabilities that *Tata Motors* had built in the light commercial vehicle arena. For example, the *Estate* and *Sierra* models were based on the chassis of a light truck the company had already launched. Thus *Tata Motors* were able to gain experience in a new market segment and reduce the risk associated with innovations. The locus of innovation was largely internal to the company (Krishnan/Jha 2011).

Joint Ventures

More recently, the *Tata Group* has also brought best-in-class technologies to India, mainly through joint ventures with Multinational Corporations such as automobile engines (*Cummins*), industrial controls (*Honeywell*), computer hardware (*IBM*), and telecom equipment (*Lucent Technologies*) (Basu/Maertens 2010). This strategy was another way for *Tata* to generate growth in the home market. In doing so, *Tata* offered foreign companies access and experience in a high-growth market. In return, the companies in the *Tata Group* benefit from an influx in expertise and resources.

International Growth through Mergers and Acquisitions

Diversification of Tata Tea

Since the turn of the millennium, the *Tata Group* has generated part of its growth through mergers and acquisitions outside India. The first important acquisition was that of *Tetley* by *Tata Tea* (today *Tata Global Beverages*). *Tetley* is a British beverage manufacturer, and the world's second largest manufacturer and distributor of tea with an annual turnover of 1.5 billion USD. The acquisition in 2000 was the largest overseas acquisitions by an Indian company at that time. Since 2005, *Tata Global Beverages* has been expanding strongly into Europe (*JEMCA*, Czech Republic, 2006; *Vitax* and *Flosana*, Poland, 2007; *Grand*, Russia, 2009), Africa (*Joekels Tea Packers*, South Africa, 2006) and the USA (*Good Earth Corporation* & *FMali Herb Inc.*, 2005).Nowadays, *Tata Global Beverages* makes more than 65% of its consolidated revenue in markets outside of India. The expansion not only led to an increase in revenues but also a modified orientation regarding *Tata Global Beverages'* products. The main objective was to change from an exclusive tea producer to a supplier of "good for you" beverages. Consequently, their products' sales shares changed. Before the acquisitions nearly all of their revenues came from tea interests. As a result of the diversification strategy this figure is now only 70%.

Starting in 2003, *Tata Communications* acquired three telecommunications companies: *Gemplex* (USA, 2003), *Tyco Global Network* (USA, 2004) and *Teleglobe* (UK, 2005). According to its own reports on these acquisitions, the *Tata Group* now owns and operates one of the world's largest international mobile, data and voice networks, providing 1,400 wholesale customers and 650 enterprise customers with coverage to more than 240 countries and territories.

Indian Hotels (IHCL), part of the *Tata Group*, also expanded into foreign countries very early. After *IHCL* became one of the largest and finest hotel groups in Asia, *Indian Hotels* tried to strengthen its position outside of Asia as well. In 2005 the company took over the *Starwood Group* (Australia). *Ritz Carlton* (USA) followed in 2006 and *Campton Place Hotel* (USA) in 2007.

In 2004, *Tata Motors* acquired the heavy vehicles unit of *Daewoo Motors*, South Korea. According to Ravi Kant, Vice Chairman of *Tata Motors*, the company's values and culture were an essential factor in the acquisition: "we were able to convince people in Korea that we were right for their company because we talked about our culture and values. Although in the short term it may appear that our model is not attractive because there are more roadblocks (…), in the long term, considering how important it is to have a sustainable business model" (Crainer 2010). Within a year *Tata* had purchased a 21% interest in *Hispano Carrocera S.A (HC)*, a well-known Spanish bus manufacturing company. In 2008 the acquisition of *Jaguar* and *Land Rover* (both UK) gained international attention. At the same time, *Tata Motors* was expanding into other emerging markets with its own brand. For this, the company used the experience it had gained with its own products on the home market in India. There, the company could gain customer insight on the trade-off between price and product features.

Bottom-of-the-Pyramid Markets

Internationalisation made it possible to launch products initially optimised for the home market into other emerging markets as well. For example, *Tata Motors* developed *Tata Nano* as a reference product for *bottom-of-the-pyramid* (*BOP) markets* (Holtbrügge/Schuster 2009) and contributed to the satisfaction of the increasing mobility needs of Indian households. For many Indian households the price gap between a two-wheeler and existing passenger cars was too big. The *Nano* was designed to fill this gap and give as many Indian households as possible access to passenger cars. Similar patterns of demand could be found in other emerging markets. Therefore, *Tata* was able to successfully adapt the *Nano* to other markets as well. This role can be described as local optimisation (Ramamurti 2012). For these markets, *Tata* upgraded the basic model in order to meet the safety standards. Several additional features were added, such as a more powerful engine, power steering, airbags and ABS. It was offered for a price of 6,000 USD (Grünweg 2009). *Tata Motors'* commercial and passenger vehicles are sold in several countries in Europe, Africa, the Middle East, South Asia, South East Asia, South America, CIS, and Russia.

Tata Steel adopted the role of a *global consolidator* by using the strength, capacities and revenues in the home market to become established in other markets (Ramamurti/Singh 2009). Unlike in developed countries, the steel industry is considered a high-growth industry in some emerging economies like India. Therefore, it was *Tata Steel's* goal to quickly expand in the Indian home market and gain both experience and capacities. This strategy made it possible for *Tata Steel* to also compete with highly developed Western firms. Although these firms were superior in terms of technologies, *Tata Steel* had modern factories and low labour costs (Ramamurti 2012). With this strategy the company became the leader in its home market. Thanks to this strong

position, *Tata Steel* was able to acquire the Singapore-based *NatSteel* (2005) and *Millennium Steel* in Thailand (2006). The largest acquisition was in 2007, when *Tata Steel* acquired *Corus*, the Anglo-Dutch giant, in a landmark deal.

Branding Strategies

Tata Group chose a pragmatic approach in dealing with new acquisitions. Instead of giving all acquisitions the corporate brand name and mark, *Tata* only re-brands its acquisitions when it will clearly add value to the *Tata Group* and the acquired company (Witze 2010). For example, the *Tata Steel* brand was stronger than the relatively weak *Corus* brand, so *Corus* was renamed *Tata Steel Europe* after the acquisition by *Tata Steel* in 2010. In the case of *Tetley* the *Tata Group* decided to stick with the original name. Even though the company has been a part of *Tata* for a long time, the *Tetley* brand is independent in terms of its identity. It is possible that a tea product could benefit from an Indian brand like *Tata*, but *Tetley's* customers resolutely see it as British, and rebranding might compromise its image and reputation in their eyes (Witze 2010).

Summary and Outlook

The *Tata Group* has had a long history since its founding in 1868. During the first 60 years the company grew rapidly in the home market in various market segments. The goal was to identify as many market opportunities as possible and fill the gaps with the company's own products and services. The years between 1930 and 1990 were marked by increasing business consolidation in the home market. By 1990, many companies in the *Tata Group* were in leading positions in the Indian home market. Multinational activities hardly played a role. Only liberalisation of the Indian market and the associated political changes made it possible for the *Tata Group* to focus on expanding into different markets.

This expansion was based on mergers and acquisitions that in some cases were internationally recognised – usually due to the strong position of the respective company in the Indian home market. Thus *Tata Group* gained access to the necessary capacities and financial resources to acquire strong companies in mature markets. As well as these mergers and acquisitions, the *Tata Group* also expanded into other emerging countries with their own brand. In these cases the *Tata Group* benefitted from the experience it gained in the home market, allowing them to enter the market with low-cost products that were optimised for the needs of emerging markets.

Tata Group will probably rely on expansions in the future. This will be to either diversify the *Tata* brand, which has become a strong brand in a number of markets, or profitably invest capacities and resources from their own business into other companies in new markets: "Having said that, I hope

that a hundred years from now we will spread our wings far beyond India, that we become a global group, operating in many countries, an Indian business conglomerate that is at home in the world, carrying the same sense of trust that we do today" (former group chairman Ratan Tata).

Questions

1. How has the history of the *Tata Group* up to the 1990s affected the expansions starting in 1991?
2. Why did the internationalisation of the *Tata Group* take place in the 1990s? How would you describe *Tata's* internationalisation processes? What are the advantages and disadvantages of these strategies?
3. Think of the roles played by the different *Tata Group* companies that developed in the home market until 1990. Illustrate the effect of political environment on the company's history and discuss the roles of global consolidator and local optimiser.

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