

## Indian Investments in Germany: Motives, Status-quo and Trends

Germany, in recent years, has advanced to a major focal point for Indian multinational enterprises (MNEs). Between 2000 and 2007, 84 greenfield Indian investments in Germany were monitored. Additionally, Indian MNEs were involved in at least 55 mergers & acquisitions (M&A) deals in Germany between 2001 and 2008. Judging by the number of acquisitions in the period 2003-2007, Germany averaged just behind USA and UK as target market for Indian investors, according to one KPMG report. A Deloitte report in 2007 cited India as the single largest source of FDI projects from emerging countries in Germany.

Early Indian investments in Germany can be traced back to mid-1960s. By 2008, Indian FDI stock in Germany had reached the threshold of US\$ 4 billion. With spectacular deals like that of Suzlon/REpower, Indian FDI stock in Germany seems to have surpassed German FDI stock in India. In 2008 alone, Indian firms invested an estimated amount of \$ 1.8 billion in Germany, up from \$ 825 million in 2007 and \$ 850 million in 2006. Table 1 shows India's total greenfield investments in Germany.

**Table 1: Greenfield investments by Indian firms in Germany (1961 - 2007)**

Year	FDI Value (USD million)					No. of firms
	Primary	Manufacturing	Services	Others	All sectors	All sectors
1961-69		0.60	1.50		2.10	3
1980-89		0.20			0.20	2
1990-99	0.20	13.70	2.30	7.50	23.80	47
2000-07		101.20	36.80		137.90	84
Total	0.20	115.70	40.40	7.50	164.00	131

Sixteen M&A deals involving Indian firms in Germany were monitored in 2008, up from 7 in 2007 and 11 in 2006. The deals also involved a substantial increase in the average deal value over past few years. Table 2 shows Indian firms' brownfield investments in Germany.

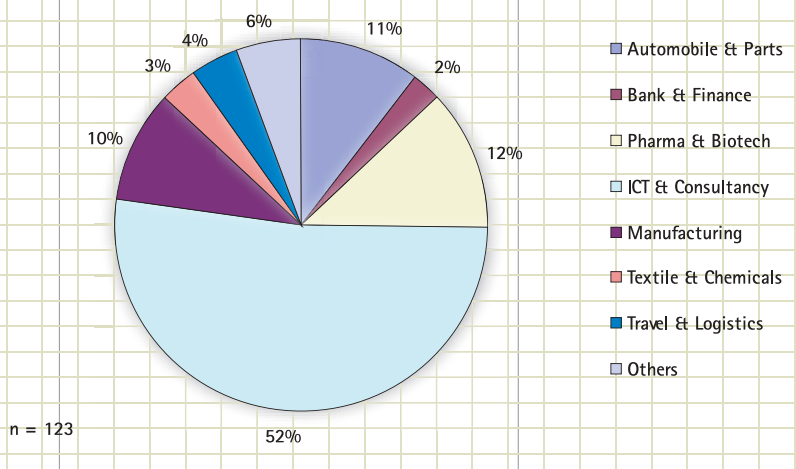
For the purpose of this study only those firms are considered "Indian", whose corporate headquarters are located in India. Furthermore, minority stakes, holding companies, and non-corporate investments, e.g. by non-resident Indian (NRI) citizens based in Germany, by government agencies or non-profit organizations such as trade & tourism promoting bodies, have been excluded from the scope of this study.

We were able to identify 123 "Indian" MNEs in Germany, which were active as of October 2008. More than half of all Indian "parent" firms came from the Information and Communication Technology (ICT) sector. Life Sciences and Automobile sector firms also had a significant presence.

**Table 2: Brownfield investments by Indian firms in Germany (2000 - Oct. 2008)**

Year	Value (USD million)	No. of deals
2000	?	1
2001	28.50	3
2002	3.00	2
2003	43.00	3
2004	140.00	6
2005	65.70	7
2006	838.36	11
2007	817.00	7
2008	ca.1800.00	16
Total	3733.56	56

**Figure 1: Active Indian MNEs (majority stakeholders) in Germany as of October 2008**



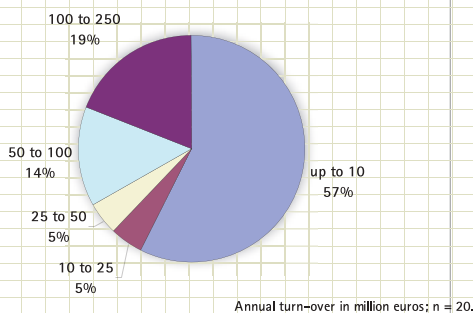
**Table 3: Top Indian-owned employers in Germany in fiscal 2007**

No.	German Firm	Indian Stakeholder	Employees
1.	Novelis Deutschland GmbH	Hindalco (Aditya Birla Group)	2 316
2.	SONA BLW Präzisionsschmiede GmbH	Sona Group	1 630
3.	Trevira GmbH	Reliance Industries Ltd.	1 584
4.	REpower Systems	Suzlon Energy Ltd.	1 246
5.	Sakthi Europe GmbH & Co. KG	Sakthi Group	990

The afore-mentioned 123 Indian MNEs owned, or had a majority stake in 167 German subsidiaries. The state of Hesse had attracted the highest number of Indian subsidiaries (29%), followed by North Rhine-Westphalia, Bavaria and Baden-Württemberg. The remarkable presence of Indian subsidiaries in the Hanseatic City of Hamburg is also interesting. Hamburg is a “City State” with a population of about 1.7 million.

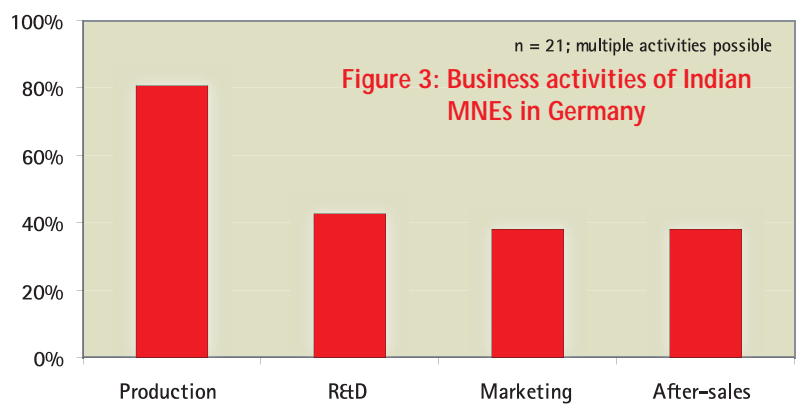
The 167 German subsidiaries of Indian MNEs provided employment to approximately 20 000 people on an annual, full-time average, as a study of available data suggested. *Table 3* shows top-5 Indian owned employers in Germany in fiscal year 2007. In order to gather first-hand information on activities, motives, challenges and experiences of Indian firms in Germany an empirical survey was conducted. Altogether, 21 valid responses (17% of the active sample) were received. Amongst the respondents – all members of senior-level management – there were 7 Indians, 12 Germans and 2 other Europeans. The sectoral composition was as follows: ICT (11), Automotive and Automotive Components (6), Wind Energy (2), Pharmaceuticals (1), and Logistics (1). Except for 3 Indo-German Joint Ventures (JVs), all other respondent firms were wholly-owned subsidiaries of India-based MNEs. The “oldest” subsidiary in the sample was active in Germany since 1991, the “newest” ones (2) were established in 2008. Ten subsidiaries were founded as greenfield investments while 11 had been acquired. The 21 firms had 43 subsidiaries/branches.

**Figure 2: Annual turnover of survey respondents in the last fiscal in Germany**



*Figure 2* shows annual turnover of firms in Germany in million euros in the last fiscal year. The majority (57%) had a turnover not exceeding € 10 million; while one-third of all respondents had a turnover of over € 50 million, some firms even had a turn-over of up to € 250 million.

Most respondents (81%) were engaged in production of goods and/or services in Germany, about half (43%) in R&D.



Karnataka and Maharashtra were found to be most important source regions of Indian FDI in Germany (33% each), followed by Delhi (20%) and Tamil Nadu (15%). Most Indian MNEs active in Germany were relatively large firms; 40% of them had an annual turnover in the “billion euro” range; however there were some small-sized MNEs as well, whose annual turnover did not exceed € 10 million.

In about half of the cases, the initial investment did not exceed € 5 million. In 90% of the cases the initial amount remained below € 30 million. However, in many cases (57%) the Indian investor made further greenfield and/or brownfield investments. These subsequent investments, in many instances, involved significant amounts so that the amount of total investments seems quite different from the initial investment, as can be seen in *Figure 5*.

The respondents were asked to evaluate the importance of 18 possible motives for investing in Germany. The importance of individual motives in the investment decision could be ranked on a scale of 1 (= “not at all relevant”) to 6 (= “highly relevant”).

Proximity to customers and suppliers was ranked as the most important reason for investing in Germany. Developing products suitable for specific German market demands followed next. Market-seeking motives clearly dominate the picture, see *Table 4*. The survey discovered a sectoral divergence in the motives of Indian MNEs in Germany. The automobile sector firms displayed an unmistakable preference for “technology-seeking” motives as opposed to “market-seeking” by IT firms. One motive that is common to all of them is that they are motivated by the presence of their competitors in Germany and seek to neutralize this advantage of the rivals by their own investments.

**Table 4: Top investment motives for Indian MNEs in Germany (with sectoral preferences)**

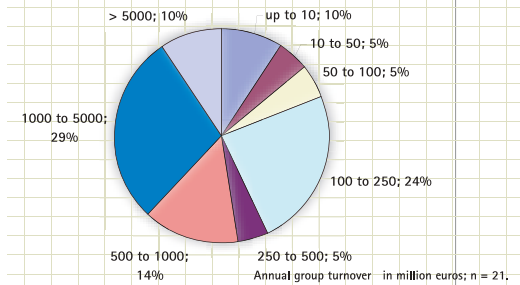
Motives (1 = not at all relevant, 6 = highly relevant)	Overall (n = 20)	Automobile (n = 6)	IT (n=10)
Foster proximity to existing customers/suppliers	5.5	4.8	5.8
Develop products/services for German market	4.8	4.5	5.2
Understand and adapt to German market	4.5	4.0	5.2
To build a base for business in Western Europe	4.5	4.5	4.5
Acquire new technology	4.1	5.0	3.3
Develop products/services for global market	3.9	4.8	3.1
Competitors' presence in German market	3.8	3.7	3.9
Access to infrastructure for advanced R & D	3.6	5.0	3.1
Access to skilled manpower	3.6	4.2	3.0
Acquisition of a reputed brand	3.3	4.0	2.8

The survey participants were asked to choose 3 primary motives for their investment in Germany and to evaluate their realization on a scale of 1 (= “not satisfied”) to 6 (= “fully satisfied”). The evaluation for the three primary motives revealed a high level of satisfaction with their actual realization, which received rankings of 5.3, 5.5 and 5.3 respectively.

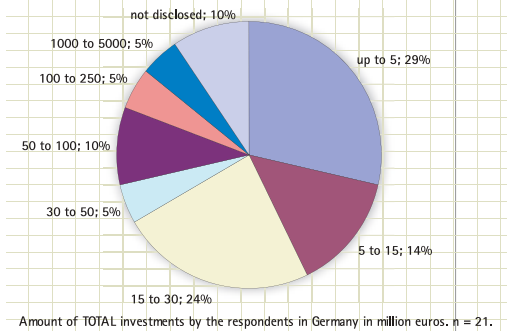
Survey participants were asked about their location selection within Germany. For this purpose they were asked to evaluate the influence of 10 pre-identified factors on their decision-making on a scale of 1 (= “no influence”) to 6 (= “high influence”). The results are presented in Table 5.

### Characteristics of the “Parent” Concern

**Figure 4: Annual turnover of the whole group in the last fiscal year**



**Figure 5: Total investment by the Indian MNE in the German subsidiary**



### Realization of the Investment Objectives

### Criteria of Location Selection

**Table 5: Criteria influencing the location decision within Germany**

Criteria (1 = not at all relevant, 6 = highly relevant)	Overall (n = 20)	Automobile (n = 6)	IT (n=10)
Presence of an industry cluster	3.9	2.7	4.0
Proximity to customer	3.8	2.5	4.7
Availability of skilled labour	3.8	3.8	3.1
Accidental (e.g. Investment by acquisition)	3.8	4.3	2.9
Connectivity to India by air	3.0	2.3	3.7
Cosmopolitan society	3.0	1.8	3.5
Presence of research institutes and universities	2.9	4.0	2.8
Government policies & subsidies	2.3	3.2	1.9
Presence of Indian community	1.8	1.5	2.2

As also with investment motives, the location selection within Germany revealed remarkable sectoral differences. Whereas IT firms basically looked for customer proximity and the presence of an industry cluster, Automobile sector firms called their location basically “accidental”, for example while the acquisition partner was already based in that location. Another factor which was important for Automobile but not IT sector firms was the presence of research institutes and universities. Automotive sector firms also showed some preference for the availability of skilled labour in the region and government support & subsidies. The presence of Indian community in the region, surprisingly, was not considered an important criterion by the participants cutting across sectoral lines.

Overall, the share of Indian expatriates in the workforce of the German subsidiaries seems to be less significant. Forty percent of the firms reported that the share of Indian expatriates in their workforce was less than 5%. Generally speaking, IT firms had a higher number of expatriates than those from other sectors. Also greenfield investments usually saw more expatriates coming from India than was the case with M&A deals.

*Table 6* describes the extent of the various problems faced by Indian firms in Germany. The factors were ranked by the participants on a scale of 1 (= “no problem at all”) to 6 (= “a major problem”). Difference in work culture was, somewhat surprisingly, ranked as the foremost problem by all the respondents. There were again sectoral differences in the perception of the

## Investment & Operational Challenges in Germany

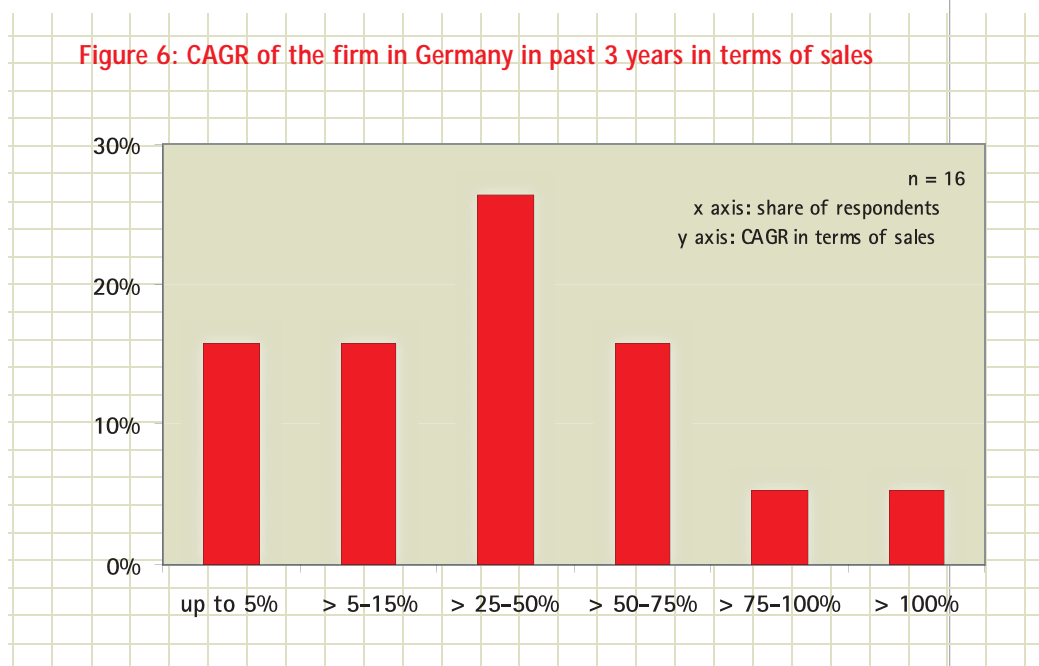
**Table 6: Challenges encountered in the investment process and day-to-day operations in Germany**

Challenges (1 = not at all a problem, 6 = a major problem)	Overall (n = 21)	Automobile (n = 6)	IT (n=10)
Difference in work culture	3.9	3.3	4.0
High operational cost	3.8	3.8	4.6
Getting work permit and visa	3.8	2.7	4.7
Finding qualified personnel	3.7	2.7	4.2
Expatriates' social integration in Germany	3.2	2.2	4.0
Language problems	2.8	1.8	3.9
High attrition rate among employees	2.7	1.8	3.0
Finding a suitable partner & location in Germany	2.0	1.3	2.6
Government approval processes in Germany	1.9	1.7	1.9

problems faced. Whereas the IT sector firms were most concerned about problems with getting work permits and visas for the expatriates, Automobile firms were more concerned with high operational costs. Interestingly, Indian and German/European respondents had certain differences in perception of problems faced by their companies. For instance, Indian managers saw language problems more critically (3.8) than did their German colleagues (2.3).

Notwithstanding the problems faced by the firms, most of them reported positive growth experiences. Most respondents reported high CAGR in terms of sales for past 3 years; see *Figure 6*. About two-third of all respondents to this questions recorded a CAGR of over 25%, some even over 100%. No significant sectoral or size-specific differences were observed in this regard. The same was also true for growth in terms of employment.

Figure 6: CAGR of the firm in Germany in past 3 years in terms of sales



In a corroboration to the reported positive performance, most survey participants (19 of 21) said they had plans for further investments in short to medium run (2 to 3 years). Augmentation of production capacities was the highest on the agenda, with 11 of 19 respondents planning investments in this area; 9 companies each planned investments to strengthen their R&D and/or marketing capabilities in Germany. Nearly half (47%) of the firms planned investments not exceeding € 15 million; 18% intended to invest more than € 50 million.

Cumulative investment plans point to an amount in the range of € 270 to 600 million. Nearly two-thirds (63%) intend to conduct M&A deals, followed by greenfield investments (47%) and joint ventures (37%) (multiple further investments possible).

*Table 7 (overleaf)* presents the main findings of the survey in their relation to the research issues identified and described earlier.

## Performance of Indian Firms in Germany

## Planned Investments

### Conclusion

The study revealed that Indian firms have discovered Germany as an attractive destination for investments. Indian MNEs in Germany have generally performed well and intend to further strengthen their operations there, including in the area of research & development. At the same time, Indian investments have been associated with positive employment effects for the host country.

Nonetheless, firms are also faced with several challenges, including but certainly not limited to cross-cultural issues, which need to be mastered. It seems to be imperative to offer cross-cultural trainings to employees in both countries so as to better coordinate the day-to-day business interaction and increase the efficiency of work-flow. Also, there should be greater emphasis on student and internship exchange programmes between the universities and firms of two countries to overcome such barriers.

Summarizing, we may say that Germany – without being properly reflected in the official statistics – has advanced to the position of a key destination for Indian MNEs in their spirited pursuit of growth opportunities in the form of market- as well as technology-seeking and this trend will probably continue in foreseeable future.

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**Table 7: A summary of the findings in relation to research issues**

Issue	Finding
Motives & their realization	Market- and technology seeking (sectoral differences in investment motives); impressive realization to date (measured as CAGR in terms of sales & headcount)
Mode of initial investment	Brownfield investments are more common; wholly-owned subsidiaries preferred to majority-stakes or JVs
Location selection	Presence of industry clusters and proximity to customers (however, sectoral differences exist); in case of acquisitions also "accidental" choices
Technology implications	Strong exchange of product & process technologies between home and host countries; in case of wind energy technology transfer from Germany to India
Employment effects	Job movement between India and Germany; India gains more production jobs, Germany gains more jobs in management and R&D; positive net effect for Germany
Challenges & problems	Differing work-cultures, getting work permit and visa for expatriates, and high operational costs pose major challenges (sectoral differences exist); differences of perception amongst Indian and German managers
Future plans	Most firms plan further investments in next 2-3 years to augment production, R&D and marketing; acquisitions are the most preferred mode for further investments