Indians have studied Westerners since the rise of the British in India over 250 years ago. From that time until Indian independence in 1947, children of the Indian elite often had a British governess followed by a university education in the UK. Today about 94,000 Indians are enrolled in US colleges and universities, constituting the largest group of foreign students in that country. Even those who remain to study in India are exposed to English literature classics and American business books and case studies.

In contrast, Westerners do not attempt to understand Indians and Indian business to a similar degree. For one thing, there is substantially less business literature about India as compared to the other two Asian powers, China and Japan. And there is a subtle reason that most people fail to view Indian business practices as unique and therefore worthy of careful study: Indians are proficient in adopting dual identities. When Indians encounter foreigners, especially Westerners, they adopt markers of global identity in dress, food, and even consumption of cultural products; yet their Indian identity is never abandoned. When they return to interacting with other Indians and at home, they revert to their own dress, eat Indian food and use local cultural products. For example, 96 per cent of all music consumed in India is domestically produced, Hollywood movies can barely get an audience against those of Bollywood, and women overwhelmingly dress in Indian fashions.

Duality of Indian culture
This concept of duality has a long history in India. The industrial revolution brought to India by the British forced workers to behave against their cultural norms. People moved to factories in urban centres, requiring them to work alongside members of other castes. At the factories, different castes mixed relatively freely, ate at the same cafeterias, travelled in the same buses and attended political rallies with one another. Brahmins and other upper castes had even begun working in jobs considered highly polluting – for example, the tanning of skins and hides. However, there was no conflict between the work of upper castes in industry and their obligations as good Hindus, because the factory and home environments were separate spheres with different standards of conduct and behaviour. For example, Indians used Western dress, spoke English and followed Western customs in the workplace, while at home they used Indian dress, spoke the local language and conducted themselves as good Hindus. This compartmentalization, as it is sometimes called, allows Indians to be highly adaptable.

This adaptability has ancient roots and may grow from the uniquely Indian ability to separate what in Hinduism is known as “karma” (or work) and “tatva” (or essence), one’s own individuality. It allowed Indian workers to adapt from caste-oriented village life to the relatively caste-blind factory floor. It allows them today to thrive in all kinds of unfamiliar professional global environments even as they
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Foreigners need to be aware that Indians are very good at adopting a dual identity. The Indian businesspeople that foreigners encounter seem almost Western in their outlook, at least relative to Chinese or Japanese executives. The fluency with which Indians speak English, combined with their familiarity with the West and its concepts, can lull Westerners into believing that Indians are quite like them. But Indians, despite their apparent Western business outlook, do have some distinct approaches to business.

Given the rise of global business, non-Indians will increasingly face Indians as customers, competitors and collaborators. It is useful to understand that collaboration between foreign and Indian companies has some unique aspects.

Indians as collaborators

Indians as collaborators play two roles vis-à-vis foreign companies, first as joint-venture partners and, more recently, as acquirers of foreign companies. These two roles are distinct.

Indians as joint-venture partners

Although international companies are seeking to break into the Indian market through joint ventures with Indian firms, India can be regarded as the joint-venture graveyard of the world, based on evidence of the past two decades. One of the largest business houses in India, which at one time boasted that it managed 15 joint ventures with Fortune 1000 companies, now has no surviving joint venture. A McKinsey study found that, of the 25 major joint ventures between foreign and Indian companies established from 1993 to 2003, only three still survived in 2005. For example, consider Modicorp, which during the 1990s had lined up alliances with Motorola, Walt Disney and Xerox – leading to references to its chairman, B.K. Modi, as “Mr. JV”. Since then, about a dozen of his joint ventures, including those with the three American companies mentioned, have dissolved.

Why have Indians failed as collaborators in joint ventures with foreign partners in India? The problem was that, before 1991, joint ventures were mandatory for foreign companies seeking to enter India. Even today, after liberalization, many of the large and fast-growing sectors of the economy, such as retailing, consumer banking, telecommunications and media, require an Indian partner. Thus foreign partners enter into these joint ventures without really desiring an Indian partner but forced to have one for market access. Often the Indian partner has few industry-specific competencies to contribute beyond local knowledge, as was the case with Tesco’s retailing alliance with the Tata Group and Wal-Mart’s with Bharti.

In contrast, the Indian partners believe they have substantive contributions to make to the joint ventures, high expectations of contributions from the foreign partners, and disproportionate power in the relationship because local laws have tipped the scales in their favour. The result is a significant mismatch in expectations between the two partners and, as might be anticipated, a subsequent falling out between the partners.

Unlike companies in neighbouring regions such as the Middle East or Southeast Asia, Indian partners are not interested in playing passive roles as investors in their joint ventures. They prefer to have at least a 50 per cent holding and, in most cases, prefer a controlling interest. In addition, their expectations of the major multinational corporations that are usually their foreign partners are high. Specifically, they feel that foreign partners should:

- Be relatively non-interfering
- Freely share their distinctive and superior expertise with respect to processes, systems and technology
- Be willing to train Indian joint-venture executives and accept that these executives may be transferred to other companies that are wholly owned by the Indian partner
- Provide a strong reference if the Indian partner needs to raise funds for other ventures
- Direct business to the joint-venture company from their operations in other countries and, if possible, from their customers as well

While one can argue about how reasonable these expectations are, the problem is usually not in the expectations themselves. The McKinsey study reasoned that most of the joint ventures ran into trouble because the Indian partners were unable to invest enough to expand the business quickly and match the ambitions of the foreign partners. This is not a uniquely Indian problem, as it occurs frequently in the developing world in joint ventures between large multinational corporations and relatively small local investors. One solution may be to allow the foreign partner to increase its stake in the joint venture in return for disproportionately funding its growth. Yet, this is often a problem because the Indian investor is either unable to dilute its share for legal reasons (it may be required by law to maintain a minimum equity participation) or is unwilling to do so.

Since the economic liberalization of the early 1990s, the Indian government has gradually allowed foreign companies to operate alone or...
increase their stake in many industries. As a result, a large number of Indian joint ventures have lost their reason for existence from the foreign partners’ perspective. They either wish to buy out the Indian partner or set up an independent unit separate from the existing joint venture. This part of the joint venture story in India has been rather unpleasant. Almost always, the foreign partner is in a hurry to exit, and the Indian partner finds itself with an exceptionally good negotiating hand. Valuation of exit pricing on a scale of 1:5 is not unusual, depending upon whether the foreign partner desires to sell (receives 20 cents on the dollar) or buy (pays several times market value).

For example, when the Indian government eased restrictions for foreign companies in investment banking, both Goldman Sachs and Merrill Lynch looked to exit their existing joint ventures with Indian partners. Goldman Sachs sold its stake in its successful joint venture with Kotak Mahindra Bank Ltd. for about $75 million, while Merrill Lynch bought most of its stake in DSP Merrill Lynch for about $500 million.

If, instead of exiting, the foreign firm wants to set up an independent unit in the same business as the joint venture, the Indian government requires the foreign company to first obtain a “no-objection” certificate from its local partner. As one can imagine, the term “same business” is open to multiple interpretations and often leads to considerable conflict between partners. For example, in 2006, Danone faced resistance from the Wadia Group, its Indian joint-venture partner in the cookie maker Britannia Industries Ltd. Britannia is 25 per cent owned by the Wadia family and 25 per cent owned by the Danone Group, with the rest publicly held. Danone wanted to exit the joint venture and set up its own wholly owned operations, in order to pursue larger dairy and water opportunities. The Wadia Group took Danone to court in order to stop Danone from investing in another Indian company. Although Danone had a no-objection certificate from the Wadias in 1996, the government felt that it was too old and asked Danone to obtain a new one. After acrimonious negotiations and lawsuits between the two parties, in 2008 Danone agreed to sell its stake to the Wadias.

Given the poor track record of partnerships, some foreign companies are reluctant to invest in India. One India-based financial consultant was quoted in the Wall Street Journal: “Anyone who gets into a joint venture in India should assume it will fail and be comfortable with the terms of what happens when it does fail.” As a result, recent foreign entrants that must still pursue the Indian market through joint ventures, due to restrictive government policies, realize that these marriages are not made in heaven. Detailed separation clauses are now part of the joint-venture agreement.

Overall, India is rapidly moving away from the era of joint ventures. Bayer, Gillette, Goodyear, Datacraft, EMI, Sprint, Suzuki, Merrill Lynch, Xerox, Vodafone and many more have exited their Indian joint ventures with the sole purpose of reappearing with 100 per cent-owned companies. While the days of joint ventures in India may be mostly over, the era of Indian companies forming joint ventures outside India is just starting. However, it is still too early to draw any conclusions about Indians as collaborators on this front.

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Indians as acquirers
There are two major differences in the storyline for Indians as acquirers of foreign companies compared to Indians as joint-venture partners. First, foreign acquisitions by Indian firms are still a relatively recent phenomenon. Indian companies have been doing deals outside their borders in any significant manner only since 2000. In contrast, Indians have been playing the role of joint-venture partners of multinational companies since India’s independence in 1947. Thus the conclusions drawn here about Indians as acquirers will be more tentative.

Second, despite this short history, research indicates that Indian companies as acquirers is a very positive story overall. In fact, Indians have been rather skilful with their acquisitions. Despite some Western fears (especially prominent in the Arcelor takeover and Tata’s battle with Orient-Express Hotels) about Indians as the “barbarians at the gate,” Indian companies for the most part have not sought to destabilize acquired companies unnecessarily, either in the acquisition process or the integration process.
Perhaps one reason for the success of Indian firms in acquisitions is that Indian executives and companies learn to operate in a challenging business environment as well as to negotiate within a diverse, democratic society. Managing a business in Maharashtra, with its relatively business-friendly state government, is rather different from managing a business in West Bengal, with the Communist Party of India Marxist (CPIM) in power, versus managing a business in Bihar, India’s most lawless state with a relatively greater proportion of convicted criminals represented in the state legislature. Every large Indian company conducts business in all of these states, so executives become masters at managing the context. The lessons learned in India hold them in good stead when acquiring foreign companies.

Given that laws in India are not sympathetic to hostile takeovers, Indian firms until now have sought to make global acquisitions in a soft manner, after obtaining the buy-in of the potential target firm’s management. Whether this practice will continue as Indian companies grow more ambitious is hard to predict, but the Arcelor-Mittal deal indicates that some hostile takeovers will be necessary despite Indian firms’ predisposition to eschew aggressive takeover tactics. However, probably to smooth over the ruffled feathers, the company is now called ArcelorMittal.

One highly visible change in Indian firms is their transformation from low-price bidders for distressed assets to buyers that pay competitive global market prices for top-quality, strategically complementary foreign assets. Indian companies, relative to their size, are willing and able to make large acquisitions. Consider Tata Tea’s acquisition of Tetley, a company three times its size; Tata Steel’s takeover of the larger Corus; or Hindalco’s purchase of Novelis after taking on significant debt. Indians are very entrepreneurial and demonstrate an enormous appetite for risk. Furthermore, the conglomerate model of the large Indian business houses allows them to use the assets of the entire family of companies within the group rather than be restricted to the resources or leverage of any individual company.

Some clear patterns are visible with respect to the types of acquisitions to which Indian firms seem to gravitate in foreign markets. With the significant exception of Mittal Steel’s emerging market strategy, most Indian companies are seeking foreign acquisitions that bring complementary competencies. The foreign acquisitions help obtain brands that resonate with Western consumers (for example, Carlton luggage by VIP or Tetley by Tata Tea), obtain access to foreign distribution networks or customers (for example, Dana’s UK operation by Bharat Forge or various European acquisitions by Ranbaxy), extend the product portfolio to higher-priced and more sophisticated products (for example, Arcelor by Mittal or Novelis by Hindalco), or add significant R&D capabilities (for example, Hansen and REpower by Suzlon).

In terms of the integration process, Indian companies know from their domestic operations about the importance of other stakeholders, especially the government and trade unions. India has strong unions as well as influential politicians and bureaucrats. While wailing against them may be a particular sport among Indian executives, they do realize that these stakeholders play a crucial role in the success of any business. Thus Indian companies tend to have a non-confrontational approach toward local governments and trade unions.

Indians often complain that foreign companies in India sometimes use expatriates who do not understand the local context. In my own research, I saw that when Indian firms make acquisitions, they are aware of the superior local knowledge of the management talent and tend to retain them in the acquired venture. Some observers, such as S. Mahalingham, CFO of TCS, believe that because Indian companies lack significant experience with global acquisitions, they have taken a rather tentative view on how to deal with the acquired organization. The philosophy seems to be, “Don’t rock the boat till you are sure.” TCS during the last three years has acquired some 20 small and midsize IT services and consulting companies in the United Kingdom, Continental Europe, United States and Australia. TCS has apparently followed a strategy similar to that of most Indian companies in that they have left the senior executives and management structure intact. They have used Indian managers with significant global exposure to work as an organizational and cultural bridge between TCS and the acquired companies.
Santrupt Misra, Director of Human Resources at Aditya Birla Group, believes that the management of companies acquired by Indians has been left in place primarily for three reasons. First is unfamiliarity with the local regulatory environment, local politicians and cultural nuances. Second, these acquisitions have come at a time when India is booming, and getting top Indian executives to move to developed countries is difficult as they perceive their standard of living would decline with the expatriate assignment.

Third, companies need to demonstrate cultural diversity. Since the top management in India is usually Indian, leaving the acquired foreign firm’s top executives in place enhances the diversity ratio.

In the future, the practice of leaving top management in place may change. One factor driving this is that Indian firms have paid dearly for their acquisitions in developed markets and need to recover this investment by imposing higher growth targets on the acquired firms. Unfortunately, managers whose experience is in the developed world are used to performing, and being satisfied with, annual growth targets of two to five per cent. It is hard to convince them to accept more ambitious goals. In contrast, Indian executives have regularly responded with double-digit growth over the past decade, given the boom in the economy. As a result, as Misra observed: “You start thinking, ‘Should I struggle to convince the local manager to accept the higher growth target or send one of my Indian managers?’”

Making costly acquisitions at the top of the business cycle, funded primarily by debt, can tempt the acquirers to set unrealistically high targets on the acquired firm. When the current liquidity crisis is added to this mix, it portends a challenging time ahead for Indian firms that have completed large acquisitions between 2005 and 2007.

Indian companies have been slower in incorporating top management from acquired companies into their own structures in India. Tata is further ahead in this process than other Indian companies. Seven years after the Tetley acquisition, the head of Tetley sits on the board of Tata Tea, and Tata Tea’s R&D centre head in India is a Tetley scientist. More than half of the boards of TCS and Tata Steel are non-Indians.

Indian experience in foreign acquisitions is recent and still evolving. Regardless of which role an Indian company is playing, soft relationship factors and symbolic gestures are important to Indians, especially when negotiating with Westerners. As a former colonized power, Indians need to feel that they are receiving respect and being treated as equals. Indians are sometimes too quick to take offense in their dealings with foreigners, and Westerners are well advised to remember this: Indians have a thin skin.

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Resources

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