Regulatory Governance and the Rise of Non-Triad Multinational Companies: A Modified "Varieties of Capitalism"- Perspective on Indian Multinationals

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1.Introduction

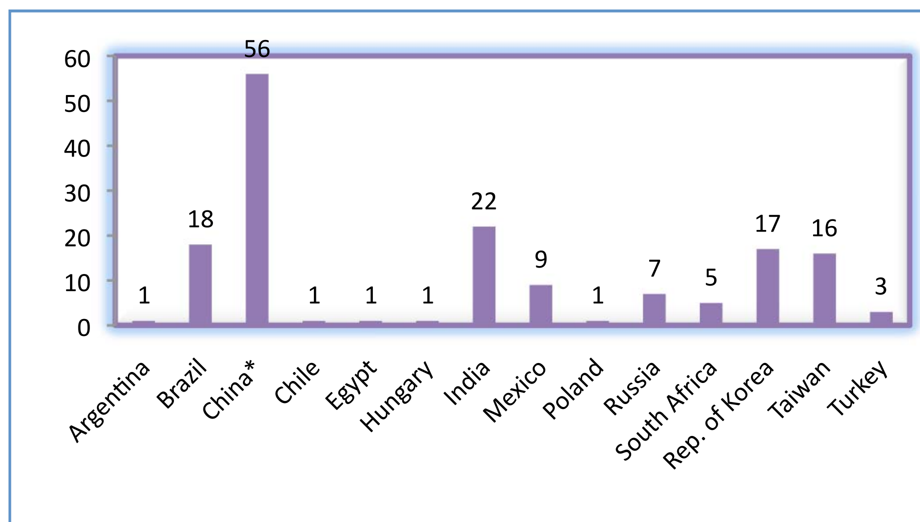
According to projections made by Goldman Sachs, within the next thirty years Brazil, China, Russia, and India will not only collectively have domestic product and service markets larger than those of the current G7 combined. In addition their collective Gross National Product (GDP) will reach $41 trillion, only two trillion below that of the projections made for the G7 for the same time frame. (Van Agtmael 2007: 11)

The role of home-grown firms, from here on deemed 'non-triad multinational companies (NTMNCs),[1] will be crucial for these economies to realize these predictions. These firms will not only be responsible for pushing economic growth within their home countries, but more importantly, their amplified presence and dominance in the global economy subsequently implies that their ability to shape, if not articulate and dictate global business regulation will steadily escalate. In order to anticipate the regulatory implications of the rise of NTMNCs, we first have to understand how these companies emerged and how they operate, with a specific focus on their domestic regulatory environment. More specifically, will they support the current neoliberal regulatory environment, or will they prefer alternative forms of economic order?

In geographical terms, where do NTMNCs come from? Through cross-referencing six triad-created investment rankings to achieve a list of NTMNCs appearing on at least two of those rankings, the top home countries of NTMNCs reads (alphabetically) as follows: Argentina, Brazil, China (including Hong Kong), Chile, India, Mexico, Russia, South Korea, Taiwan, and Turkey (see chart 1 below).

[1] Non-triad multinationals encompass all multinationals located outside the traditional triad (North America, Europe, and Japan/Australia). This term has taken precedence over others like 'emerging market multinationals' or 'challenger companies' given that it: a) is the least 'loaded' per say; and b) incorporates firms from South Korea, Singapore and Taiwan – three economies neither perceived as emerging markets nor as part of the triad. As such, we assume these economies and their firms may have very different preferences with regard to economic governance than triad-MNCs, thereby justifying their inclusion into our overall analysis

Chart 1: Non-Triad Multinational per Non-Triad Nation



*China including Hong Kong
Source: (Aguiar, Bhattachaya et al 2006); (Aguiar, Bhattachaya et. al. 2007); (UNCTAD 2005); (Fortune 2007); (Forbes 2007); (BusinessWeek 2005).

This is the third wave of NTMNCs to hit the global economy in the post-war period, whereby crucial to realize is that this generation has managed to spark tension and anxiety in the triad at a more rapid and consequential pace then either of the preceding waves. The previous two waves of NTMNCs appeared between 1970-1991 and 1985-2000 respectively. Despite overlapping time periods, the first wave refers to an overall group of NTMNCs from a wide array of non-triad economies and largely operating as innovation imitators in manufacturing sectors. The second wave directly makes reference to the rise of East Asian economies specifically and their transformation from imitators to innovators. Despite the presence of East Asian innovators in the second wave, East Asia and their current NTMNCs are still represented into today's wave of NTMNCs, whereas the majority of NTMNCs from the first wave are not because most did not survive the structural transformations their home economies went through between 1985-1995.

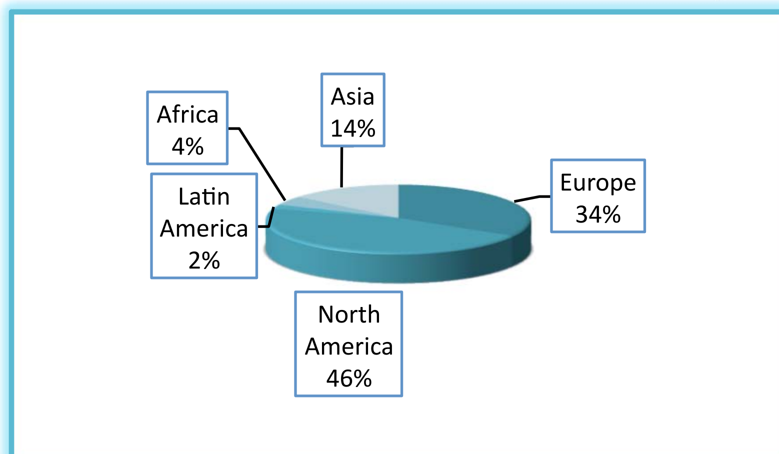
The rise of the third wave of NTMNCs has effectively pushed tensions with the triad to reach an all time high because brownfields (i.e. acquisitions) have increasingly become the predominant mode of entry choice[2] into triad-markets versus greenfields, which the predominant mode during both previous waves and today continue to be the main form of investment in non-triad markets. "During 2005 alone, emerging
multinationals [NTMNCs] spent a record $42 billion in takeover deals in Europe (more than twice the previous year) and another $14 billion (in ninety-six separate deals) in the United States, well above the $10 billion previous peak in 2000" (*Wallstreet Journal*, February 13, 2006, cited by Van Agtmael 2007:

[2] Choice being used here to highlight that numerous NTMNC takeover bids in the triad have failed.

25). The surge in brownfields in the triad have sparked anxiety precisely because it entails NTMNCs gaining access to triad markets, but more importantly resources (both tangible and intangible assets, *inter alia* technology, knowledge, natural resources, manpower). Targeting the triad for inorganic growth through brownfields is a matter of strategic manoeuvring and rationality on the part of NTMNCs. In attempting to move from imitators to innovators, NTMNCs have logically targeted the triad-MNCs given their dominance in these industries in the post-war period. As such, inorganic growth is particularly attractive because it presents the acquirer with unlimited access to, *inter alia,* the target-firm's resources, product portfolio, profits, and consumer base. Thus, as NTMNCs rapidly become fierce competitors of triad-MNCs and huge employers of the triad-workforce, triad fear is a natural consequence of it being the leading economic and political power in the global economy during the post-war period. Moreover, the close relationship many NTMNCs have with their home-governments has done precisely the opposite of placating tensions.

In expanding upon the challenges posed by the rise in NTMNCs, this paper will focus on detailing the factors contributing to the substantial growth of one geographical sub-group of NTMNCs, namely Indian multinationals. Discussions dominating the topic of the challenges and threats posed by NTMNCs have, for the most part, predominately focused on Chinese MNCs or on non-triad sovereign wealth funds. Ironically enough, while Indian MNCs have taken a back seat in these discussions, the mere fact remains that they have targeted triad markets more than any of their NTMNC counterparts, with a particular focus on North America and Europe (see chart 2 below). Moreover, over three-quarters of their triad-investments have not only been brownfields, but they have been brownfields which result in the Indian MNC obtaining a majority control of 80 per cent or more in the triad-target firm (Pradhan 2007b: 13).

Chart 2: Global Distribution of Brownfield Investments by Indian Firms, 2000-07



Source: Pradhan 2007b

Aside from a few large Indian MNC takeovers with frenzied media coverage, i.e. Tata Motor's recent acquisition of Jaguar and Landrover, most Indian acquisitions in the triad have not been highly publicized given that the most common targets of Indian MNCs have often been well established 'hidden champions' (Simon 1996). In terms of the sector spread of Indian MNCs brownfields, while there have been acquisitions in an array of sectors, by far the highest concentration of takeovers has occurred in three sectors: Autos and Autoparts, the Biotechnology / Chemicals / Pharmaceuticals, and IT & Business

Table 1: Selected Examples of Triad-Brownfields performed by Indian MNCs, 2000-07[3]

Indian Aquierer	Target Firm	Sector	Host Country
Bharat Forge	Carl Dan Pettinghaus GmbH	Auto & Autoparts	Germany
Biocon Ltd.	Nobex Corporation	Biotech/Chem/Pharma	USA
Dr. Reddy's	Betapharm Arzneimittel GmbH	Biotech/Chem/Pharma	Germany
Gitanjali Gems Ltd	Samuels Jewellers	Gems & Jewellery	USA
Global Steel Holdings-Ispat Inds	Colcarbon SA	Mining	USA
Hindalco Industries Ltd	Novelis	Metal & Metal Products	USA
Indian Hotels Company Ltd	Ritz Carlton hotel	Hotels & Tourism	USA
Jindal Polyester Ltd	Rexor, S.A.	Biotech/Chem/Pharma	France
Mahindra & Mahindra	Jeco Holding	Auto & Autoparts	Germany
Rain Commodities Ltd.	CII Carbon	Biotech/Chem/Pharma	USA
Ranbaxy	Bayer AG (gerneric divisions)	Biotech/Chem/Pharma	Germany
Ranbaxy	RPG (Aventis)	Biotech/Chem/Pharma	France
Ranbaxy	Veratide[1]	Biotech/Chem/Pharma	Germany
Reliance Communication	Yipes Holding Inc	Telecommunications Services	USA
Sakthi Auto Component	Internet Euroe	Auto & Autoparts	Germany
Saytam Computer Services Ltd.	Bridge Strategy Group	IT & Business Services	USA
Saytam Computer Services Ltd.	Bridge Strategy Group	IT & Business Services	USA
Scandent Solutions Corporation Ltd.	Cambridge Integrated Services Group Inc	IT & Business Services	USA
Scandent Solutions Corporation Ltd.	Cambridge Integrated Services Group Inc	IT & Business Services	USA
Shrenuj & Company Ltd	Simon & Sons Inc	Gems & Jewellery	USA
Skumar's	American Pacific	Textiles & Apparels	USA
Sulzon Energy Ltd	Repower	Electrical Machinery	Germany
Sundaram Fasteners	Peiner GmbH	Auto & Auoparts	Germany
Tata Consulting Services 8TCS)	Pheonix Global Soultions	IT & Business Services	USA
Tata Tea Ltd	Energy Brands Inc	Food & Beverage	USA
Videocon Group	Thomson SA global color picture tube business	Telecom	France
VSNL	Teleglobe International Holdings Inc	Telecom	USA
Wipro Technologies	cMango Inc.	IT & Business Services	USA
Wipro Technologies	NerveWire Inc.	IT & Business Services	USA
Wipro Technologies	Infocrossing Inc	IT & Business Services	USA
Zydus Cadila	German Remedies Ltd.	Biotech/Chem/Pharma	Germany
Zydus Cadila	Alphapharma	Biotech/Chem/Pharma	France

[3] In line with the theoretical framework outlined below in section 3, this table identifies selected acquisitions of Indian MNCs in three economies respectively representative of one of three models of advanced capitalist economies, hence, for example the exclusion of the United Kingdom. See section 3 for more details.

¹The brand 'Veratide' was acquired from Proctor & Gamble Germany, and Ranbaxy's wholly owned subsidiary will market, sell, and distribute the drug/brand.
Source: Pradhan 2007, 2007b; CRISIL 2006; Goldstein 2007

Services sectors (see table 3 above). It then follows that these acquisitions have geographically been directed towards the triad versus the non-triad. Put differently, the rationality behind triad markets being the top destination of Indian brownfields is obvious when realizing that in the last half-century, each of the triad economies have possessed competitive advantages and produced MNCs which are industry leaders in one or more of the three sectors in which Indian acquisitions have been concentrated.

Theoretical attempts to understand NTMNCs have only developed over the last thirty years in accordance with each wave of NTMNCs that has hit the global economy These attempts have largely remained limited to research questions such as: What forms are FDI flows from the developing world taking? What are the motivations to internationalize? Can existing theories of international business satisfactorily analyze NTMNCs? What is the developmental impact of these companies? (Goldstein 2007) In focusing on Indian MNCs, this paper will focus on providing a detailed account of the socio-economic institutional and regulatory environment which has supported internal and external growth. The main research question which will be answered being: 'What political and economic institutional factors have contributed to the rise in Indian MNCs? How have these institutions shaped the preferences and strategies that Indian MNCs have pursued in the global economy?'

2. Conventional Theoretical Approaches to NTMNCs

In the last thirty years three specific approaches have dominated the literature on MNCs: (1) The eclectic paradigm (Dunning 1977, 1981, 1986, 1988, 1995, 1998; Tolentino 1993; Sim/Pandian 2003); (2) The Product Cycle Model (Vernon 1966, 1977; Buckley/Casson 1976); and (3) The Linking, Leverage, Learning (LLL) approach (Mathews 2002, 2004, 2006).[4] Despite the strengths of each theory, since they have developed in international business and economic circles (Goldstein 2007: 94) as a means to understand triad-MNCs and have only later been *applied* to NTMNCs, each is ridden with inherent weaknesses. In what follows below, we briefly outline the tenets and weaknesses of each theory listed above.

2.1 The Eclectic Paradigm

The eclectic theory of international production (Dunning 1977; 1981; 1986; 1988; 1995; 1998), "embraces the three main forms of foreign involvement of firms, namely, direct investment, exports, and contractual resource transfers" (Dunning 1981: p. 2). The decision of a firm to participate in foreign direct investment (FDI) is a result of the ownership, internalization, and locational advantages that are available

[4] A fourth approach, namely the Uppsala Model (Johanson/Weidersheim 1975; Johanson/Vahle 1977), has also been adapted to empirically cases of NTMNC empirical literature. However, the model has very minimally been employed and is the most outdated of all theoretical approaches. Although we acknowledge the contributions the approach has made, namely with regard its conceptualisation of the role psychic distance plays in internationalization strategies, we have excluded it here due to the above mentioned factors.

to them in juxtaposition to other firms, both indigenous and foreign. Which form of FDI is chosen, rests largely on what market failures the firm faces, whereby, for example, if the firm feels threatened by the possibility of high transaction costs, import regulations, price discriminations, and/or an unstable legal environment (thus threatening contractual agreements), it is more likely to internalize its ownership specific advantage[5] and choose direct investment as the preferred mode of entry. It is further hypothesized that the motivation behind directly investing will fall into one of four categories: i) resource seeking; ii) market seeking; iii) efficiency seeking; or iv) strategic asset seeking (Dunning 1998).

While the variables of the eclectic paradigm help explain internationalization strategies at the firm level, in order to account for the dynamic process of internationalization, Dunning has developed the Investment Development Path (IDP) (Sim/Pandian 2003: 29). The IDP relates the net investment levels of a country to its level of development (measured by its income levels), wherein it is hypothesized that countries go through five stages of development which begin with having no outward or inward FDI and end with a converging of net outward and inward investment levels(Tolentino 1993; Sim/Pandian 2003).

While the eclectic paradigm has provided useful insights on NTMNCs, given its inherent US-bias it neglects the fact that a large percentage of NTMNCs often do not possess the comparative or competitive advantages deemed necessary for internationalization, i.e. "when they decide to invest overseas… [NTMNCs] rarely have at hand resources such as proprietary technology, financial capital, brands and experienced management" (Bonaglia et. al. 2006: 4). As a result, a large portion of NTMNCs have chosen to use strategic asset seeking FDI and inorganic growth in triad markets to short-cut the long process of internationalization their triad counterparts have typically followed. While their triad-counterparts also see inorganic growth as a means to increase their competitive advantages, two key differences separate NTMNCs from their triad-counterparts. Foremost, as aforementioned NTMNCs often lack the three aspects the eclectic paradigm deems necessary for internationalization: ownership advantages, knowledge, and/or experience. Secondly, given the lack of these three things, NTMNCs have largely relied on institutional support by their home state to support their internationalization strategies. Despite the numerous examples across the NTMNC board, the Eclectic Paradigm/IDP has only been able to making minimal strides in terms of distinguishing the significance of institutions and governments, something largely the result of an inherent assumption that the multinational is in itself an institution and minimally enabled by - nor dependent on - its institutional environment.

2.2 The Product Cycle Model

The product cycle model (Vernon 1966; 1977; Buckley and Casson 1976) postulates that firms innovate in response to the demand and factor prices in their home markets. After creating a product, firms supply their home markets and begin to supply foreign markets that are similar to their own once demand is

[5] Examples of ownership-specific advantages include firm size, proprietary technology, trade mark and brand name power, flexible production systems, etc.

present in these markets. It is expected that the firm will prefer to supply these markets through exporting until demand reaches a point at which it is more profitable (in terms of decreasing costs, increasing rents, and protecting its export markets from local competitors) to establish production facilities in the host market. As standardization develops and more companies gain access to the knowledge and technology required to produce the product, competition within home and host markets becomes fiercer and primarily based on pricing. In the early eighties, Wells stipulated that at this point NTMNCs enter the model. He postulated that NTMNCs would imitate standardized technology and processes to produce the good and adapt it to their home environments. The organizationally innovative techniques (small scale, input costs, etc.) of NTMNCs combined with their ability to produce goods at lower costs, would lead to new investment patterns which saw production moving to non-triad markets, while marketing and branding remained in triad-markets.

The product cycle model has lost validity as large amounts of NTMNCs are no longer *imitating* innovation, but rather innovating themselves. Something highlighted by the fact that South Korea and Taiwan joined the ranks of the top fifteen R&D spending countries for the fiscal year of 2006 (DTI 2006). Furthermore, since it hypothesizes that NTMNCs will compete on price alone is just no longer true. There are numerous examples of NTMNCs that have moved beyond competitive advantages reliant on price. These examples include, among many others, Wipro Technologies, the Tata Group, Zydus Cadila. The latter of the three as most recently signed its third agreement with a triad-MNC to distribute a formulation which it in fact discovered within its own laboratories in India, whereby the significance of the latest agreement being that it will retain the largest proportion of profits from the marketing and distribution of the drug once it is on the market.

Like the Eclectic Paradigm/IDP, the model does not give due justice to the institutions at work within in NTMNCs economies. These institutions have allowed for the growth and transformations of NTMNCs away from competing solely on price. Furthermore, the model is unable to address the most recent surges in NTMNCs pursing inorganic growth through brownfields in triad markets. In order to understand how it is that acquisitions have become the common mode of entry choice, it is of dire necessity to shed light on the institutions fostering and enabling NTMNCs to aggressively expand outwards, especially when it is these institutions which provide the financial and political resources *to* expand. While today the product life model is unable to evaluate the patterns of investment and trade between triad and non-triad economies, some have still insinuated that the model is still relevant for understanding the patterns between developing and less developed countries (Sim/Pandian 2003).

2.3 The Linking, Learning, Leverage Approach

Unlike the above named theories, the only approach that has specifically analyzed the strategies utilized by the current wave of NTMNCs is the Linking, Learning, Leverage (LLL) approach (Mathews 2002; 2004; 2006). It utilizes development economic theories of the sixties (Gerschenkon 1952; 1962;

Akamatsu 1962) in order to assess the catch-up strategies that latecomer and newcomer firms have used to become global players. The approach highlights that third wave NTMNCs have not only used different strategies, but they also share a common set of characteristics that not only set them apart from their triad-incumbents, but also from their predecessor NTMNCs. These characteristics include rapid internationalize and being organizationally as well as strategically innovative. Another substantial difference between current NTMNCs and their predecessors, stems from the fact that the forerunner NTMNCs, with their ownership-advantages in hand were in a sense 'pushed' to go abroad through exporting. Nowadays, due to the fast paced and changing global economy, firms do not have the time to 'slowly' build up their ownership-advantages. Instead, these new conditions 'pull' firms to internationalize if they are to survive (Mathews 2006). In mediating these developments, current NTMNCs have rapidly 'gone global' by linking up with a partner in a foreign market, i.e. most often a triad partner. Linking with a foreign firm not only provides initial access to the foreign market, but grants the NTMNC access to the knowledge and technology of their partner firm. This in turns affords the NTMNC a chance to leverage the knowledge and technology they have been exposed to by their partner. In leveraging, the NTMNC goes through a series of feedback loops to internally incorporate, enhance, and/or alter the resources gained through linking. In short, this refers to the process of learning, whereby learning is the crucial factor contributing to NTMNCs being able to successfully leverage the resources they gain from linking. (Mathews 2006: 16-20)

The LLL approach is perhaps the most valuable of all the above mentioned theories given the substantial amount of firms that have actually employed the approach in reality. Furthermore, unlike the other theories mentioned it also acknowledges that institutions and governments have played a key role in supporting and shaping the strategies of NTMNCs. Nevertheless, *acknowledge* is the key word to realize here. The approach has only very minimally elaborated on the role of institutions and governments, whereby in elaborating it has focused on South Korean and Taiwanese multinationals. Thus, leaving us with an immense lacuna requiring answers to the following question: (1) which institutions have been essential?; (2) in what ways they have been essential (i.e. how have the specific institutions shaped not only the strategies, but also preferences of NTMNCs)?; (3) what is the correlation between the existence of certain types of institutions and the national trajectory of economic development (i.e. the differences in institutions in each non-triad economy versus the path of economic development)?; and (4) how have the institutions evolved as the NTMNCs they have bred become stronger, more aggressive, and more active in global markets (i.e. what influence have the NTMNCs had on their domestic institutions)?

3. A Modified Varieties of Capitalism Explanation for the Rise of NTMNCs

One of the most significant problems arising from the greater majority of the existing approaches for analyzing NTMNCs revolves around the fact they have primarily been created in response to the experiences of *triad-multinationals*. Despite adding minor alterations to make their analyses more

applicable to the case of NTMNCs (Wells 1981, 1983, 1986; Dunning 1995, 1998) , a crucial problem remains because they take the category of 'multinationals' to be a given, i.e. what they define as and how they analyze the 'multinational' is derived from an inherent bias towards triad-multinationals. This combined with the tendency to treat the multinational as an institution in itself, prevents them from producing a comprehensive analysis that understands the link between the strategies and preferences of the multinational and their national context, something which would contribute to understanding what differences may exist between NTMNCs and triad-MNCs and how these differences have evolved. In order study to these variances in the domestic institutional context, we turn to the 'Varieties of Capitalism' approach.

3.1 The Theoretical Framework

During the last few years, the 'Varieties of Capitalism' approach has become 'canonical' among students of the comparative political economy of Western societies (Blyth 2003: 215). Pioneered by scholars such as Shonfield (1965) and popularized by Albert (1991), particularly the volume compiled by Hall and Soskice (2001) has become a landmark volume for this research field, building upon – and inspiring – many related studies. In departing from the juxtaposition of Liberal Market Economies (LME) – typically represented by the US – and Coordinated Market Economies (CME), with Germany as a leading example, the basic hypothesis of the VoC approach is that the inherent institutional complementarities of the two different types of market economies are able to explain the broadly conceived innovation patterns in LMEs and CMEs which lead to marked competitive advantages in each capitalist economy. Each element of the two basic types has strong institutional complementarities with other elements of the same model, and differs clearly from the functional equivalent of the other model. Usually, five interdependent elements can be highlighted (Hall and Soskice 2001b: 17-33, see also Jackson and Deeg 2006: 11-20), namely (1) the financial system, i.e. the primary means to raise investments, (2) corporate governance, i.e. the internal structure of the firm, (3) the pattern of industrial relations, (4) the education and training system and (5) the preferred mode for the transfer of innovations within the economy. The VoC approach has, however, tended to leave the state completely out of the picture. This leads to shortcomings if more state-centered economics like France, Spain or Italy have to be analyzed. Furthermore, it tends to underestimate the role of state regulation within the LME and CME themselves. Given the quintessential role of the state in supporting the growth of NTMNCs, our analysis below enhances the Hall/Soskice model by incorporating the role of the state in general and of the regulatory environment in particular.

Although the VoC approach has mainly been used for the analysis of economic success in the OECD world, we assume that it can also be adapted to non-triad economies which would allow us to complement the aforementioned theories with a more sociological and political approach. For this purpose, we use the Voc approach mainly as a heuristic device that provides us with a number of categories that have to be addressed in order to explain the success of certain socio-economic systems. In what follows, we will

thus highlight the relationships between Indian MNCs and their stakeholders, i.e. shareholders, labor and the state. Our analysis focuses particularly on how Indian MNCs are embedded in their domestic socio-economic and political institutions, since this entrenchment has allowed Indian MNCs to not only develop specific competitive advantages, but also certain preferences and interests. Our analysis not only helps to better account for the rise of Indian MNCs, but also helps to reduce some pitfalls of the VoC approach by broadening the empirical focus and also overcoming the overly strict dualism of the framework (Phillips 2004: 12, Crouch 2005; Jackson and Deeg 2006: 37-39, Bohle and Greskovits 2007, Hancké et al. 2007: 4-9, Thatcher 2007).

3.2 Setting the Scene: The Aftermath of Structural Reforms and the Incentives for Indian outwards FDI

During the last two years, a number of works have begun to surface that specifically analyze the growth of Indian multinationals and their success factors (Bergman 2006; Chadha 2005; CRISIL 2006; Das 2007; Gupta 2006; Kale 2006; Kumar 2006; Mehta 2007; Meyer et. al. 2003; Mukherjee 2001, 2003; Pradhan 2007, 2007b; Sarathay 2006; Wyatt 2005). A majority of literature that has materialized has been dedicated to analyzing the ways in which the liberalization of the outward direct invest regime in 1991 has contributed to the growing number of Indian firms active on global market.

The structural reforms that began in 1991 laid the foundations for the outward expansion of Indian MNCs into triad markets. The reforms were the subsequent result of a consistent eleven year expansion of fiscal deficits which peaked in 1990-91. In brief, the depletion of foreign reserves which prevented loan repayment and effectively worsened the credit rating of the Indian government combined with political instability, galvanized a new era of economic reform. The reforms were aimed, *inter alia,* at disciplining government spending and alleviate external debt which had been accrued by the Indian government since 1979. The latter goal was perhaps the most consequential for the creation of the Indian MNCs because it entailed the liberalization of inward FDI in 1991 which was shortly followed by outward FDI liberalization. Inward FDI liberalization entailed not only opening equity markets up to portfolio investors from abroad, but also correlated into a significant surge in triad-MNCs setting up shop in India.

The increase in foreign, triad competitors in the Indian market directly threatened the viability and profit dynamics of Indian firms in their domestic market. Crucial to acknowledge however, is that ‘competition’ in itself was not seen as the overt threat mainly because Indian firms were accustomed to operating in a highly competitive, albeit heavily regulated market prior to structural reforms. Rather, the introduction of *triad*-competitors was seen as the most explicit threat to Indian firms. Triad-MNCs were rightly interpreted as threat given their technological capacities, product portfolios, and mastery of marketing and branding techniques. (Das 2007; Gupta 2006; Narilkar 2006)

Despite attempts to build up competitive *and* innovative industries, such as in IT and in Pharmaceuticals, the regulatory environment before 1991 overtly hindered FDI encouraging technology transfer and spawning innovation. Administrative and bureaucratic barriers as well as policies on paper put limits on who was allowed to perform OFDI, where there were allowed to perform it (with inward FDI it was restricted to certain sectors, whereas geographic constraints were put on outward FDI), what type of activities they were allowed to pursue. In short, while Indian firms had been operating in a fiercely competitive domestic market prior to liberalization, after it they were forced to remain competitive not only against their Indian incumbents, but also triad ones.

As ODFI was also liberalized, Indian firms coped with fierce(r) domestic competition by setting their sights on markets which would allow them to not only obtain comparatively easy profits, but also, more importantly, new skills, products, brands, knowledge and technology. (CRISIL 2006; Das 2007; Gupta 2006; Kale 2006; Narilkar 2006; Pardhan et. al. 2006, Pradhan 2003, 2007b; Ratnam 1998) Given that the government eased restrictions concern on what type of OFDI activities could be pursued and where they could be performed, a significant portion of firms set their sights on triad-markets, as those markets were the hubs of global innovation.

Moreover, the highly competitive domestic market also paved the way for Indian firms' pursuit of brownfield investments. If the Indian firm invests its time and monetary resources into a target firm in order to attain new resources and assets, it is likely to choose a method of investment which poses the highest chances for resource internalization to promote the accumulation of new competitive advantages it can use against its competition. While this rationale may follow for most firms when pursuing investment strategies, it is peculiar to the Indian firm explicitly because brownfields allow the Indian acquirer to not only rapidly attain to new resources to leverage, but also to protect their resources from competitors. 'Protection' as the root driver of performing an outstanding amount of acquisitions plays into growing up in and out of a highly competitive market, whereby in order to survive in an environment, especially one with laxly enforced intellectual property rights, it is of dire necessity to protect competitive advantages to compete and stay ahead (Gupta 2006; Pradhan 2007, 2007b; Sarathy 2006).

3.3 Application of a modified 'Varieties of Capitalism'-framework

As of date, there has not been much literature dedicated to assessing the Indian variety of capitalism and the institutional complementarities within the system (Mayer-Ahuja 2006). To be sure, there is not the one "Indian variety of capitalism". The Indian economy is highly fragmented, with huge differences between different regions and in particular between some strongly growing urban centers and large and frequently less affluent rural areas. Given the topic of our research, we focus on those urban centers such as Mumbai, Hyderabad, New Delhi, Chennai or Bangalore. In order to develop a variety of capitalism-

model for these centers, we work backwards, i.e. start from the upper tier of the VoC framework and focus first on the competitive advantages and specialization patterns currently evident in the system, before identifying the institutional complementarities supporting these advantages.

Of late, a sizeable amount of literature has accumulated on the competitive advantages of Indian firms and the industries in which the Indian economy has tended to specialize post-1991 reforms (CRISIL 2006; Das 2007; Gupta 2006; Pradhan 2003, 2007a 2007b; Ratnam 1998). With regard to the former, the most common competitive advantages of Indian firms largely revolve around low production costs, flexible production systems, a relatively lax regulatory environment, ease of communication given strong English language capabilities, and a weakly enforced intellectual property rights (IPRs) regime. While there is a wide spread of industries operating in the Indian economy, the industries which have led the pack in terms of outward expansion in triad markets have been the IT, Pharmaceuticals and Auto & Autoparts industries Thus, to summarize in terms of specialization in the Indian economy, we can infer that institutional complementarities have tended to spawn specialization in "skill-intensive intermediate products and services" (Das 2007: 140).

A small portion of limited literature has also accumulated on the specific institutions supporting the afore mentioned specialization patterns. Corporate governance and corporate finance of Indian multinationals have particularly been received increasing attention in this literature (Callen, F. et al 20056 Clarke 2007: 217-219, Khanna/Palepu 2004, Mukherjee 2001, 2003). Conversely, relatively little literature has evolved on the pattern of labor relations in Indian multinationals (Mayer-Ahuja 2006, Nagarai 2007, Sharma 2006), or on the sources and regulation of the transfer of innovations, including the education and training system, competition policy and intellectual property rights (Bergman 2006, Chadha 2005, Chadurverdi 2007, Krishnan et al 2007, Mayer-Ahuja 2006, Ramani et al 2005, Sampath 2006, Sarathy 2006).

Although the multitude of studies detailing importance and effects of the post-1991 reforms may have help us to understand why Indian companies have developed a strong urge to pursue brownfield investments in triad economies, it has nevertheless failed to facilitate an explanation regarding why Indian companies were so successful in doing so. From our perspective, since the post-1991 reform era a distinct socio-economic system has been created in India which has strongly supported the transformation of domestic players into Indian MNCs. In what follows below, we use the five spheres set out in the original Hall and Soskice framework to distinguish the unique characteristics of the Indian MNC and its institutional environment juxtaposed to triad-MNCs in LMEs and CMEs. Moreover, we modify the framework by adding the role of the state as an additional category that has been neglected in the Hall and Soskice framework.

(1) The financial system, i.e. the primary means to raise investments,

In contrast to LME-based multinationals (and an increasing number of CME-based as well) we observe that most Indian MNCs are less dependent on international)capital markets. Despite the fact that India currently harbors the highest amount of listed firms in the world (10,000), trading on its exchanges has remained extremely concentrated, which has meant that the bulk of shares in the most significant markets are rarely actively traded (Allen et. al. 2005: 12-14). Listings on foreign exchanges such as NYSE, LSE and Euronext are even more rarely pursued. Instead, companies primarily rely on internally generated funds and family and friends for loans.

Means of corporate financing tends to be significantly correlated to the stage of development a firm is at, combined with the size of the firm and its ability to make use of informal business and kin networks. A common tendency among Indian firms during the start up-phase has been to primarily generate funds through family, friends, and business connections. A small portion of firms have also been able to utilize banks or financial intermediaries, but the number of firms that obtain credit from these sources has remained limited as a result of under-lending by banks to the corporate sector. As a result, many have turned to special financial institutions such as the Small Industry Development Bank (a wholly owned subsidiary of the state-owned Reserve Bank of India) or to a state financial institution. (Allen et. al. 2005: 19-20). Past the initial start-up phase, informal financing in the form of retained earnings remains the most significant source of long-term financing whereas with short-term financing, most typically Indian firms have preferred to utilize trade credits and current liabilities, something which has been supported by the significance of informal business networks at work within the economy.

Furthermore, we note that Indian MNCs frequently can make use of some kind of direct or indirect state financing, including fiscal incentives, financial guarantees and credits from state-owned banks, as has also been demonstrated for other NTMNCs (Goldstein 2007: 98). As more and more Indian MNCs begin to move into industries that require large investments in research and development, the role of state, whether directly or through the creation of certain institutions, in supporting this becomes crucial as this offers Indian MNCs a means to overcome barriers to attaining risk capital (Khanna et. al. 2004: 1-2). A typical evidence for this observation are the generous tax credits granted by the Indian government to firms which have set up new drug discovery facilities in India.

(2) Corporate governance, i.e. the internal structure of the firm and the relations with shareholders

Closely linked to our hypotheses on corporate finance is our interpretation of the dominant mode of corporate governance. Indian MNCs typically are not dominated by dispersed shareholders and the organized forces of global capital markets (mutual funds, pension funds, investment banks, hedge funds etc), but often are rather family-owned/kin-based or state-controlled. In the majority of listed firms today

the largest blocks of equity typically remain in the hands of the founding family or controlling shareholder (Allen et al. 2005: 21). Family ownership might even be counted among the "distinguishing features" of Indian MNCs (Allen et al. 2005: 31) as well as of TNMNCs more generally (Goldstein 2007: 148).

Overall, we assume the corporate governance of Indian MNCs to be fundamentally different from the outsider-based model of LMEs and rather based on insider control. Although CMEs are also insider-based, Indian MNCs still are also very different from the traditional bank-based corporate governance of the former (e.g. the German 'Hausbanken' model). Where as major banks and corporations traditionally dominated within the major CME companies, Indian MNCs are rather governed by families or individuals.

In sum, we assume strong institutional complementarities between the systems of corporate governance and corporate finance of Indian MNCs, something that can be considered a more general feature of NTMNCs: "… different corporate governance rules and behaviors, especially in case of state-owned and family-controlled companies, respectively, means that EMNCs (Emerging Market Multinational Companies, HT/AN) may have less trouble and more flexibility in accessing capital than listed MNCs that are restricted by the volatile will of shareholders, market regulators, or analysts" (Goldstein 2007: 146).

(3) The pattern of industrial relations

The International Business literature that dominates the debate on NTMNCs has generally not given much attention to industrial relations, let alone to specific patterns in India. However, from what is available we have to highlight the weak role of organized labor, e.g. leading to rather low(er) levels of payment than in the triad and long working hours. In general, there has to be a rather high degree of flexibility on the side of workers, enabling fairly flexible production based on reliance on human capital rather than machinery, which complements the fact that India, just as the majority of NTMNC economies, has an overabundance of human capital.

Overall, four laws encompass the legal environment of the Indian labor market: The Factories Act; the Shops and Floors Establishments Act; the Trade Union Act; and the Industrial Disputes Act. The former two laws serve to regulate the safety and work conditions in the both the manufacturing and services sector. Through the Trade Union Act, the right to form a union is established; however there must be a minimum of seven workers to form the union and the formation of the union does not assure that the

union will be involved in wage negotiations. The final regulation, the Industrial Disputes Act, serves as means to resolve disputes within the work place, whereby it is stipulated that the state will intervene in order to resolve matters between workers and employers. (Nagaraj 2007: 5) With regard to wages, collective bargaining has not taken precedence in India as of yet, and in the manufacturing sector the statutory minimum wage serves as the standard pay to employees.

From what is available out of the limited empirical case studies on the pattern of industrial relations in India, we know that the largest amount of employment is found in the informal and unorganized sectors. In terms of regulation of the labor market, the complex and stringent nature of regulations have been mostly widely enforced and had the largest constraining effects on the manufacturing sector. However, in other sectors, specifically the services sector, it becomes apparent that there are significant deviations between what has been written on paper versus what is actually enforced (Sharma 2006). We assume that there is a significant correlation between the lack of enforcement in the services sector and the success of the Indian IT and Pharmaceuticals industries. Given that the services sectors are the primary driver of growth in the Indian economy, a blind eye has been turned on these regulations, in order to foster and ensure growth of firms. We hypothesize, however, that despite being on the receiving end of strict regulatory enforcement, there is a correlation between the mainly family owned large conglomerates occupying the Auto & Autoparts sector versus other heavily related manufacturing sectors and their ability to thrive despite being the subject of a highly regulated environment.

(4) The education and training system

We observe that as more highly innovative industries are beginning to develop in India, business is beginning to contribute to the educational systems. They have largely done so in response to their dissatisfaction with the current system, in terms of its inability to provide a coherent and comprehensive system that produces competent future employees. Looking at the example of the Pharmaceutical Industry, its attempts to attract triad pharmaceutical MNCs to outsource clinical trial testing to India have been severely hindered by the lack of people trained to perform clinical trials, given the lack of university courses on this subject. The IT industry is also stepping up its involvement in the training of its future workforce, wherein between January 2007 and March 2008 the top five firms in the industries spent roughly $420 million on recruitment and training (David 2008). Many firms have also begun to set up their own university-like training and research centers, such as Saytam which has set up a campus adjacent to their headquarters in Hyderabad. Still, it should be highlighted that the emergence of these company-specific training schemes are being set-up against the back-drop of a public education system that is producing many thousands of university graduates with general skills per year, even if of limited qualification for company-specific skills.

(5) Competition policy and the transfer of innovations within the economy

The way in which institutions foster the transfer of innovation throughout the economy is a crucial element enabling technological growth at the firm level. In the late sixties and early seventies the Indian government has overtly chosen to specialize in industries it deemed of high priority and thereafter set up an institutional and regulatory environment that would cater growth in these industries. At which point, it also constructed barriers to entry in these sectors and also set regulations as to how large firms were allowed to become. (Allen et. al. 2005: 8). After the initial start-up phases of these industries barriers preventing domestic firm entry began to be removed and policies were created to encourage more private firms to enter industry. Most firms in the priority sectors were created by entrepreneurs previously employed by the public enterprises that had dominated these industries during the seventies. We observe that the first removal of barriers to entry in the 1980s, which was thereafter followed by liberalization in 1991, effectively helped pave the way to ensuring that the strategic sectors became highly competitive and heavily populated. This competitiveness helped in motivating Indian MNCs to pursue aggressive acquisition strategies abroad. Since 1991 specifically, however, the number of domestic firms partnering up with foreign firms both at home and abroad has surged. In the Pharmaceutical and Biotech industries these partnerships have been crucial in terms of providing many Indian firms with an easier means to not only become involved in the marketing and distribution of drugs, but also in new drug development, something most recently evidenced by the three year agreement between India's Zydus Cadila and Sweden's Karo Bio to cooperate in discovering and developing new molecules (formulations) to treat inflammatory diseases.

The choice and pursuit of certain public policies by the Indian government has also been crucial to establishing an institutional environment to support the transfer of innovation within the national economy and increase the possibility for technological upgrading. As such, it must be noted that the currently rising NTMNCs more generally were foremost enabled to become 'multinationals' because they were embedded in a policy environment that consisted of a "soft patent system to legalize reverse engineering" (Goldstein 2007: 95). Nevertheless, the later entrenchment of a strict(er) IPR regime at the national level has significantly altered the legislative scene in India. Since Indian firms can no longer rely on a lax IPR regime to support their product portfolio and technological growth, many have increasingly utilized acquisitions - particularly in the triad - as a means to improve their innovative capacity in the new regulatory environment (Barlett & Ghostal 2000). Thus, the strict(er) IPR regime has in effect been one pivotal impetus spawning the increased intensity of Indian MNCs pursing aggressive asset-seeking strategies in triad markets. Indian MNCs have substantially benefited from inorganic growth in triad markets because it has essentially allowed them to rapidly increase profit margins, attain market presence and brand name, acquire technologies, and gain intangibles assets such as the ability to

manage companies in a less regulated environment at a very rapid pace (Goldstein 2007: 63; Aykut & Goldstein 2006 23-25).

(6) The regulatory environment and the role of the state

Support by the state and its public policies have been a crucial factor contributing to the rise of Indian MNCs, as already witnessed with financial support, innovation and competition policies as well as inward and outward investment regulation. Thus, the Indian state has been the major player in creating, shaping, and fostering growth of today's Indian MNCs. (Gupta & Dutta 2006, Gupta 2006b) Given these strong interconnections between Indian MNCs and the state, it is more and more difficult to clearly demarcate the dividing role between the state and the private sector, thus leading to the emergence of public private "hybrids" which have become the driving force behind the Indian national innovation production system (Clifton et al 2007; Gupta & Dutta 2006).

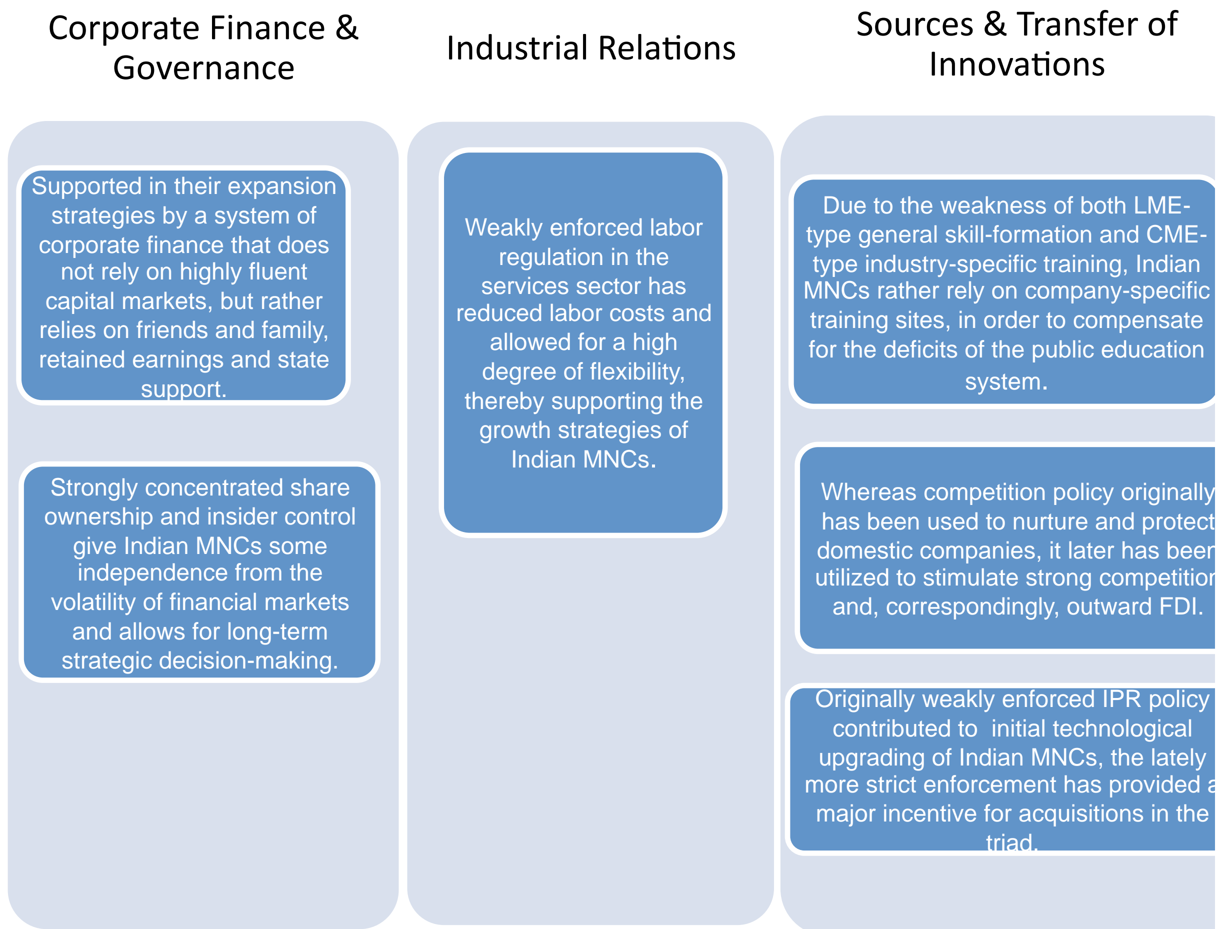
More specifically, something which has significantly helped the transfer of innovation has been the networks the CEO's and upper management in which many Indian firms are involved. These networks are made up various government officials and former state enterprise employees who have created their own spin off firms. These ties have been extremely useful in terms of providing firms with additional financial leverage as well as the ability to steer domestic public policies in a manner conducive to the needs of each respective firm as well as industry as a whole. Furthermore, in the aftermath of the post-FDI liberalization phase these networks have become more active with regard to creating forums and partnerships (Confederation of Indian Industry, India Brand Equity Foundation, India Partnership Forum, Overseas Indian Facilitation Center, Tamil Nadu Technology Development & Promotion Center etc.) in order to support each other in increasing their success in endeavors in foreign markets. One of the most recent examples the government has set up is the Drug Development Programme and Pharmaceuticals Research and Development Support Fund, something which has specifically been developed to encourage new drug discovery development in the pharmaceutical and biotechnology sectors.

In general, "there is no doubt that many EMNCs have closer ties with their governments than their OECD peers" (Goldstein 2007: 150). In light of this, we can thus with certainty highlight that the state and its public policies are more important for Indian MNCs in comparison to multinationals based in either LMEs or CMEs. Throughout our discussion above we have concretely elucidated on the supporting role of the state in the creation and maintenance of several crucial institutions that have fostered the growth of Indian MNCs. And yet it is surprisingly here, despite the overwhelming empirical evidence, where established theories on (western) MNCs are found wanting and consequently inefficiently equipped to explain the rise of NTMNCs (Goldstein 2007: 94).

5. Conclusion

Together, the socio-economic institutions analyzed above contribute to an explanation of the rise of Indian MNCs. Moreover, these institutions are mutually interdependent. Thus, a system of corporate finance that heavily relies on state or family-ownership works well with a system of corporate governance that is focused on insider control. Also, the financial cushion built up by many Indian MNCs internally supports their ability to weather potential crises in turbulent regulatory environments. Similarly, weakly enforced competition and intellectual property policies originally helped to establish competitive Indian companies, before the same policies have been used to drive Indian companies towards their expansion strategies.

Chart 3: Summary of the Indian Variety of Capitalism



In conclusion, if we identify competitive market arrangements and formal contracts as characteristic for multinationals from LMEs, and non-market forms of coordination such as inter-firm networks and national or sector associations as typical for CME multinationals, we may identify an important supporting role for the state and its diverse public policies as most significant common denominator for the rise of Indian MNCs, as summarized in the figure above.

Despite the fact that many triad-governments have also been decisive in supporting the growth of triad multinationals, the path non-triad governments have taken to *create* NTMNC growth has substantially differed. In most cases, non-triad governments have not allowed industry specialization in accordance with the competitive advantages which 'evolve' out of and with the institutional environment consolidated over the course of economic development. Instead, non-triad governments at a specific point in the past, (overtly) choose key industries in which their economies would specialize, whereby these choices were often made prior to the economies actually possessing an institutional environment that would support growth in these industries. Moreover, intertwined with the notion of 'create' is also 'limit,' whereby during the process of creating certain industries non-triad governments not only limited what firms could enter those industries, but the regulatory environment that was set up to support creation often entailed limiting the growth of other industries as well as the technological capabilities of the chosen few key industries. While the choices of non-triad governments were perhaps not founded on principles of creating home-grown MNCs to compete in the global economy, the transformation today's NTMNCs have gone through, i.e. from large domestic firm to globally competitive MNC, cannot be analyzed without recognizing the significant role non-triad governments have played in shaping the socio-economic constellation in which the current wave of NTMNCs are embedded.

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