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The internationalization of Italian firms in India: some empirical evidences

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The internationalization of Italian firms in India: some empirical evidences

Massimo Cortili*, Alessia Pisoni**, Alberto Onetti***

January, 2012

Abstract

This study explores the characteristics of Italian foreign direct investment (FDI) in India and aims at filling the gap identified in the literature by providing a comprehensive empirical analysis on this issue. More specifically, we try to understand the reasons behind internationalization decisions in India, the strategic goals associated with them (i.e. manufacturing vs. commercial), the role played by the Indian subsidiary and its value chain configuration. In order to investigate the research questions, a unique database of Italian firms that invested in India was created. The first empirical confirmation we collected was about the low number of Italian companies with subsidiaries in India. In terms of internationalization goals it emerges clearly from the research that the main target is market seeking. In order to acquire that market share Italian companies have organized their subsidiaries as partially independent companies, adopting a typical “Multidomestic” approach customizing products and services to the local needs and demands.

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Moreover, the industry fragmentation suggests that so far only the best in each class have approached India. This is indirectly confirmed by the fact that it is indeed almost impossible to find two Italian competitors present at the same in India.

**Keywords:** India, internationalization, FDI, value chain

**Introduction**

By the end of the Eighties most internationally oriented companies had realized the urgency of moving into the Far East. Italian MNCs are part of this trend. The market opportunities that emerging economies offer require Italian companies to rethink their internationalization strategies (see among the others: Cerrato and Depperu, 2010). The growth and potential of Asia have been obvious for a while, but what changed were the barriers to foreign companies: Asia as a whole was opening up to the outside. Of all the Asian countries China has made the strongest effort to entice Western companies to invest in their country, while at the same time providing the largest market (in terms of population) in the world. By the end of the Nineties every company that wanted to be a serious global player had some sort of presence in China. In 1996 developing countries received inflows of 130bn USD in direct investment, China received 42bn (the largest share), and India only got 2.5bn (Athreye S. and S. Kapur, 1999). For a number of reasons, India was overlooked until a few years ago, however it still is – especially by Italian companies – when compared to any other BRIC nation.

This aim of this paper is to analyze the extent and the characteristics of the internationalization process of Italian companies going to India. More specifically, we try to understand the reasons
behind internationalization decisions in India, the strategic goals associated with them (i.e. manufacturing vs. commercial), the role played by the Indian subsidiary and its value chain configuration. In particular we try to understand whether the value chain reflects closely that of the parent company or if it is influenced by the local needs. Therefore the decisions that impact the business model configuration (Onetti et. al., 2010) are investigated: make vs. buy, and international value chain configuration (longer vs. shorter).

The purpose of this topic seems to be extremely relevant for different reasons:

- The relevance of Indian market among relatively large emerging economies;
- Lackness of literature on Italian companies that internationalize to India;
- The choice to focus the attention on the FDI.

With respect to the first aspect, India represent an interesting case of rapid growth and internationalization witnessed during the past two decades (Pradhan, 2011; Zheng, 2009). India-EU relations have grown substantially in both quality and depth in the last few years. India’s engagement with the EU in trade grew steadily up until the economic crisis of 2008/2009. Looking at data from Ministry of Commerce & Industry (2009-2010) it is easy to see how EU represents a 20% share in India’s total exports, followed by the United Arab Emirates (13%), USA (11%) and China (7%). However, analyzing the country wise cumulative FDI inflow in India (data from Ministry of Commerce & Industry, period 2000-2011), while EU (27) represent 20% of the overall amount the Italian share is about 1%.

With respect to the second aspect, the literature background analysis presented in the second part of the literature review, shows a substantial gap of empirical studies on Italian MNCs internationalizing in India. While many scholars have carried on several empirical studies on Italian MNCs operating in foreign markets, we find out only two studies dealing with Italian MNCs in India.
As regards, the choice to focus the attention on the FDI – disregarding other important methods of internationalization – is based on the following evaluations:

1) Foreign Direct Investments represent, by their own nature, irreversible choices in the short term and can therefore be considered as a good proxy of the companies employing such medium to long term strategies;

2) FDIs are traditionally mentioned in literature (Caves 1971; Dunning 1981; Johanson e Vahlne, 1977; Symar e Argheyd, 1987) as an evolved and mature form of internationalization; indeed:
   a. they show a strong commitment towards the company’s international strategy;
   b. they are strongly pervasive of all operational processes;
   c. they transform the company’s structure into a much more complex and sophisticated one (by forcing new procedures to properly coordinate the HQ with the subsidiaries);
   d. they press the firm into acquiring additional information, resources and skills to effectively handle the new product/market combinations.

For all the above reasons, studying the FDIs can help understanding the trends and strategies in companies’ internationalization.

This paper is structured in three main sections. The first one contains a comprehensive literature review on internationalization process and highlights a substantial gap of empirical studies on Italian MNCs internationalizing in India. In the second paragraph, the methodology is discussed and the main features of the sample are presented. In the third section, results are pointed out. Some managerial and research implication complete the paper.
I. Literature review

Literature review on Internationalization

Internationalization of firms has been a key issue in international business studies for a long time. Internationalization has been defined as the process of increasing involvement in international operations across borders (Welch and Luostarinen, 1988). Calof and Beamish (1995) defined internationalization as “the process of adapting firms’ operations (strategy, structure and resources, etc.) to environments” (p. 116). According to Bilkey (1978) and Cavusgil (1984), internationalization is an ongoing process determining the ongoing development and change in international firms in terms of scope, business idea, nature and extent of activities and organization principles. Moreover, Buckley and Casson (1976, 2009) define internationalization as a general principle that explain the boundaries of organization.

Several theories and models has been developed in the field of international business in the years that have had a fundamental impact on researches and writings/academic contributions. Starting from the pioneer studies of Dunning (1958) and Vernon (1966) and proceeding to analyze more recent studies, it is possible to notice how the research object has shifted from foreign investments to the internationalization process and multinational firm organization/management.

The early studies carried out in the Sixties and in the Seventies have been developed as a consequence of the huge flow of US corporations’ investments, which began in the Fifties. In such a context, scholars dealt with trade flows and capital flows to explain the foreign direct investment phenomenon. These studies analyzed the environmental factors and institutions that could provide a proper context within which MNEs can operate. This is considered as a macro approach to internationalization where the research focus is represented by countries and industries rather than firms (Kindleberger, 1969). On the opposite, the micro-economic/industrial
organization theory, suggests that foreign direct investments are made to further capitalize on the ownership of some of the firm’s unique assets (Hymer, 1960, 1976; Caves, 1971). Later on, during the Seventies and Eighties, scholars research’s interest shifted to the managerial and strategic issues related to MNCs’ management. With the firm as the primary unit of analysis and management decisions as the key variable, these studies provide further insights on management challenges associated to international business. First of all, the Eclectic Paradigm Theory proposed by Dunning (1976) offers an holistic framework that identifies the important factors influencing the decision to carry on production in a foreign country. In this respect, the stage approach to internationalization is related to a set of three advantages: ownership-specific advantages, internalization advantages and locational advantages. The decision to carry on production in a foreign country and about where to site a firm abroad depends on ownership advantages (i.e. firms specific resources or capabilities), on location specific advantages (i.e. productive factors present in specific markets/countries) and on internalization advantages (i.e. the ability of the firm to manage operations internally). Market imperfections may influence the locational decisions of a firm. For example, some government intervention (level of tax/tax exemption, tariff barriers, regulation, research and development incentives, etc...), which influence costs and revenues of production in different markets, can encourage or not direct investments.

A considerable amount of important studies on the internationalization process (so called “stage models”) and on MNC’s management have been developed in Nordic countries especially those related to the internationalization process and the organization of multinational firms. Stage models assumes that the gradual acquisition of knowledge and firm’s international commitment reduce firm’s perception of market uncertainty. Among these theories/models we can quote the Uppsala Model, that consist of two different models: the Establishment Chain developed by
Johanson and Wiedersheim-Paul (1975) and the Internationalization Process Model developed by Johanson and Vahlne (1977). In the Establishment chain the emphasis is on psychic distance. The extension of activities in a market is related to the psychic distance in term of language, culture, political systems, and level of education, which prevent or disturb the flow of information between firm and market (Wiedersheim-Paul, 1972). Psychic distance is correlated with geographical distance. The internationalization process is seen as the consequence of a process of incremental decisions or adjustments to firms and environmental changing conditions (Aharoni, 1966). Later on, another model was developed at Uppsala, the Network Approach of Johanson and Mattson (1991). This approach postulates that firms operating in industrial and social context can be described as acting in a network with a certain structure. Under this perspective, internationalization of industrial firms has been explained through networks and relationships between firms.

Various criticisms have been made against the Uppsala Model. In detail, the explanatory power of the model is criticized by many scholars such as Millington and Balyliss (1990) and Sullivan and Bauerschmidt (1990). According to these criticisms, the Uppsala Model does not clarify why or how the process begins and does not discuss the succession of states or conditions (Calof and Beamish, 1995). Moreover, according to Andersen (1993), authors do not analyze the factors that may influence the process. Despite the above mentioned criticisms, the importance of the Uppsala-scholars’ contributions has clearly emerged with reference to the advancement proposed in the studies of headquarter-subsidiary relationships (Fratocchi, 1997). In this perspective, these contributions have often been compared and/or contrasted to the Harvard one (namely Bartlett and Goshal’s contribution of 1987) when talking about MNCs’ network. Such a “conflict” between the two schools is to be considered partially overcame with Ghoshal and Bartlett’s contribution of 1991 and with N-forms proposed by Nohria, Gulati and Ghoshal (1994).
Moreover, the research of Johanson and Wiedersheim-Paul (1975) and Johanson and Vahlne (1977) has probably been the inspiration for the development of the Innovation-Related Internationalization Models. The Innovation-Related Internationalization Models (also called I-models), focus on internationalization as an innovation for the firm (Andersen, 1993). In this perspective, the I-models present an incremental/sequential and stepwise approach of international activities performed by companies over time (Bilkey and Tesar, 1977; Cavusgil, 1980; Reid, 1981; Czinkota, 1982). In this respect, export activities are considered a first step for further firm’s international expansion. Knowledge and experience accumulation of markets leads firms to increase such an international involvement. Moreover, the sequential nature of the international expansion aims at minimizing the risks associated to the expansion process (Cavusgil, 1984).

In recent years, stage models, according to which internationalizing firms are thought to go international in a slow and incremental manner and to gradually gain market knowledge in order to reduce uncertainty and risk (Madsen and Servais, 1997) have also drawn criticisms. The assumptions of incremental, step-by-step internationalization process has been questioned by McDougall and Oviatt’s contribution (1994). They point out the failure of the stage-model and innovation-related models to account for the rise of international new ventures (INVs) that not only skipped stages of internationalization, but went international from inception. Moreover, the emergence of INVs that have successfully internationalized despite the absence of experiential knowledge further enforces the above mentioned criticisms and doubts about the validity of the “stage models”.

The choice of methods of doing business abroad is now much wider than in the past and such a choice can be customized to the specific needs of the internationalizing firm. Under this point of view INVs are to be considered as an emerging important phenomenon that should not however
obviate/underestimate the importance of incremental learning through stages, even for the most experienced MNCs.

**Identified gaps in literature**

To clearly show the identified substantial gap of empirical studies on Italian MNCs internationalizing in India, we performed a literature background analysis on the most relevant literature in international business. The results are wrapped-up in this paragraph. While many scholars have analyzed the process of internationalization of Italian firms in several areas, just two studies up-to-date deal with Italian MNCs in India. The first one is an exploratory study made between 2004 and 2005 that analyzes the internationalization process of a sample of Italian companies to India (Friso and Gattai, 2005). The second one, more recent, is a business case analysis of an Italian software SME off-shoring its R&D activities in Bangalore (Angeli and Grimaldi, 2010).

Analyzing researches performed on FDIs and foreign companies located in India, we found different kind of studies that can be categorized as follows:

- **Internationalization** to India from other countries mainly from: Germany (Welge, 1994; Berg and Holtbrügge, 2001; Becker-Ritterspach, 2005, 2009), Sweden (Jansson, 1982), Denmark (Baark, 1985; Hansen et al., 2011), Netherlands (Lieten, 1987), Korea (Pant, 2003; Park, 2004, 2011) and Japan (Horn et al., 2010). Moreover, it is possible to find in-depth business case analysis on US, Japanese, Danish, British, Swedish and Korean MNCs located in India (see among the others: Singh, 1979; Singh Rathore, 2008; Sinha, 2004; Dossani and Kenney, 2007);

- **Comparison between FDIs in emerging countries**: India FDIs vs China or Brazil (see, among the others: Asakawa and Som, 2008; Zheng, 2009; Vivoda, 2011);
Localization of FDIs in India and factors influencing such choices (see, among the others: Chalapati Rao and Murthy, 2011; Morris, 2004; Megha and Nunnenkamp, 2010). Moreover, recently scholars have been starting to investigate issues related to FDIs from India to other countries (for example, see the recent study of Jain (2011) on operation of Indian firms in the U.S).

The present research work aims at contributing to fill this gap in the literature, providing an in-depth empirical research on the internationalization of Italian companies to India.

II. **Objectives data and methodology**

On the basis of the theoretical framework previously described, we focused the analysis on the reasons behind internationalization decisions in India, on the strategic goals associated with them (i.e. manufacturing vs. commercial), on the role played by the Indian subsidiary and its value chain configuration of a sample of small and medium Italian enterprises that carried out investments in India.

**Population**

In order to investigate the research questions, a unique database of Italian firms that invested in India was created. Data was sourced from the Italian Institute for Foreign Trade (ICE), branches of Italian and International Chambers of Commerce operating in India, Embassy and Consulates, and several foreign and Italian entrepreneur associations. The total amount of presumably existing Italian firms from the mentioned sources was 1414. The database has then been checked and validated to keep out of the analysis the companies no longer active. The survey was conducted in 2011. Over the course of two months all the companies (141) with a reported phone
number were called to ascertain if they were still in existence and their current address. The result was a database of 60 active Italian enterprises.

A questionnaire was developed with the goal of eliciting answers from the managers of the Indian subsidiaries. In order to verify and test the questionnaire’s suitability for the task a number of professionals working in related fields were contacted: a) an Indian full Professor working in International Marketing; b) an Italian lawyer who has worked and lived in New Delhi and has extensive knowledge of Italian companies going to India, c) an Italian consultant, CEO of the Indian subsidiary, who has lived in Mumbai for over four years. With their help two companies were identified to which we initially submitted the questionnaire in order to ascertain its validity. The two companies were then excluded from the sample. Some questions were modified, some deleted and some added. The resulting final questionnaire was subsequently sent to the identified companies along with a cover letter in which an appointment for a personal interview was asked for with the local branch manager. All the questionnaires and interviews were eventually conducted with either the local General Manager or a Board Director or a top manager (in larger companies).

Forty seven large, medium, small and micro companies out of the previously identified firms replied to the questionnaire. An additional 18 were discarded for one of the following reasons:

a) the company had changed ownership and was no longer held by Italian shareholders. Either the Italian parent company had changed ownership and become part of a larger multinational non-Italian group or the local Indian partners bought out the subsidiary entirely, in such cases when a Joint Venture was in place;

b) the replies were not meaningful;

c) the company was a representative office or was just engaged in consultancy services with no manufacturing or distribution.
An answer rate of about 19% was obtained, which is quite similar to the average of the best international surveys (Harzing, 1997). Considering the large number of questions in the questionnaire and the complexity of some of them, the achieved result may be considered satisfactory. All the findings on the 27 remaining companies are reported and any relevant findings analyzed with regard to the size and the industry of the companies.

The most relevant features of the responding companies are summarized in the following paragraph.

Sample description

The most relevant features of the investigated sample are summarized in figure 1.

**Figure 1**: Sample description

<table>
<thead>
<tr>
<th>Industry</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manufacturing</td>
<td>81%</td>
</tr>
<tr>
<td>Others</td>
<td>19%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Markets</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Engineering</td>
<td>43%</td>
</tr>
<tr>
<td>Oil &amp; Gas</td>
<td>13%</td>
</tr>
<tr>
<td>Architecture</td>
<td>10%</td>
</tr>
<tr>
<td>Automotive</td>
<td>10%</td>
</tr>
<tr>
<td>Footware</td>
<td>7%</td>
</tr>
<tr>
<td>Other</td>
<td>17%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Entry strategy</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Greenfield</td>
<td>70%</td>
</tr>
<tr>
<td>Join Venture</td>
<td>26%</td>
</tr>
<tr>
<td>M&amp;A</td>
<td>4%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Year of sub. establishment</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>1993 - 1995</td>
<td>7,41%</td>
</tr>
<tr>
<td>1996 - 2000</td>
<td>29,63%</td>
</tr>
<tr>
<td>2001 - 2005</td>
<td>25,93%</td>
</tr>
<tr>
<td>2006 - 2011</td>
<td>37,04%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Parent size</th>
<th>micro</th>
<th>small</th>
<th>medium</th>
<th>large</th>
</tr>
</thead>
<tbody>
<tr>
<td>Subsidiary size</td>
<td>micro</td>
<td>4%</td>
<td>4%</td>
<td>4%</td>
</tr>
<tr>
<td></td>
<td>small</td>
<td>15%</td>
<td>23%</td>
<td></td>
</tr>
<tr>
<td></td>
<td>medium</td>
<td></td>
<td></td>
<td>15%</td>
</tr>
<tr>
<td></td>
<td>large</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
There is apparently no peak in Italian companies deciding to move to India. Starting from 1993, almost every year one company of the validated sample was established. The only slight exception being 2008. However what stands out is that all of the companies found were established after the 1991 liberalization laws.

Most of the companies in the sample are manufacturing companies (81%), some of them, the largest ones, are also providing services to their clients. The Engineering market (43%) is by far the most represented. Looking at the size of the parent companies, the large ones are the absolute majority of the sample. However, looking at the size of the Indian subsidiary, there is a clear prevalence of small companies. And only 15% of the sample has reached a large size.

The geographic distribution of the sample companies was entirely around the main Indian cities. An analysis conducted on the original database of 141 companies revealed that the sample is very consistent with the supposed addresses of the initial database.

III. Results discussion

*International network*

One of the variables that the present work aims to explore is the international experience and extension of the Italian companies going to India and the extension of their international presence (Vernon, 1966; Aharoni, 1966; Johanson and Wiedersheim-Paul, 1975; Johanson and Vahlne, 1977; Bartlett and Ghoshal, 1987, 1989 and 1991; Bilkey and Tesar, 1977; Cavusgil, 1980; Reid, 1981; Czinkota, 1982; Doz, Santos and Williamson, 2001). As a very large and growing market it could appeal to SME’s by first attempting to go abroad for its market potential. On the other hand the challenges posed by the difficult environment may be too much for companies with no international experience. Similarly small corporate size could represent an additional obstacle: as highlighted by Johanson and Vahlne (1977). Entering foreign markets (particularly
“geographically” and “culturally” far from the domestic one) requires fixed investments that might be prohibitive for small companies. Hence large companies with existing and substantial international networks were expected to be dominant in the sample.

Following the analysis of the findings the respondents have been classified into three groups:

A) in this group companies were categorized whose only international experience so far is represented by India: India represents their first experiment at internationalization;

B) in this group companies with 2 - 8 foreign subsidiaries were placed;

C) which is composed by companies that have over 15 subsidiaries worldwide.

All the groups are represented in the sample, but the global companies belonging to group C are not the majority. As shows in table 1, it appears that Italian companies, although with some delay, have recognized the importance of the Indian market and have started moving to India regardless of their international experience and size. This represents an interesting result that seems to partially contradict the gradual approach to internalization à la Johanson and Vahlne (1977) and confirm the most recent theories about born global companies and global startups (Oviatt and McDougall, 1994; Shane et al., 1994; Knight and Cavusgil, 1996).

Table 1: International experience per Parent size

<table>
<thead>
<tr>
<th>Network</th>
<th>Parent size</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Micro</td>
</tr>
<tr>
<td>A</td>
<td>4%</td>
</tr>
<tr>
<td>B</td>
<td>-</td>
</tr>
<tr>
<td>C</td>
<td>-</td>
</tr>
</tbody>
</table>

Source: own calculations5.

It is quite clear that large international networks belong only to large Italian companies. It is not however true of the opposite. Not all the large Italian companies of the sample have an extended network. As a matter of fact 45% of the large Italian parent companies belong to group A or B.
**Strategic goal**

One legitimate expectation when the research started was to find companies outsourcing the manufacturing process to India – due to the very low cost of labor⁶ – and shipping the manufactured goods to the target markets of the parent companies, without necessarily targeting the Indian market. As it is the typical case for many Italian companies that have been internationalized in Eastern Europe (Onetti and Majocchi, 2002).

On the contrary it was discovered that all the companies in the samples moved to India with – among others – a “market seeking” approach, i.e. with the specific goal of getting a slice of the growing Indian market. This approach is also consistent with the “pull view” (Cavusgil, 1980; Reid, 1981) since the choice of the target market is not only driven by the current size of the target market, but more specifically by its growth potential.

This could be interpreted as a shift from the previous trend of moving to low cost countries only in order to exploit the lower labor costs. Internationalization decisions seem therefore to follow a “looking for the market” strategy. A question to be further addressed is whether the target market for Italian companies going to India is represented only by India or by the other growing Far East economies.

Our research shows how no respondent specifically indicated the rest of APAC as a target. There are several reasons behind the focus on India that have emerged, once again, more during interviews with the Italian managers than with the Indian subsidiaries.

a) The Indian market is huge and most companies try first to consolidate the local market before considering a move to the neighboring countries (Vernon, 1966; Johanson and Wiedersheim-Paul, 1975; Johanson and Vahlne, 1977).

b) As previously mentioned, India is not part of the China-Asean agreement (ACFTA) and that is still an important obstacle when exporting from India to most of the Eastern
countries. The countries that signed the agreement with China are represented in the following map\textsuperscript{7}.

c) In some cases the local Indian manager was not aware of the future plans for the subsidiary or not willing to share them with us.

\textit{Role and Value Chain structure of the subsidiaries}

Following the results of the strategic goals it appears that 100\% of the sample perform sales in India, while “only” 85\% have a manufacturing activity in the country. Once again this is quite uncharacteristic of Italian internationalization into low labor cost countries (Cotta Ramusino and Onetti, 2006). As shown by Berra et al. (1995), Majocchi and Zucchella (2003), Constantin et al. (2010) typically the opposite is more common situation (cost saving).

<table>
<thead>
<tr>
<th>Table 2: Subsidiary’s role per subsidiary size</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
</tr>
<tr>
<td>Manufacturing</td>
</tr>
<tr>
<td>Sales</td>
</tr>
<tr>
<td>Other</td>
</tr>
</tbody>
</table>

\textit{Source: own calculations\textsuperscript{8}.}

<table>
<thead>
<tr>
<th>Table 3: Subsidiary’s role per parent size</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
</tr>
<tr>
<td>Manufacturing</td>
</tr>
<tr>
<td>Sales</td>
</tr>
<tr>
<td>Other</td>
</tr>
</tbody>
</table>

\textit{Source: own calculations\textsuperscript{9}.}

Only a few of the smaller Indian subsidiaries do not perform any manufacturing activity, but only sales. In some cases (approximately 5 companies) the manufacturing was performed in order to export to neighboring countries as well. However the findings from the data collected were not clear enough to allow for a certain classification of the phenomenon.
Looking at the distribution over the dimension variable, it can be noticed that the only companies not doing manufacturing in India belong to large parent companies. The explanation might reside in the fact that these companies already have an important and established international manufacturing network in place. Also as expected, in most cases the subsidiaries have a shorter (67%) and sometimes different value chain (37%). In some instances the value chain is as long as the parent company (19%) but different in content (i.e. activities performed). The “different” value chain stems frequently from the need to adapt and customize to the local market.

For instance, the parent and subsidiary might both be involved in R&D and manufacturing (i.e. shoe soles as it is the case of a company belonging to our sample). While the Italian headquarters design and manufacture type A and type B soles, the Indian subsidiary manufactures type B but designs and manufactures a type C, customized for the local market. The same company reports the need to adapt to the local availability of rubber components and additives. Such example shows a strong orientation towards a “multinational “or “multidomestic” approach (Bartlett and Goshal, 1989), with local customization and independence. Additionally, materials and technical specifications can influence the local content as well. For instance a metal profiles manufacturer, while using the same technology as the parent company, needs to work with different sizes and thickness. Therefore, part of the manufacturing process is different as the size and thickness of the metal sheet influences the working procedure, Quality Assurance and shipping and handling. Another company belonging to the Telecom business has had to adapt to local materials and costs. While the design of many (not all) of the products is the same, the materials had to be changed for sourcing and cost reasons. The typical high-grade industrial stainless steel used in Europe is AISI 304, however in India the AISI 202 is much more common (with a slightly different/lower content of nickel). While their performance is very similar, the cost of supplying 304 in India would make it more expensive than it is in Italy (due to the low volumes consumed
in India), placing the resulting product completely out of the acceptable price range. Hence the need to adapt the technical specification to the local materials.

Size distribution shows that smaller subsidiaries are the ones reporting most frequently a shorter value chain (table 4). Which can probably be explained by their size compared to that of their parent company (always bigger).

**Table 4:** Subsidiary’s value chain per subsidiary size

<table>
<thead>
<tr>
<th></th>
<th>Micro</th>
<th>Small</th>
<th>Medium</th>
<th>Large</th>
</tr>
</thead>
<tbody>
<tr>
<td>Same</td>
<td>25%</td>
<td>8%</td>
<td>33%</td>
<td>25%</td>
</tr>
<tr>
<td>Shorter</td>
<td>50%</td>
<td>85%</td>
<td>33%</td>
<td>75%</td>
</tr>
<tr>
<td>Different</td>
<td>50%</td>
<td>23%</td>
<td>83%</td>
<td>-</td>
</tr>
</tbody>
</table>

*Source: own calculations*.10

Medium subsidiaries report most frequently a “different” value chain. This could be explained by the fact that medium subsidiaries are already established enough to have the same value chain as their parent companies, however they are also still small and flexible enough to be able to adapt to the local market needs.

This data seems to confirm an evolutionary path for the subsidiary over time (consistently with the theoretical theories on the life cycle of the subsidiaries that were mentioned above): the longer the presence in the market, the wider the spectrum of activity and the bigger the autonomy of the subsidiary.

**Conclusions**

The objective of this research was to investigate the extent and the characteristics internationalization strategies of Italian companies in India. Specifically we explored the reasons behind the internationalization choices (i.e. manufacturing vs. commercial), the forms chosen and the role played by the Indian subsidiary and its value chain configuration.
The first empirical confirmation we collected was about the low number of Italian companies with subsidiaries in India. Based on official statistics (as described in section II. Data and methodology) the overall population of Italian companies in India ranges from 141 (source: ICE) to 400 companies (source: Pantheon). The empirical validation of the population that we performed during the research shows that the actual number of active subsidiaries of Italian companies is likely to be lower. This result contrasts with the strong growth of the Indian economy and therefore the huge opportunity that the country represents.

In terms of internationalization goals it emerges clearly from the research that the main target is market seeking. This approach is also consistent with the “pull view” (Cavusgil, 1980; Reid, 1981) since the choice of the target market is not only driven by the current size of the target market, but more specifically by its growth potential. The entire group of respondents mentioned it as the main objective of their presence in India. Not a single company has moved to India simply to outsource the manufacturing to a low labor cost region. In order to acquire that market share Italian companies have organized their subsidiaries as partially independent companies, adopting a typical “Multidomestic” approach customizing products and services to the local needs and demands. Following the results of the strategic goals it appears that 100% of the sample perform sales in India, while “only” 85% have a manufacturing activity in the country. Once again this is quite uncharacteristic of Italian internationalization into low labor cost countries. As shown by other scholars (Berra et al., 1995; Majocchi and Zucchella, 2003; Constantin et al., 2010) typically the opposite is more common situation (cost saving). The analysis of the subsidiary’s value chain brings out that, in most cases, the subsidiaries have a shorter (67%) and sometimes different value chain (37%). In some instances the value chain is as long as the parent company (19%) but different in content (i.e. activities performed). The “different” value chain arise frequently from the need to adapt and customize to the local market.
This data seems to confirm an evolutionary path for the subsidiary over time (consistently with the theoretical theories on the life cycle of the subsidiaries that were previously mentioned): the longer the presence in the market, the wider the spectrum of activity and the bigger the autonomy of the subsidiary.

Future research has to monitor the evolution of the internationalization process of Italian companies in India. If the process is going to grow more analysis can be developed: both quantitative (increasing the size of the sample) and qualitative (performing a longitudinal analysis of the firms composing the sample). Of particular interest could be the analysis of the evolution of the autonomy level and role - along the life - of the subsidiary companies, to be done performing a longitudinal analysis of the firms that compose the sample.

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1 The studies to be considered in this paragraph were identified by a methodological process that combined electronic means with manual search (Rialp et al., 2005; Jones and Coviello, 2005; Keupp and Gassmann, 2009). The use of electronic tools as a way of search was conducted through keywords web search (scanning Ebsco- bibliographic database host as well as Scopus and by searching other Internet resources, such as Google). In addition to this, a manual search, based largely upon citation analysis, was also conducted for identifying other possible contributions in edited books of readings, refereed journal articles as well as conference proceedings and working-papers which, in spite of being relevant for this study, had not been identified electronically.

2 Considering both exploratory generic studies and researches on specific MNCs management related aspects.

3 Considering both exploratory generic studies and researches on specific MNCs management related aspects.

4 The number of Italian companies in India is indeed far from clear. One critical variable in evaluating the overall number of companies is how a company with multiple subsidiaries in India is counted. It is not always clear from the sources what is their methodology. We have opted to count a single legal entity with multiple locations as one company only. This is most likely why some sources report a higher number of companies. Among the latter, the largest database found in the research was of Pantheon, a financial consulting company working in Italy and India: according to Pantheon 400 Italian companies working in India were reported. This database however is not public and no way was found to verify its content and validity. The Italian Trade Commission and the Indo-Italian Chamber of Commerce were however available to provide their database, the total amount of presumably existing Italian firms from the mentioned sources was 141.

5 The percentage is calculated as follows: No. of companies of a specific size belonging to a specific group /total number of companies.

6 In 2005 the hourly compensation in USD was 0.63$ for “production workers” and 0.91$ for “all Employees”, (see Sincavage, Haub and Sharma, 2010)

7 Please note that the date of “Accession” refers to the accession to the Asean agreement, not to the ACFTA.

8 The percentage is calculated as follows: No. of companies of a given size reporting a specific role/total number of companies of that size.

9 Same as above
The percentage is calculated as follows: No. of companies of a given size reporting a specific value chain/total number of companies of that size.
References


