**EUROPE AS A DIVERSIFICATION STRATEGY FOR**

**CHINESE AND INDIAN BUSINESS GROUPS:**

**EVIDENCE FROM FIRM-LEVEL DATA**

**Amighini A. A. , Cozza C., Rabellotti R.**

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**Abstract** - We comparatively analyse the international expansion strategies of BGs from the two largest emerging economies – China and India – in Europe, a major location for their foreign activities outside of Asia, by relying on a novel database – the *Emerging Multinationals’ Events and Networks Database* (EMENDATA) –, which includes greenfield investments, M&A, and other minority investments. We build a typology of BGs according to their industry and country diversification strategies. We find that the majority of Chinese and Indian BGs entering Europe fall in two categories: BGs with extremely limited multinational activity (just one affiliate), and BGs pursuing broader and complex internationalisation strategies encompassing industry and geographical diversification, as well as multiple entry modes.

**JEL:** F21, F23

**Keywords:** business groups, foreign direct investment, China, India, emerging multinationals, internationalisation

1. **Introduction**

The surge in the international expansion of firms from emerging markets – emerging market multinationals (EMNEs) – through foreign direct investments (FDI) has inspired a huge specialised and scholarly literature investigating the rationale, strategies, patterns and impact of EMNEs’ overseas activities (for a review of the literature see Amighini et al, forthcoming (a)). Due to the serious limitations imposed by the lack of comprehensive firm-level data sources on EMNEs’ international activities, studies have so far ranged from single and comparative country cases to sector analyses, from selected EMNEs’ experiences to empirical analyses based on survey data. Moreover, most of the studies have focused on one entry mode at a time, i.e. either on greenfield FDI (among the more recent evidence with firm-level data, see Amighini and Franco, 2013; Amighini et al., 2013a, 2013b; De Beule and van de Bulcke, 2012) or on mergers and acquisitions (M&A) (Bhabra and Huang, 2013). Yet, EMNEs have increasingly ventured abroad in complex ways, encompassing both M&A and greenfield investments, both of which are clearly part of a unified internationalisation strategy and should therefore be studied jointly and not separately. Most importantly, the vast majority of EMNEs investing abroad are not independent and unaffiliated firms but instead are affiliated to Business Groups (BGs). As such, the international expansion strategies of emerging market firms are best analysed when taking into account that they very often are embedded in networks of ownership relationships with other firms within complex organizational forms. Yet, the International Business (IB) literature has so far studied the international expansion of emerging market firms mainly by taking the single investing firms as a unit of analysis and very few empirical studies focus on the international expansion of BGs.

In this paper, we analyse the international expansion strategies of BGs from the two largest emerging economies – China and India – in Europe, a major location for their foreign activities outside of Asia. Although multinational activity has usually a strong regional dimension, and Asia has therefore been the top destination for the outward expansion of Chinese and Indian firms, Europe has recently emerged as a favourite destination for the outward expansion of Chinese and Indian firms abroad (see Section 3). As this phenomenon is gaining momentum, a comprehensive analysis of the foreign activities of Chinese and Indian BGs in Europe is needed to better understand both the corporate strategies of EMNEs from China and India, and the role of Europe as a favourite foreign location within their overall diversification strategies.

We rely on a novel database – the *Emerging Multinationals’ Events and Networks Database* (EMENDATA) – which includes greenfield investments, M&A, and other minority investments. The data consist of company information gathered from different sources – the world best available data sources on multinational activities – such as the Financial Times Group’s fDImarkets, Bureau van Dijk’s (BvD) Zephyr, and Thomson Reuter’s SDC Platinum. Each cross-border deal in EMENDATA is associated with company information available in BvD’s Orbis, on both the investing company and the group the firm belongs to, based on its Global Ultimate Owner (GUO) (for a detailed description of EMENDATA, see Amighini et al, forthcoming (b)).

This paper draws upon and bridges across two different strands of literature. On the one hand, the growing IB literature on the rise of EMNEs, which mainly adopts the single investing firm as a unit of analysis and largely overlooks the fact that investors from emerging economies often belong to BGs. In particular, BGs are important contributors to outward FDI from many economies, such as China, where BGs accounted for 74% of China’s total outward FDI and 90% of the top 40 multinationals (in terms of outward FDI stock) are group-affiliated firms (Yiu, 2011). On the other hand, the extensive literature on BGs from emerging countries, which has mainly focused on issues such as the formation and rise of BGs, their performance and ownership structure, their social (beyond the economic) significance, their political and institutional embeddedness, but has so far left a number of interesting issues largely unexplored, including the study of the international evolution of BGs through their foreign investment activities in comprehensive and comparative ways.

The paper contributes to the understanding of Chinese and Indian EMNEs in two ways. First, it explores internationalisation strategies with firm-level data on all types of overseas activities, in a way that allows a broad understanding of the different dimensions – both separately and jointly – of sector as well as geographical spread and foreign entry modes. Second, it groups all investing companies from China and India into Europe from 2003 until 2011 by the BG they belong to, so as to be able to carry out a broad-based comparison of their diversification strategies in Europe. The remainder of the paper is as follows. Section 2 reviews the literature on BGs from China and India. Section 3 analyses the patterns of international expansion of Chinese and Indian BGs in Europe. Section 4 draws some implications for our understanding of the broad corporate strategies of Chinese and Indian BGs depending on their industry belonging and technological trajectories. Section 5 concludes.

1. **Business Groups from China and India: theory and evidence on diversification strategies**

The literature on BGs from emerging countries is huge, spanning across different research areas ranging from international business to economics, from industrial organisation to corporate finance. A lot of research has also been conducted in business history and economic sociology, as well as in industrial development studies. These areas are as diverse as possible in terms of theoretical frameworks, methodological approaches and research questions (Colpan et al, 2010). Overall, much attention has been given to the peculiarities of BGs originating from single economies, either individually or in a comparative perspective. The literature so far has shown that BGs in different countries share some similarities, but at the same time also differ from one another in that they have their own unique characteristics, reflecting the socio-economic and institutional contexts of their home countries. Country-specific studies on BGs have shown that groups around the world vary considerably in many respects. As regards the sector spread, some are extremely diversified (often operating in a variety of manufacturing sectors and also banking and financial sectors), whereas others are more focused. In terms of ownership structure, some of them are vertically integrated, while other are more horizontally linked through cross share-holdings. Finally, as far as the geographical spread is concerned, some groups are more domestic oriented, while others have been pursuing foreign expansion strategies since their emergence.

Much of the scholarly discussion on BGs has dealt with two broad issues. First, the question whether this particular organisational form has a positive impact on affiliated firms’ performance compared to non-affiliated firms (Keister, 1998 and 2000; Morck et al, 2005; Yiu et al., 2005; Guest and Sutherland, 2010). Second, the question whether business groups are to be seen as ‘paragons’ or ‘parasites’ in the development process (Khanna and Yafeh, 2007). Comparatively less research has investigated the international dimension and outbound reach of BGs and how the cross-border activities of BGs impact on their overall performance, on the productivity and profitability of affiliates, and ultimately on the economic viability of BGs from their home country perspective as well as from an international development angle. The phenomenon of the internationalisation of BGs from emerging economies has been extensively explored in single country or comparative analyses, mainly from an historical perspective (Colpan et al, 2010). Empirical research has been so far rather scant, with the only exception of a survey-based study on 219 group-affiliated firms by Yiu et al (2013) who explored how the unique multinational (ownership-location-internalization) attributes that Chinese BGs possess for expanding overseas, can help group affiliates to pursue different types of internationalization strategies. Specifically, they argue that business groups’ attributes have differential impacts on the pursuit of market-seeking and asset-seeking internationalization strategies. Whereas market-seeking internationalization exploits home-developed advantages in other emerging markets and cost advantages for staying at the lower end of the value chain in developed markets (Khanna and Palepu, 2006), asset-seeking internationalization aims at acquiring strategic assets from more advanced countries to augment competitive disadvantages in both home and host markets (Mattews, 2006).

In this section, we provide a review of the issue of diversification strategies, as it has been dealt with first within the general BG literature and then specifically by the specialised literature on Chinese and Indian BGs. Compared to the experience of BGs from early industrialisers in Japan and South Korea, where “firms affiliated respectively with *chaebols* and *keiretsu* have been internationalising for decades” (Colpan et al, p. 929), the internationalisation process is a more recent phenomenon for Chinese and Indian firms due to institutional and policy factors.

Delios and Ma (2010) look at trends in sixteen countries each with a large number of groups with the aim to draw broad conclusions on how BGs evolved in their approaches to product and geographic diversification. The prevalence of studies on BGs from individual economies, together with the lack of comprehensive firm-level data on both domestic and cross-border affiliate networks of firms belonging to BGs, are possibly the major reasons for the widespread attention by scholars on product diversification to the detriment of geographic diversification on the one hand, and, on the other hand, on the hypothesis that BGs have a predilection for extensive product diversification, but exhibit limited geographic diversification (Delios and Ma, 2010).

Product and geographic diversification by emerging market firms has been a central and important research area within strategy studies (Rumelt et al, 1994; Palich et al, 2000; Leung and White, 2004). Three broad issues have been explored, all of them being largely related to product, and only to a minor extent to geographic diversification: the motives and incentives for diversification; the extent to which diversification is context-specific; and the impact of diversification on performance. The first issue of why firms diversify their product portfolio (both within and across industrial sectors) has been dominant in the literature, and a number of explanations for product diversification have been identified. Diversification is an efficiency-enhancing strategy, i.e. a risk-spreading practice that firms adopt with the aim to cope with the unpredictable and divergent profitability of different industrial sectors (Williamson, 1975; Gort, 1984). However, competing explanations have been put forward, which consider diversification as the result of managerial decisions aimed at increasing their own benefits (Jensen, 1986; Hoskisson and Hitt, 1990; Besanko et al, 2000). The second issue of context-specificity of diversification strategies by emerging market firms has been explored by Ramaswamy et al (2002) who studied the impact of ownership of Indian firms on diversification strategies. The third issue, i.e. the impact of diversification on performance has brought about mixed results. There is evidence of positive but non-linear effects of product diversification, as the benefits of increasing diversification are offset by the costs of rising organisational and managerial complexity, especially in the case of unrelated diversification (Hoskisson and Hitt, 1990; Datta et al, 1991; Montgomery, 1994; Palich et al, 2000). As regards geographic diversification, evidence shows that the impact on performance is even more complex, as the latter declines at earlier stages of diversification, then increases but eventually declines at high levels of diversification (Grant et al ,1988; Datta et al, 1991; Hitt et al, 1997; Lu and Beamish, 2004).

As regards the specific product and geographic diversification strategies of BGs from China and India, previous research shows recent internationalisation efforts by Chinese BGs, particularly in resource related industries, which often face opposition from overseas regulators, most frequently when investors are State-owned or controlled groups, although private groups are also pretty active in international growth. Product diversification levels have been consistent over time, because of stable industry holdings as well as of limited entry and exit in industry and product segments. As for Indian BGs, the 1990s witnessed a relatively nascent stage of international expansion for group affiliates, followed by recent acceleration in later half of 2000s with many high profile international acquisitions. India hosts both narrowly focused groups and highly product diversified, with very high levels of diversification among the most widely diversified groups. Indian BGs are among the most diversified worldwide (second only to Chilean BGs in a comparison among 9 emerging economies over the 1990s) also according to Khanna and Yafeh (2007), who measure the group product diversification as the number of two-digit industries in which the group operates.

A further issue that has been explored by the literature is the evolution of BGs’ diversification strategies due to the interplay between institutional developments in their home economies and capabilities development by the groups themselves. More specifically, building on Guillén (2010), Dalios and Ma (2010) distinguish groups according to different types of capabilities, and argue there is a sequence in capability development from generic, i.e. non product specific capabilities (such as generic ‘contact capabilities’ (…) and ‘project execution capabilities’ (…)), to more product specific organisational and technological capabilities. Moreover, building on Schneider (2010), they also distinguish among different types of BGs according to the prevalence of either type of capabilities, and tentatively place nations into such typology, although different categories might not necessarily be mutually exclusive and groups within a country will vary according to capabilities and finally because the types of capabilities will vary within a group. Such typology includes ‘policy-induced’ groups with a prevalence of contact capabilities, ‘portfolio’ groups in countries where generic capabilities prevail, ‘organic’ groups in countries where more specific capabilities are widespread. This typology suggests that the degree of product diversification will depend on the composition of the different types of capabilities within a BG; the higher the generic vs the specific capabilities, the more diversified a BG will be. According to their typology, Chinese BGs follow into the ‘policy-induced’ category with ‘contact’ capabilities, whereas Indian BGs belong to the ‘portfolio’ category with generic capabilities.

Among the institutional developments that can have an impact on emerging economies’ BGs’ diversification strategies, the degree of competition in the domestic market has been identified as a relevant driver of the changing incentives to diversification. Imperfect markets and a low degree of competition open up opportunities for more profitable activities in a variety of sectors. As institutions become stronger and market imperfections decline, generic capabilities become less and less profitable and the need increases to invest in specific capabilities, and therefore also the product relatedness rises. This would suggest that increasing competition within a country over time should tend to reduce the incentives of that country’s BGs to diversify their product portfolios. Moreover, countries with higher degrees of competition should host less diversified BGs.

Comparatively much less research has been devoted to build a conceptual framework to study the geographical diversification strategies of BGs. In the next section we turn to analysing the patterns of diversification of Chinese and Indian BGs in Europe, through a typology that jointly considers product and geographical diversification.

1. **Chinese and Indian Business Groups entering Europe: entry modes, country and industry patterns**

In this section we describe the investment activities of Chinese and Indian firms in Europe with firm-level evidence on investing firms organised by taking the BG they belong to as a unit of analysis. First, we will put Chinese and Indian FDI in Europe in a broad international perspective so as to be able to assess the position of Europe in their overall internationalisation strategies and then we will focus on Europe as a major foreign location chosen by Chinese and Indian BGs to diversify their production activities outside of Asia.

Although Asia has always been the top destination for the overall outward expansion of Chinese and Indian firms, Europe has recently emerged as a favourite destination for many of the EMNEs from the two largest emerging economies of Asia. In particular, when looking at the number of FDI, Europe is the second largest destination for Chinese investors (30% -- 26% in EU only -- of the total, corresponding to 921 -- 777 in EU only -- deals), after Asia (with 39%, corresponding to 1,166 deals). When differentiating by type of deals, Europe is the first destination for greenfield investments, closely followed by Asia, which is instead the main destination for M&A, followed by North America. Also for Indian investors, Asia is the main destination with 1,396 deals, corresponding to 38% on the total and the European Union follows with 24% of total deals. Unlike China, Europe is the favourite destination for Indian acquisitions with 34% of total M&A, closely followed by Northern and Central America with 33%, while Asia is the top destination for greenfield investments (almost half of the total). A major advantage of relying on firm-level data is that they allow for a much more accurate picture of the foreign investment patterns compared to the distribution suggested by aggregate BoP-based data, which shows Asia accounting for 71% of the total stock of Chinese FDI, and North America and Europe together receiving slightly over 10%.

***Entry modes***

Although the overseas expansion of emerging market firms, especially Chinese and Indian ones, has invariably been attracting the greatest attention at times of large acquisitions of foreign firms, M&A are not the most preferred type of foreign expansion for those investors. Instead, the establishment of wholly owned subsidiaries has largely outnumbered M&A, and the former have increased much more rapidly than the latter (which actually declined over the last few years), which makes a striking similarity between Chinese and Indian investors.

Chinese firms carried out 3,020 cross-border deals over the years from 2003 until 2011, of which almost 70% (i.e. 2,092) were greenfield investments, while only 623 were M&A, and 305 were minority investments. All the different types of deals have increased in the time span covered by EMENDATA (currently from 2003 until 2011), but the number of greenfield investments exhibits the most dramatic increased since 2006 while M&A and minority investments increased much less (Figure 1). This trend can be explained by the recent effort by the Chinese government to extend the provisions of the *Go Global* policy to private firms (Luo et al., 2010) whose internationalization strategy is largely undertaken by means of wholly owned subsidiaries rather than M&As. [[1]](#footnote-1)

Similarly, in the case of Indian investors, the large majority of FDI between 2003 and 2011 has taken the form of greenfield investments: 70% (i.e. 2,559) out of 3,640 cross-border deals were greenfield, only 911 M&A and 170 minority investments. Indian FDI have also been increasing over time, but only until 2009, when a drop in outward FDI was registered, and the subsequent increase in 2010-2011 has not allowed India to recover the peak level of year 2008 (Figure 1).

**Figure 1 Number of Chinese and Indian FDI to the world by type, 2003-2011**

Source: authors’ elaboration on EMENDATA, fDImarkets, Zephyr, SDC Platinum.

When looking at Chinese and Indian FDI in Europe (Figure 2), the similarities between the two almost disappear. While Chinese FDI in Europe resemble the general pattern depicted in Figure 1, Indian FDI in Europe are much more equally distributed between greenfield and M&A, and both types declined sharply after 2008. This shows that the increasing overall trend in overseas investment by Indian investors is explained mainly by extra-UE activities, while Europe as a whole is losing importance as a foreign location.

**Figure 2 Number of Chinese and Indian FDI to the EU by type, 2003-2011**

Source: authors’ elaboration on EMENDATA

***Industry patterns***

As regards industry patterns worldwide, manufacturing represents 63% of the total number of Chinese investments followed by investments in services (30%). If we consider modes of entry, manufacturing is the main specialization for greenfield investment (71%); the opposite for M&A, where services attracts 55% of deals, followed by manufacturing with 35%. For Indian investors, instead, the service sector is the most attractive (56% of deals, as opposed to 38% of manufacturing). This is true also distinguishing between greenfield investments and M&A, although in the Indian case it is among M&A that values are closer (53% services and 42% manufacturing).

As regards specifically Europe, and especially EU27, is a top destination for Chinese greenfield FDI in manufacturing with 42% of the total number of greenfield investments, followed by Asia with 30%. Asia is the favourite destination for greenfield FDI in services with 48%. In relation to M&A, the majority of deals in services and manufacturing are in Asia. In services, 57.6% of M&A are in Asia with a very high share in Hong Kong, followed by the USA.

Asia is instead the top destination for Indian greenfield FDI both in manufacturing, with 43% of total greenfield investments, and in services, with 48%. For both macro-sectors, the EU27 is the second top destination, with 21% and 22% respectively. A very different situation comes out for M&A: the EU27 is the top destination in manufacturing (47%) followed by Northern and Central America (22%), while the opposite happens for services, where Northern and Central America are the top destination (43%) and the EU27 is the second (26%). The main difference can be found in the degree of concentration of M&A: in fact, while the single top countries in both manufacturing and service greenfield have a share of around 10%, for M&A the top country (the United States) attracts the 20% of total M&A in manufacturing and the 39% in services.

***From a deal-level to a BG perspective***

In the previous section we described the presence of Chinese and Indian investment in Europe through evidence on single investment deals. However, in order to perform a comprehensive analysis of corporate investment strategies we have to consider that foreign investments may not be isolated and unrelated one to another. Instead, not only can investing firms carry out multiple investments, but it could also be the case that different investing firms are related to one another because they belong to the same BG. In this case, investments carried out by investing firms belonging to the same BG should be considered altogether as part of an overall internationalisation strategy. Therefore, in this section we group investment deals according to the BG they ultimately refer to.

Chinese BGs investing in the EU27 over the years 2003-2011 are 513 and they account for 841 investment deals (Table 1a). Indian BGs investing in the EU27 are 449 accounting for 949 deals (Table 1b). The single most evident feature that characterises Chinese and Indian BGs entering Europe is the vast majority of firms with investment deals in just one country and sector (most of them have just one European affiliate, only very few have more than one affiliate – so that the average number of deals for this group is close to 1 and it is the same for China and India). This type of BGs with an extremely simple diversification strategy – which we call “timid internationalisers” – outnumbers by far all other types of BGs for both countries, but much more so for China than for India. “Timid internationalisers” from China are 437 (85% of the total) and 326 from India (73% of the total) (they account for 477 and 374 deals respectively). Although -- with the current dataset -- we cannot contrast these BGs’ expansion strategies in Europe with other regions, nor can we discuss their role within global internationalisation strategies, the vast majority of “timid internationalisers” shows that Europe is considered as a sort of outpost – most probably as an entry point to the EU internal market – for Chinese and Indian groups.

**Table 1 Typology of BGs according to FDI distribution across sectors and countries in Europe**

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  | Sectors | | |  |
|  |  |  |  |  | 1 | | >1 |  |
| 1. CHINA |  |  | countries | >1 | 38 BGs (7%) – 124 FDI | | 30 BGs (6%) – 223 FDI |  |
|  |  |  | 1 | 437 BGs (85%) – 477 FDI | | 8 BGs (2%) – 17 FDI |  |
|  |  |  |  |  | Sectors | | |  |
|  |  |  |  |  | 1 | >1 | |  |
| 1. INDIA |  |  | countries | >1 | 59 BGs (13%) – 205 FDI | | 49 BGs (11%) – 335 FDI |  |
|  |  |  | 1 | 326 BGs (73%) – 374 FDI | | 15 BGs (3%) – 35 FDI |  |
|  |  |  |  |  |  | |  |  |

Source: EMENDATA

A further striking similarity between the international expansion strategies of Chinese and Indian BGs in Europe is the distribution by group type. The second most important type of BG in terms of number is the “multiple country/single sector”, i.e. BG that follow a geographical diversification strategy but maintain their industry specialisation. The third category is opposite compared to the “timid internationalisers”, i.e. a small number “strong internationalisers” (30 Chinese BGs, or 6% of the total; 49 Indian BGs, or 11% of the total) that follow complex internationalisation strategies (UNCTAD, ?) with several affiliates in different countries and in multiple sectors. The average number of affiliates for this group is 7.4 and 6.8 deals for Chinese and Indian BGs respectively. Finally, the remaining type of BGs diversify just along the sector dimension (“multisector/single country”).

In order to fully describe the complexity of internationalisation strategies of Chinese and Indian firms in Europe, we add the third data dimension we can get from EMENDATA, i.e. the distribution of FDI by type for the different types of BGs (Table 2). Overall, greenfield investment tend to be the most favoured form of FDI, regardless of the type of group or home country (with the only exception of one type of Indian BG, the “multisector/single country”). However, the relative importance of different Chinese and Indian FDI types in Europe varies greatly according to the type of BG. The two extreme types of BGs -- timid and strong internationalisers – both prefer greenfield to other forms and this is true for both countries but even more so for Chinese BG who are definitely in favour of wholly-owned subsidiaries, while Indian BGs tend to choose a more balanced combination of wholly-owned subsidiaries and majority controlled affiliates.

|  |
| --- |
|  |
| **Table 2** | **Distribution of FDI in Europe by entry mode for different types of BGs** | | | | | | |
|  |  | |  | |  | |  |
| **Chinese BGs** | Greenfield | M&A | | Minority investment | | Total | |
| Timid internationalisers | 377 (79%) | 79 (17%) | | 21 (4%) | | 477 (100%) | |
| Multicountry/single sector | 113 (91%) | 8 (6%) | | 3 (2%) | | 124 (100%) | |
| Multisector/single country | 10 (59%) | 7 (41%) | | 0 (0%) | | 17 (100%) | |
| Strong internationalisers | 173 (77%) | 37 (17%) | | 13 (6%) | | 223 (100%) | |
| Total |  |  | |  | | 841 | |
| **Indian BGs** | Greenfield | M&A | | Minority investment | | Total | |
| Timid internationalisers | 178 (48%) | 174 (46%) | | 22 (6%) | | 374 (100%) | |
| Multicountry/single sector | 140 (68%) | 61 (30%) | | 4 (2%) | | 205 (100%) | |
| Multisector/single country | 10 (29%) | 21 (60%) | | 4 (11%) | | 35 (100%) | |
| Strong internationalisers | 192 (57%) | 129 (39%) | | 14 (4%) | | 335 (100%) | |
| Total |  | |  | |  | | 949 |

Source: authors’ elaborations on EMENDATA

Inter-country differences emerge even more vividly when looking at the BGs whose foreign expansion in Europe goes along a single dimension. In the case of China, both intermediate types of BGs also prefer greenfield investment to M&A, which makes prima facie evidence that home-country factors might explain why Chinese firms investing in Europe – regardless of the type of BG they belong to – prefer to establish wholly-owned subsidiaries rather than merging with or acquiring existing firms, while Indian firms tend to opt for M&A much more frequently.

Investment motivations are also certainly among the factors explaining the composition of FDI by different types of BGs. On the one hand, groups which are sectorally specialised and pursue a geographical diversification strategy will more likely have sector-specific competences which they can build upon when entering different locations, and will need to rely relatively less on M&A with local firms. On the other hand, groups following a sector diversification strategy with a geographical focus will most likely tend to build upon their knowledge of the domestic market to diversify across different sectors, but will most probably lack sector-specific competences and therefore prefer to merge with local firms.

***Diversification across sectors and countries***

As reviewed in Section 2, a prominent issue in country-focused BG research is the degree of product and industry diversification. One of the acquired results from the specialised literature more specifically on the evolution of BGs in China and India is that, compared to BGs from other early industrialising countries in Asia such as Japan and South Korea, they exhibit rather different sector diversification strategies. Diversification has been modest over time in China, due to stable industry holdings and limited entry and exit from industrial sectors (Lee, 2010), while Indian BGs have been either narrowly focused, or highly diversified (ref). In what follows we explore the extent of diversification of Chinese and Indian BGs in Europe over the years 2003-2011 along three dimensions – sector, country and type - with firm-level data on European affiliates. We also jointly analyse how the dimensions of diversification evolved over those years, with the aim to better understand both EMNEs’ corporate strategies and the position of Europe within those strategies.

Regardless of the type of BG as classified above, diversification is, on average, slightly higher for Indian than Chinese BGs, both sector- and country-wise (Table 3). For both countries, geographical diversification is higher than industry diversification, but Chinese BGs in Europe are more diversified geographically than sectorally, compared to Indian BGs investing in the continent. Moreover, besides the high number and dominant share of BGs from both countries with limited European exposure both country- and industry-wise (the so called “timid internationalisers”), a limited number of other BGs stand out with high levels of sector diversification, in the case of China, of geographic diversification, in the case of India. This clearly stands out when contrasting sector to country diversification measured as deviations from the mean (Figures 3 and 4).

Among the most country-wise internationalised BGs from China: Huawei, ZTE, ICBC, Bank of China, while ChemChi is a case of a more balanced diversified groups in terms of sectors and countries, at least in Europe. Among Indian BGs, Tata, Mahindra Group and Reliance stand out as the most diversified across both sectors and countries, and among the others, to a minor extent Moser Baer, GMR Group, Wipro and Value Point System.

**Table 3 Basic statistics about sector and country presence of Chinese and Indian BGs in Europe**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | Chinese BGs | | Indian BGs | |
|  | Sector | Country | Sector | Country |
| min | 1.00 | 1.00 | 1.00 | 1.00 |
| max | 5.00 | 15.00 | 13.00 | 13.00 |
| mean | 1.09 | 1.29 | 1.25 | 1.43 |
| mode | 1.00 | 1.00 | 1.00 | 1.00 |
| median | 1.00 | 1.00 | 1.00 | 1.00 |
| std. dev. | 0.35 | 1.11 | 0.93 | 1.11 |

Source: authors’ elaboration on EMENDATA

**Figure 3 Chinese BGs: sector and country spread\***

\*deviation from the mean.

Source: authors’ elaboration on EMENDATA

**Figure 4 Indian BGs: sector and country spread\***

\*deviation from the mean.

Source: authors’ elaboration on EMENDATA

1. **Analysing the international expansion of the top Chinese and Indian BGs investing in Europe**

In this Section we focus on the top Chinese and Indian BGs investing in Europe, in terms of number of outward investments. Table 4 shows basic statistics on FDI types by the top Chinese and Indian BGs investing in EU27 between 2003 and 2011. When comparing China to India, for Chinese investors, the most common mode of entry, regardless of the sector of specialization is by the establishment of new activities (greenfield). Only one group, *ChemChina*, has also been involved in a significant number of acquisitions. Also for Indian investors greenfield is the most frequent entry mode; however, Indian BGs are much more involved in acquisitions, and in a couple of cases (Mahindra and Ranbaxy) the two modes have been equally chosen.

**Table 4 Top ten Chinese and Indian business groups investing in EU27, by deal type (2003-2011)**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| Chinese Group | **Total** | Greenfield | M&A | Indian Group | **Total** | Greenfield | M&A |
| Huawei Technologies | **52** | 52 | 0 | Tata Group | **71** | 62 | 9 |
| ZTE | **24** | 24 | 0 | Mahindra Group | **22** | 11 | 11 |
| China National Chemical (ChemChina) | **22** | 13 | 9 | Wipro | **20** | 15 | 5 |
| Industrial and Commercial Bank of China (ICBC) | **15** | 15 | 0 | Reliance | **16** | 10 | 6 |
| Shanghai Automotive Industry Corporation (SAIC) | **11** | 8 | 3 | State Bank of India (SBI) | **13** | 13 | 0 |
| Suntech Power Holdings | **10** | 9 | 1 | Suzlon Energy | **12** | 8 | 4 |
| Bank of China | **8** | 8 | 0 | ICICI Bank | **11** | 11 | 0 |
| YingKe | **8** | 8 | 0 | Infosys Technologies | **11** | 11 | 0 |
| Chint Group | **7** | 7 | 0 | Punjab National Bank (PNB) | **11** | 11 | 0 |
| LENOVO | **6** | 6 | 0 | Ranbaxy Laboratories | **10** | 5 | 5 |

Source: EMENDATA

Table 5 shows main destinations of Chinese and Indian top 5 BGs in Europe, compared. The UK attracts the highest number of investments from the top five Chinese BGs and also most of their acquisitions. Although the internationalization strategies of all the BGs are quite diverse with regard to their geographical distribution, *Huawei*, *Suntech*, and *ZTE* have a broader geographical scope than *SAIC* which main investment destination is the UK, plus one investment each in Italy and Germany, both countries with a strong tradition in the automotive sector. The main destination for *ChemChina* is France where there are 11 investments, including 3 acquisitions; besides important target countries are the UK and Spain. As regards the sector spread of Chinese and Indian BGs, Table 6 shows that Indian BGs are much more diversified across sectors compared to their Chinese peers, and this does not seem to be a sector-specific characteristic, which is evident when comparing the biggest BGs from each country belonging to the same sector (such as automotive OEM).

**Table 5 Deals by top 5 Chinese and Indian groups, by EU27 target country**

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **EU27 Country** | **China National Chemical (ChemChina)** | | **Huawei Technologies** | | **Industrial and Commercial Bank of China (ICBC)** | | **Shanghai Automotive Industry Corporation (SAIC)** | | **ZTE** | |
|  | **Greenfield** | **M&A** | **Greenfield** | **M&A** | **Greenfield** | **M&A** | **Greenfield** | **M&A** | **Greenfield** | **M&A** |
| United Kingdom | 1 | 3 | 5 |  | 2 |  | 6 | 3 | 2 |  |
| France | 8 | 3 | 5 |  | 1 |  |  |  | 4 |  |
| Germany |  |  | 6 |  | 3 |  | 1 |  | 6 |  |
| Spain | 3 | 1 | 4 |  | 2 |  |  |  | 1 |  |
| Italy | 1 |  | 7 |  | 1 |  | 1 |  |  |  |
| Hungary |  |  | 7 |  |  |  |  |  |  |  |
| Romania |  |  | 4 |  |  |  |  |  | 3 |  |
| Netherlands |  |  | 3 |  | 2 |  |  |  | 1 |  |
| Belgium |  | 2 | 2 |  | 1 |  |  |  |  |  |
| Sweden |  |  | 3 |  |  |  |  |  | 2 |  |
| Other countries |  |  | 6 |  | 3 |  |  |  | 5 |  |
| **EU27 Country** | **Mahindra Group** | | **Reliance** | | **State Bank of India (SBI)** | | **Tata Group** | | **Wipro** | |
|  | **Greenfield** | **M&A** | **Greenfield** | **M&A** | **Greenfield** | **M&A** | **Greenfield** | **M&A** | **Greenfield** | **M&A** |
| United Kingdom | 3 | 3 | 7 | 4 | 11 |  | 33 | 5 | 3 |  |
| France |  |  |  |  |  |  | 3 |  | 1 |  |
| Germany | 3 | 4 | 1 | 1 | 1 |  | 7 | 2 | 4 | 1 |
| Spain | 1 |  |  |  |  |  |  | 1 |  |  |
| Italy |  | 1 |  |  |  |  |  | 1 |  |  |
| Hungary | 2 |  |  |  |  |  | 1 |  | 1 |  |
| Romania |  |  |  |  |  |  | 2 |  | 3 |  |
| Netherlands | 2 |  |  | 1 | 1 |  | 9 |  |  |  |
| Belgium |  | 1 |  |  |  |  | 2 |  |  |  |
| Sweden |  |  |  |  |  |  |  |  | 1 | 1 |
| Other countries |  | 2 | 2 |  |  |  | 5 |  | 2 | 3 |

Source: EMENDATA

**Table 6 Top 5 Chinese and Indian groups: group and subsidiaries’ sector belonging**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Chinese Group** | **Huawei Technologies** | **ZTE** | **China National Chemical (ChemChina)** | **Industrial and Commercial Bank of China (ICBC)** | **Shanghai Automotive Industry Corporation (SAIC)** |
| **Group sector** | **Communications** | **Communications** | **Chemicals** | **Financial Services** | **Automotive OEM** |
| Sector of investment: |  |  |  |  |  |
| **Automotive OEM** |  |  |  |  | X |
| **Chemicals** |  |  | X |  |  |
| **Communications** | X | X |  |  |  |
| **Electronic Components** |  | X |  |  |  |
| **Financial Services** |  |  |  | X | X |
| **Plastics** |  |  | X |  |  |
| **Rubber** |  |  | X |  |  |
| **Software & IT services** | X |  |  |  |  |
| **Textiles** |  |  | X |  |  |
| **Indian Group** | **Mahindra Group** | **Reliance** | **State Bank of India (SBI)** | **Tata Group** | **Wipro** |
| **Group sector** | **Automotive OEM** | **Coal, Oil & Gas** | **Financial Services** | **Automotive OEM** | **Software & IT services** |
| Sector of investment: |  |  |  |  |  |
| **Automotive** | X |  |  | X |  |
| **Biotech & Pharmaceuticals** |  | X |  |  |  |
| **Business Services** | X | X |  | X | X |
| **Chemicals** |  | X |  | X |  |
| **Coal, Oil & Gas** |  | X |  | X |  |
| **Communications** |  | X |  | X |  |
| **Electronics** |  | X |  | X |  |
| **Financial Services** |  | X | X | X |  |
| **Food, Beverage & Tobacco** | X |  |  | X |  |
| **Industrial Machinery & Engines** | X |  |  |  | X |
| **Leisure & Tourism** | X | X |  | X |  |
| **Metals** | X |  |  | X |  |
| **Other Transport** | X |  |  | X |  |
| **Plastics & Rubber** |  | X |  |  |  |
| **Software & IT services** | X | X |  | X | X |

Source: EMENDATA

1. **Concluding remarks (very preliminary)**

Some recent attempts has been made to adopt a BG perspective to analyse economic issues such as the relationships between organisational structure and intra-firm production decisions (such as in Altomonte and Rungi, 2013). BG level also allows an in-depth analysis of international expansion strategies of EMNEs and this is likely to be one of the most promising avenues for future empirical research on emerging market multinationals. In particular, these might include analyses of intra-group strategies and their impact on group performance and productivity, as well as global value chain analyses (see e.g. Crescenzi et al 2013).

In this paper we have started to analyse diversification strategies of BGs from China and India when entering Europe, the second most favoured destination for their outward expansion. We rely on a new database, EMENDATA, gathering firm-level data on investing companies from emerging economies in European countries since 2003, which allow grouping investors by the BG they belong to. We build a typology of BGs according to their patterns of product and geographical diversification. We find a number of similarities and differences in the outward expansion of Chinese and Indian BGs in Europe. We find that the majority of Chinese and Indian BGs entering Europe fall in two categories: BGs with extremely limited multinational activity (just one affiliate), and BGs pursuing broader and complex internationalisation strategies encompassing industry and geographical diversification, as well as multiple entry modes. Overall, internationalisation strategies of Chinese and Indian differ much more prominently in terms of sector spread than geographical spread.

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1. Germany receives the largest number of Chinese greenfield investments in Europe, made by family-owned private companies, which often are not recorded by MOFCOM, and in many cases are small scale measured by their value (Giuliani et al., 2013; Hanemann and Rosen, 2012). [↑](#footnote-ref-1)