

**Accelerated capability creation and internationalization with  
Business Group Embeddedness –  
The Case of Tata Motors in Passenger Cars**

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**Submitted by**

Gert Bruche  
Berlin School of Economics and Law (HWR-Berlin),  
Badensche Str. 50-52, D-10825 Berlin,  
Germany  
[gert.bruche@hwr-berlin.de](mailto:gert.bruche@hwr-berlin.de)

Florian Becker-Ritterspach  
University of Groningen,  
Dept. of International Business & Management,  
P.O. Box 800,  
9700 AV Groningen,  
The Netherlands.  
[florian.br@gmx.de](mailto:florian.br@gmx.de)

## 1. Introduction

The research on '*emerging multinationals*' (EMNCs) - or 'third-world', 'latecomer', 'new', 'infant', 'adolescent', 'challenger' multinationals - is not an entirely recent phenomenon (see e.g. Heenan/Keegan 1979, Kumar/McLeod 1981, Wells 1983, Lall 1983). However, there has been a renewed interest in the last couple of years which has led to a fast growth of the literature under a host of different perspectives. A number of journals have dedicated special issues to the topic, for example the Journal of International Business Studies (2007), the Journal of International Management (2007), the International Journal of Technology and Globalization (2008) and Industrial and Corporate Change (2009). A large part of the literature has been devoted to questions of capability creation of these companies and to the question of whether and how the internationalisation process of EMNCs differs from that of traditional MNCs from the Triad.

Another longstanding stream of research has been devoted to the analysis of *business groups in emerging countries* (BGs) which have been defined as legally independent firms, operating across different industries, which are bound together by formal and informal ties. There is a long tradition of research on such groups going for example back to studies of Japanese Zaibatsu, Keiretsu and Korean Chaebol. One prevailing perspective has been the reliance on institutional economics, in particular transaction cost economics (e.g. Caves/Uesuka 1976, Chang/Choi 1988). Next to institutional economics other theoretical perspectives have been adopted in the inquiry of BGs including the resource based view, economic sociology (e.g. Granovetter 1994) and political economy (e.g. Encarnation 1989).

However, while both the EMNC and the BG literature have been growing substantially over the past years there has been little cross-fertilization so far. The research on EMNCs has tended to view the capability creation and internationalisation processes as that of independent firms. On the other hand, BG research has generally paid less attention to these processes or considered them largely at group rather than individual affiliated firm level. Hence, both the EMNC and the BG literature have so far developed in relative isolation which is particularly surprising if we keep in mind that many well-known latecomer EMNCs<sup>1</sup> are BG group affiliates. We therefore believe that understanding the capability creation and internationalization of EMNCs warrants a closer look at the role of BG embeddedness of those firms. Drawing on business group literature we argue that companies benefit in two particular ways from their business group affiliation in the capability creation and internationalization process. First, business group affiliation plays a key role in providing access to internal and external resources and capabilities in the creation of internationally exploitable assets. Second, business group affiliation plays a key role in buffering the company from the risk that are involved in creating and exploiting assets through internationalization. We will try to illustrate our argument by drawing on the case of Tata Motors Ltd (TML) in passenger cars which is affiliated with the Tata Business Group.

The remainder of this article is organized as follows. In section 2 we discuss core literature on emerging market firm capability creation and internationalization. In the same section, we briefly review the literature that has started to link the issue of BG affiliation with emerging market firm internationalization. In the second part of section 2 we take a closer look at the BG literature and explore how the BG literature can inform our understanding of emerging market firm capability creation and internationalization. Following our methodology section, in the third section, the fourth section explores to how TMLs BG affiliation may explain how and why the company creates capability and internationalizes. Following this empirical exploration we draw conclusions in the fifth section, link our findings with some of the literature and suggest further avenues for research.

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<sup>1</sup> Examples are for instance in Korea: Samsung Electronics, LG Electronics or Hyundai Motors as part of their chaebols; In India: Tata Steel as part of the Tata Group, Hindalco as part of the Aditya Birla Group; in Turkey Arcelik Beko as part of the Koc group or Anadolu Efes as part of the Anadolu Group; in China (qiyejituan): Haier Electronics as part of the Haier Group.

## 2. Literature discussion

### 2.1 Emerging multinationals

Understanding how and why multinationals from emerging markets internationalize has been theorized since the 1980s. However, in recent years this discussion has received a new impetus. It has been argued that we see a new wave of emerging market firm internationalization that differs in motives and pattern from earlier developments. From a theoretical perspective much of the debate has centred on the question whether emerging market firms internationalization can be understood with the theoretical tools that have been applied to the internationalization of developed country MNCs (e.g. Athreye/Kapur 2009, Amighini et al. 2009, Guillén/García-Canal 2009, Ramamurti/Singh 2009).

While some suggest (e.g. Dunning 2006) that traditional approaches – OLI paradigm, incremental approach of internationalization – can be extended and adapted to the case of EMNC, others argue that a new generic approach is required to understand emerging market firm internationalization. Specifically, much of the theoretical debate revolves around the issue whether “asset exploitation” or “asset seeking” would be the main driver for emerging market firm internationalization (Aulakh 2006). Taking the former perspective, proponents of OLI framework argue that EMNC internationalization motives fall well within the ambit of “ownership” or “firm-specific advantages” that are being exploited abroad. It has been suggested that while EMNC may lack traditional assets such as advanced product or process technology, they may hold other firm-specific assets such as the capability to operate in volatile or turbulent environments, dealing with institutional voids or command social and relational capital that give them some particular competitive advantage in a globalized business environment (e.g. Li 2007, Yiu et al. 2007, see also Dunning 2006, Buckley 2007). Hence, in this perspective firm-specific assets still precede the internationalization of the firm.

Contrasting with this view, alternative approaches argue that emerging market firms internationalize precisely because they lack organization or firm-specific assets. In this more resource based perspective a core driver of internationalization is “asset seeking” behaviour to become internationally competitive. Mathews (2006) spearheaded this perspective and developed the “resource linkage, leverage, and learning” (LLL) framework. He argues that EMNCs internationalize in order to link, leverage and learn and do not possess internationally competitive assets at the outset. Similarly, Luo and Tung’s (2007) “springboard perspective” argues that firms internationalize “to acquire strategic assets needed to compete more effectively against global rivals and to avoid the institutional and market constraints faced at home” (482). Hence, in this perspective inward as well as outward internationalization plays a pivotal role for capability creation and further internationalization.

Now, looking at the evidence of emerging market firm internationalization there appears to be no conclusive evidence for a pure “asset exploitation” or “asset seeking” rationale. Rather there seems to be growing consensus that both asset exploitation and asset seeking are strong motives for EMNC internationalization. In fact both may happen simultaneously and may be considered as mutually enabling (Aulakh 2007). This, in turn has led to the development of integrated frameworks as presented for example by Li (2007).

While there appears to be some growing agreement that “asset exploitation” or “asset seeking” may be crucial rationales for emerging market MNCs to internationalize, there is a much wider debate on how the creation of exploitable assets of EMNCs as well as their willingness and ability to seek and exploit assets abroad is enabled and constrained by contextual conditions. These conditions include, for example, organizational conditions, environmental conditions in home and host country or even the wider global business environment. While it is beyond the scope of this paper to review this literature in full, the EMNCs literature has clearly recognized that firm embeddedness plays a core role in how and why EMNCs internationalize. In this context specific home institutional as well as organizational network conditions have been discussed (e.g. Yiu et al. 2007). However, while the importance of such embeddedness has been recognized there is so far surprisingly little attention to the question how the specific embeddedness in BGs impact firm capability creation and internationalization. Or put differently, while the literature on BGs has been around for some time, there have been surprisingly little contributions that have explored the question (particularly not in a longitudinal perspective) how business groups or business group affiliation is related to the emergence and behaviour EMNCs. Notable exceptions include the work by Chang and Hong (2002), Chang et al. (2006), Tan and Meyer (2010), Garg and Delios (2007), Elango and Pattnaik (2007) and Yaprak and Karademir (2010). Tan and Meyer investigate, for example, how BG outward FDI is related to differences with regard to their internal managerial resources. Garg and Delios (2007) investigate if the survival chances of EMNC subsidiaries are influenced by business group affiliation. They reason that business group affiliated subsidiaries are less likely to exit than non-business group firms because they can draw on group advantages – such as “sharing of intangible resources, sharing of joint R&D expenses, sharing of cost through group wide advertising, the cross-subsidization of affiliate performance by either the direct transfer of wealth or by subsidizing the transfer price of intermediate goods, joint investment in new ventures, and joint development and sharing of managerial talent and other human resources” (Garg /Delios 2007: 283) – to overcome the liability of foreignness. Also drawing on the Business Group literature, Elango and Pattnaik (2007) seek to explain how emerging market firm internationalization is enabled by “parental networks”. Such networks and the resources they provide are seen to be instrumental in the development capability to overcome internationalization constraints.

Apart from these notable exceptions there has been only little discussion on the question how BG affiliation impacts emerging market firm’s ability to build assets that can be exploited and how BG affiliation impacts emerging market firm’s ability seek or exploit assets abroad. Such a shortcoming is remarkable for two reasons. From an empirical perspective it is remarkable because BG play a crucial role in many emerging markets involving the question whether these groups and their affiliates are more likely and successful internationalization candidates. It is also remarkable from a theoretical perspective because there is a tremendous body of BG literature which has so far only been marginally fed into the question how EMNCs create capability and internationalize. Also, while these contributions suggest and partially confirm that BG group affiliation and EMNC internationalization are linked, these studies provide no detailed account as to how and in what different ways BG affiliation enables and supports the internationalization of EMNC.

## *2.2 The business groups literature*

The BG research has largely oscillated around five questions and three theoretical strands. Contributions on business groups generally address one or more of the following issues: 1.) BG formation, evolution and persistence, 2.) BG characterization and typification – often based on country differences, 3.) BG corporate governance – often raising the issue of ‘tunnelling’, 4.) BG performance – often how their affiliates perform in comparison with other firms and relatedly, 5.) societal implication of BGs. While all these questions have been addressed to some degree the formation and performance questions have dominated the debate (see table 1).

Table 1: Business group literature research issues and theories

Authors	Research issues	Theories
Leff 1976 Granovetter (1995) Khanna/Palepu (1997), Orru et al 1997, Ghemawat/Khanna (1998), Guillen (2000), Khanna/Palepu (2000) Khanna/Yafeh (2007), Kedia et al. (2006), Chang/Choi (1988)	Formation, evolution and persistence of BGs	Institutional economics / Transaction cost economics ("institutional voids")  Sociological focus on solidarity norms and behavioural codes , (Granovetter)/ New institutionalism  Resource based view
Khanna/Yafeh (2007) Granovetter (1995)	Typology and characteristics of BGs	
Morck et al. (2005) Morck /Yeung (2005) Bertrand et al (2002) Ghosh (2010)	Corporate governance in BGs	Agency theory (Tunnelling issues)
Caves/Uekusa (1976) Chang/Choi (1988) Keister (1998) Khanna/Rivkin (2001) Chang/Hong (2000) Perotti /Gelfer (2001) Khanna/Yafeh (2005) Kedia et al. (2006), Khanna/Palepu (2000) Lensink et al. (2003) Fisman/Khanna (2004) Yiu et al. (2005) Ghosh (2010)	Performance of BGs and their member firms	Institutional economics / Transaction cost economics ("institutional voids") Resource based and institutional theoretical perspective
Encarnation (1989), Schwartz (1992) Gill (1999) Khanna (2000) Khanna/Yafeh (2007) Fisman/Khanna (2004)	Societal implications of BGs	Political economy

With regard to the contribution of the BG literature to the question how BG affiliation impacts emerging market firm's ability to seek or exploit assets abroad, we think that particularly contributions addressing the formation and performance questions is relevant because they unveil how the affiliates relate to the group and potentially benefit from group membership.

With regard to theoretical perspectives three lenses – Institutional Economics (Transaction cost and Agency Theory), Resource Based View and Political Economy/Economic Sociology perspectives – have found entry into the BG research with the former dominating over the latter (cf. Khanna/Palepu 2000, Yaprak/Karademir, 2010). The three lenses have also been used to explain why BGs form and why their affiliates may perform in a superior manner.

#### *Institutional Economics*

Perspectives from Institutional Economics basically argue that imperfect markets and agency problems related to weak legal and judicial institutions – also labelled as 'institutional voids' (Khanna 2000) – create internalization and diversification advantages and give rise to the formation and superior performance of business group affiliates in emerging economies. In other words, weak markets for capital, products, skilled labour and in addition weak property rights and difficult enforcement of contracts in the face of poor rule of law create internalization and diversification advantages (Khanna/Palepu 2000). Khanna and Yafeh (2007) state for example: "Capital markets are incomplete and

may be plagued with informational and other problems, making risk reduction through diversification and the use of internal capital markets relatively efficient in comparison with poorly regulated external markets. Labor markets may also lack institutions training skilled labor and management, making diversified business groups, where trained personnel can be used for a variety of tasks across many group firms, a possible substitute for these institutions” (2007:336). Hence from an Institutional Economics perspective BG membership secures resources and reduces the risk by providing internally access to capital, skilled labour, products or services which might not be provided by the market or at a higher cost (Khanna/Palepu 2000). This, in turn, may allow affiliates to create capability and venture abroad which other domestic firms might not be able to do.

#### *Resource Based View (RBV)*

The RBV centres on the question how the formation of BGs and the competitive advantage of their affiliates are related to configuration and access of resources and capabilities. Yiu et al. (2005) argue for example that the competitive advantage of BGs is related to their ability “to configure different types of resources to fit the emerging competitive environment” (2005:186). This literature strongly emphasises that resource access and capability building of and within business groups is strongly related to economic-policy regimes and developmental stages of markets (Guillen 2000). From a RBV group membership can provide, define or access a unique set of resources and capabilities other external players cannot tap into. On the one hand, the business group membership can allow building unique capability by being able to access internal resources that are not available to other domestic firms. Chang and Hong (2002) and Chang et al. (2006) show, for example, that BG affiliates benefit from tangible and financial resource sharing. They also show that affiliates can benefit from cross-subsidizations that take the form of internal transactions such as debt guarantee, equity investment and internal trade. Yiu et al. (2005) summarize this discussion by pointing out that “business groups add value to member firms by pooling and distributing heterogeneous resources through related and unrelated diversification” (Yiu et al. 2005: 184).

The RBV can also be extended to external advantages of business group members, however. Externally, group membership may provide reputational capital that allows privileged access to resources and capabilities (capital, skilled labour, products or services) outside the firm, which might not be available to other domestic firms. In this context, Khanna and Palepu (2000) discuss for example access to cross-border markets of technology. Similarly, Lensink et al. (2003) argues that reputation may enhance access to capital markets. Hence, superior access to internal and external resources – domestic and international - may play a crucial role in capability creation and becoming internationally competitive.

#### *Economic sociology and political economy (PE and ES)*

Finally contributions from PE and ES (Granovetter 1995), put more emphasis on political as well as social and societal structures – we could also say institutional patterns that contribute to the formation and behaviour of BGs. From a sociological perspective social mechanisms of integration play a crucial role why BGs come into being and why affiliates benefit from their membership. For example social mechanisms of integration in the group – such as trust and solidarity based on family, kinship, ethnicity, religion etc. – reduce risk in contract enforcement (Granovetter 1995). In other words, the potentially higher risk of opportunism in alternative market transactions is avoided. Social mechanisms of integration can also be seen as the basis for sharing resources with affiliates that may not be available in the market or only available at a higher cost. The PE perspective shifts attention to the relationship between business group formation and the institutional environment. Granovetter (1995) discusses in this context how the state shapes ownership and authority structures as well as the relationship between the business group and financial institutions. With regard to the benefits that are related to business group affiliation, this perspective sensitizes us for the condition that BG affiliates may be granted favourable access to resources, may be protected from international competition in capability creation phases or from investment risks in the process of internationalization. Hence, close and exclusive links between business groups and their institutional environment may function as a

mechanism of risk reduction and privileged resource access that give BG affiliates a competitive edge over other domestic and international rivals.

#### *Corporate governance perspective*

Finally, from a structural and corporate governance perspective business group membership also plays a vital role in the risk reduction of its affiliates. For example, diversification and non-market forms of corporate governance allow affiliates long term capability building and international investment strategies as internal cross-subsidization and the more stable internal cash flows buffer them from short term profitability requirements (see Lensink et al. 2003).

#### *Summary*

Despite a substantial theoretical variety, there appear to be two related themes with regard to how firms benefit from their BG affiliation. The one theme relates to access of resources and capabilities that BG member firms benefit from. Interestingly, these resources and capabilities not only comprise group internal ones but also external ones which tend to be available through the social and reputational capital of the group. The second somewhat less discussed theme is the reduction of risk of failure or underperformance. This reduction of risk is mainly related to a buffering from the external market forces. Translated to the context of capability creation and international asset seeking and exploitation of EMNCs it can be assumed that privileged access to internal and external resources and capabilities as well as the related risk reduction provide BG affiliates with a competitive advantage, that is at least vis-à-vis their domestic competitors. This argument is also in line with Yaprak and Karademir (2010) recent work. They argue that compared to independent domestic or foreign firms, BG affiliates benefit 1.) from the BGs strong adaptation to emerging market conditions which gives them a competitive advantage in similar international market environments, 2.) from the BGs possession of highly productive combinations of local and foreign resources (technology, production and innovation) with which to expand abroad, 3.) from the intermediation role of BGs with regard to capital, product, and labor markets, 4.) from the relational capital with outside actors such as suppliers, distributors as well as government bodies, 5.) from the internationalization experience of other BG members, 6.) from BG support for internationalization by governments.

### **3. Methodology**

#### *Qualitative case study method*

In the view of the research objective a *qualitative explorative case study* is adopted in this study. Exploring how and why BG affiliation influences EMNC capability creation and internationalization is essentially about researching an organizational phenomenon in relation to its complex contextual embeddedness in a longitudinal perspective. Such a research focus requires qualitative methods that are defined by Marschan-Piekkari and Welch (2004) as “procedures for ‘coming to terms with the meaning not the frequency’ of a phenomenon by studying it in its social context” (Marschan-Piekkari and Welch 2004: 6). With our approach we also follow Li’s (2007) call for more longitudinal in depth case studies to gain a richer and more holistic understanding of emerging market firm internationalization. Importantly, aiming to bring together two streams of literature, that is, exploring the relationship between BG embeddedness and emerging market firm internationalization, is essentially theory building research and suggests the adoption of a case study (Eisenhardt 1989, Yin, 1994, Eisenhardt/Graebner 2007).

#### *Case selection*

We have selected Tata Motors in passenger cars because it appears to be an ideal case for our explorative goal of understanding the link between BG embeddedness and emerging market firm internationalization. TML is embedded in the Tata group, India’s largest private business group, and a major emerging market manufacturing company in an important sector. TM has been subject to strong domestic competition requiring substantial assets and capabilities from the international arena. At the

same time, the company has engaged in substantial efforts to become an international player and exploits its assets internationally. The Tata group has also seen internationalization of operations in other sectors like steel, BPO, entertainment and consumer goods before which may also imply group related learning spillover effects for TM. Selecting a company in the automotive sector has the additional advantage that research could be fruitfully expanded to include comparisons to earlier EMNCs internationalisation moves in this sector (e.g. Hyundai), to other Indian manufacturers in this sector (Mahindra & Mahindra) and also to EMNCs in the same sector from China (Geely, Chery, BYD) at a later stage. Finally, the TATA group and Tata Motors are very well covered companies in media and research which provides a rich repository for longitudinal archival research.

#### *Data collection and analysis*

Our data collection rests mainly on the collection archival data supplemented by the selective use of expert interviews (c.f. Li 2007). The data collection comprised of the collection of primary and secondary archived documents. Primary documents were mainly collected at the Tata archive in Pune including documents such as strategy and annual reports dating back to the inception of TM. The archival research also included two research stays in Pune in 2009 and 2010 which also allowed clarifying some issues in expert interviews with Tata representatives. Secondary data comprised of the collection of news and academic articles (including other case studies) through the World Wide Web, LexisNexis and Econlit & Business Source Premier. The data analysis of this project started off with detailed case study write-ups (Eisenhardt 1989, Eisenhardt/Graebner 2007). They were mainly structured along the analytical dimensions defined by our theoretical discussion, that is, the core dimensions of how business group embeddedness might influence emerging market firm internationalization (see also Bruche 2010). Before these write-ups were made, transcribed interviews and documents were thoroughly read and manually coded according to emerging themes as well as analytical categories derived from the theoretical discussion (i.e. internal and external resource access and risk reduction). In this process interviews and documents were decomposed and chunks of coded sections grouped according to our analytical dimensions.

#### **4. Business group embeddedness: capability creation and internationalization**

TML was initially founded by the Group in 1945 as a manufacturer of locomotives and steam rollers, entered into commercial vehicles (CV) in 1954 and became India's leading CV manufacturer. In the beginning of the 1990s TML diversified into passenger cars and became the No. 3 player in India's emerging passenger car market. Although the strategic assets and capabilities *in CVs* could be leveraged to some extent in the company's later entry into passenger cars our case analysis will focus mainly on TML's development as a passenger car manufacturer, on the major capability creation projects of the 1990s and the accelerating catch-up process including the eventual acquisition led outward internationalisation in the later part of the first decade of the new millennium.

##### *4.1 TML's learning and capability creation process in passenger cars*

The entry of TML into passenger cars, its ascent as a relevant domestic player and its recent internationalisation in this business can be conceived as an accelerating capability creation process based on the strategic intent to overcome a situation of backwardness and realised through an evolutionary search for learning and upgrading opportunities, which have arisen with the changing institutional and market context in India.<sup>2</sup> In hindsight four overlapping phases of this process can be discerned which were sometimes triggered by external events and usually driven inside the company through distinct strategic initiatives or projects. The four phases are presented in turn (for a more detailed analysis of this asset acquisition and capability accumulation process see Bruche 2010).

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<sup>2</sup> The strategic intent is reflected in many interviews given by Ratan Tata and Ravi Kant, see for example Kumra 2007; for the changing institutional context of the Indian automotive sector see for example Ranawat/Tiwari 2009



#### *Pre-entry capability creation: Engineering Research Centre and Light CVs*

When the management of TML decided to enter and compete in the passenger car segment it relied – apart from the support of the Tata Group which will be covered in the next two subsections – to a considerable extent on internal and external relational assets built during its history as a ‘pure’ CV manufacturer. Starting out in 1954 from an early 15-year collaboration with Daimler Benz from Germany it had established the design and manufacturing know how for a range of low cost CVs and maintained an unchallenged leadership position in the Indian CV market at the beginning of the 1990s. The early establishment in 1966 of an engineering research centre at Pune to ‘provide impetus to automobile research and development’ (TM Website) facilitated the formation of an internal engineering force which would increase TMLs absorptive capacity for external technologies and provide an initial starting point for the later indigenous development efforts in passenger cars. A more immediate facilitating condition was the antecedent development and manufacture of *light* commercial vehicles (the first one launched in 1986, followed by a pick-up in 1988) which provided a platform, engine technology, and manufacturing as well as tooling capabilities for the entry into passenger cars. The physical proximity of the R&D, tooling and production sites in Pune was another advantage in the formation of the complex ‘concurrent engineering’ capabilities needed in contemporary automotive development projects (Bowonder 2004).

#### *Duplicative development and product sequencing: the Indica*

While “the learning needed for making a car essentially started with the pickup vehicle” (ibid 300) TML started its first ‘maiden attempt’ to develop a car for what has been termed India’s ‘small car market’ in 1994 (Norhona 2008, Becker-Ritterspach/Becker-Ritterspach 2009). This car, the Indica, was positioned as a competitor to the market leading model of the Japanese car maker Suzuki and was hailed as India’s first indigenously designed and manufactured car. This labelling is justified as the Indica was not developed through in-licensing of an existing design from foreign manufacturers. In a kind of ‘duplicative development process’ the Indica was developed as a new design while using established and known components and technologies. The whole project has been described by an insider as a conscious resource and capability acquisition process where all critical components in the car business were deliberately produced internally and missing critical capabilities were sourced through international contracts or joint ventures with an emphasis on an inherent learning process for TML (Bowonder 2004). The internationalisation of its design and development supply chain through contracting with and learning from automotive design and consulting firms from France, Germany, Japan and the U.S. and the emphasis on learning opportunities enabled TML to acquire the basic competitive resources to compete in the Indian car market. These capabilities were later strengthened and extended through ‘product sequencing’, essentially upgrading of the Indica and development of new models from the same platform (on ‘product sequencing’ as a capability creation approach see for instance Helfat/Raubitschek 2000 and Kim 1998). Some more learning can be assumed to have taken place through a failed JV with DaimlerChrysler which lasted from 1995 to 2001 and was to assemble the E220 Mercedes. First attempts to internationalise through exporting the Indica or other models from the same platform were confined to marginal sales of 3-5% to a few developing countries; an attempt to export the car to the UK under the badge of City Rover started in 2003, but had to be abandoned in 2005. While the internationalisation of the CV business made some progress mainly through the acquisition of Daewoo’s Commercial Vehicle Division in 2004, as a passenger car manufacturer TML was only internationalised in its supply chain, but did not yet have any sizeable international business by the mid of the decade.

#### *Creative innovation and complementary internationalisation: the Nano, TMETC and INCAT*

While TML was still busy in extending its existing portfolio in the small car segment another major initiative, the development of the ultra low cost car Nano, was conceived in 2003. While the Indica project and subsequent upgrading and derivatives have been categorized as duplicative development the Nano represents a ‘new to the world product’ and perhaps even a ‘disruptive’ innovation’. The development process of the Nano did not only result in a product platform which will be leveraged for a

range of derived models, but it also provides – along with India’s low cost manufacturing base – a competitive advantage which will be the base for a planned internationalisation of sales in this segment. Even more importantly in a resource-based perspective the Nano project provided manifold learning opportunities and greatly strengthened TMLs design, development and manufacturing capabilities (see for this an the following Bruche 2010). It created a particular expertise in low cost engineering; as the whole development process was from the outset run as a collaborative exercise with some 100 suppliers TML also enhanced its expertise in supplier management and mobilized significant complementary resources as the focal firm in a network of world-class suppliers.

A significant contribution to the Nano development process came also from two moves which can be considered as a kind of direct asset seeking internationalisation. In 2005 TML set up ‘Tata Motors European Technical Centre’(TMETC) in the UK and in the same year it acquired INCAT International<sup>3</sup>, a provider of engineering services to the world major automotive, aerospace and durable goods manufacturers with some 3000 staff and major operations in the automotive cluster regions of North America, Germany and India. Both initiatives gave TML access to advanced automotive engineering know how, established ‘linkages’ with world-class automotive clusters and generally enhanced TMLs automotive development capabilities. Another important contribution to the Nano development process came from Tata Auto Comp Systems Ltd. (TACO), an automotive supply company in which TML holds 26% which has engaged in 14 JVs with leading European, Japanese and America automotive suppliers and runs 30 manufacturing facilities in India and China. A Joint Venture with Fiat agreed in 2006 helped improve TMLs manufacturing capabilities and gave it access to additional modern power train technologies.

#### *‘Instant outward internationalisation’ and product scope expansion: the JLR acquisition*

While the Nano development process was completed by early 2008 TML faced serious challenges on the manufacturing side due to the increasing problems with the Singhur plant site.<sup>4</sup> Despite increasing strain on management and financial resources TML seized the ‘strategic opportunity’ by bidding for Jaguar Land Rover which had been put up for sale by Ford Motors. The JLR acquisition was formally concluded in June 2008 with a final price of US\$ 2,3 million and total cost of over US\$ 3 billion to be financed through a rather short-term bridge loan. The acquisition of of JLR was ‘transformational’ for TML in several respects: the acquisition more than doubled TMLs overall revenues and almost quadrupled its revenues from passenger cars; it extended TMLs product portfolio which now covers the major passenger car segments and it implied an immediate internationalisation of its asset and sales base (see annex II). Although there are some reservations about the JLR technology base the acquisition gave TML access to a range of valuable assets such as for example two iconic worldwide known brands, several foreign manufacturing sites, a number of new models and significant product engineering and development capabilities. The acquisition coincided with the world financial crisis and TML ran into serious refinancing difficulties which were initially overcome with support from the Group and the fast recovery of the Indian vehicle market and JLR sales (Bruche/Becker-Ritterspach 2010). Nevertheless while TML is engaged in the post-merger adjustment and integration a very high level of indebtedness is yet to be overcome.

#### *4.2 The changes in Tata Business Group governance*

The role of group embeddedness in TML’s capability creation and internationalization was very much influenced by the preceding and parallel changes in the Tata Group’s business scope, organisation and management under the chairmanship of Ratan Tata (RT). RT assumed the function of group chairman in 1991 from his predecessor J.D.R. Tata who had been in this role for more than 50 years. At this time the

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<sup>3</sup> Meanwhile renamed as ‘Tata Technologies Inc.’

<sup>4</sup> Due to heavy opposition to the new Nano plant in Singhur, West Bengal the plant site was moved in 2008/09 to Anand in Gujarat. Significant investments were lost and the Tata Group compensated the co-located suppliers for a large part of their lost investments. See Alfaro et al 2009

Tata Group was a loose confederation of hundreds of relatively autonomous companies headed by independent minded CEOs, many of the most influential ones being in their seventies or eighties. The companies shared a common name and culture, small inter-corporate shareholdings and interlocking directorates, but had been held together primarily by the emotional bonds and personality of J.D.R (Kumar 2009, Kakani/Joshi 2008). In a period of some ten years RT and his supporters managed a major change in the internal governance and organisation, in the role of central group functions and in the top management cadre, laying the foundations for a major expansion, transformation in business scope and internationalisation of the group in the following decade (Sen 2009, Khanna et al 2006).

The *core promoter*<sup>5</sup> and *primary holding company* in the Tata group, Tata Sons Ltd., is estimated to have the following ownership structure (2005) (ibid, 10): 65,9% philanthropic Tata family trusts (chaired by RT), 12,8% Tata Group affiliates, 2,9% Tata family, and 18,4% P.S. Mistry (a major Indian business family in the construction business). While the Tatas control more than 83% in Tata Sons they also own more than 74% in Tata Industries Limited, another important holding company of the group geared to ventures in new technologies. The whole group is then interfused by a maze of cross-shareholdings which help the corporate centre direct, supervise or control the major core companies and indirectly the several hundred subsidiaries of the group; the large network of interpersonal relations among managers from various operating companies is another result of this structure (for an analysis of the complex ownership structure only of the publicly listed companies see annex I and Kakani/Joshi 2008 for more details). One of the major initiatives to achieve more group level control while still maintaining the decentralised group structure was a *significant increase in cross-holdings by Tata Sons* in the group's core companies such as Tata Steel, Tata Tea or TML.<sup>6</sup> In TML for instance Tata Sons increased its stake from 2,3% in 1995 to 30,3% in 2009 (AR 20F 2009). Another more direct influence over the individual companies stems from the chairman of Tata Sons serving concurrently as chairman in most of the core companies of the group.

A second *core mechanism of integration* of the group around a common identity was established through the introduction of "The Tata Brand Equity and Business Promotion Agreement" first initiated in 1995 (Khanna et al 2006, Khanna/Palepu 2006, Sen 2009, Branzei 2010). According to this scheme administered by Tata Sons the *Tata Brand* can be used (only) by Tata companies that subscribe to the scheme and pay a small annual 'contribution' of their net income for the right to use the name. Group companies participating in the scheme have to subscribe to a *Code of Conduct* to ensure uniform standards of quality and ethical business practices. Signatories are required to follow the letter and spirit of the code, make all employees aware of the code, and promote cooperation among Tata companies. Political nonalignment within India's political system and respect for the national interests of host countries of Tata subsidiaries are also stipulated. Another important part of the agreement is the participation in a *Tata Total Quality Management Model*, in various process improvement initiatives and innovation schemes which serve also as benchmarks in assessing the companies' performance. Over the last decade this approach to group integration has helped to increase the reputation of the group, to drive major quality and excellence initiatives in group companies, and to align Tata managers and employees around a common identity. As kind of driver towards 'unité de doctrine' it has an implicit coordinating role in the daily decisions of managers across the group.

The efforts to transform Tata into a competitive and proactive group and to add value to the individual companies were also reflected in the introduction in the later 1990s of a *group level coordination structure* known as the Group Executive Office (GEO) and the Group Corporate Center (GCC), which

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<sup>5</sup> In the Indian context, a 'promoter' may be an individual or a legal entity who started a business by investing personal and/or solicited funds and/or exercises substantial control over the company. The term "is inclusive in nature and is a term of wider significance which does not confine itself to de jure control".

<http://www.legalserviceindia.com/article/I276-PromoterPromoter-Group.html> (accessed 19-08-2010)

<sup>6</sup> The aim was also to achieve a shareholding of at least 26% in core companies as a protection against possible foreign takeovers.

included senior leaders from the Tata group. The GEO which like the GCC is chaired by RT reviews and defines corporate strategy, advises group companies on strategy, and aims at “making the Tata group more synergistic”; it is also involved in the implementation of important group initiatives (Tata Website). The GCC apart from providing a forum for the discussion of broader policy and diversification decisions is the promoter and protector of the Tata brand and provides a number of *services* to Tata companies in the areas of human resources, finance, legal and other functional areas (ibid). The guiding and advisory role of the corporate centre was also enhanced through the staffing of the various functions with a group of able and far-sighted managers and experts.

One important central function already introduced in the 1950s was *Tata Administrative Services (TAS)*, essentially an internal management development and training institution for the Tata Group’s future premium management cadre. TAS helps in the recruitment of talent, designs group-wide compensation packages, provides cross-business, cross-functional and cross-locational training modules and facilitates mobility across group companies (Tata Website; Khanna et al 2006, Wadia 2007, Tata 2007). The Tata Group engaged also in a whole range of CSR and environmental sustainability initiatives (see for a good description Branzei 2010).

#### *4.3 TMLs ‘group embeddedness advantage’ in the capability creation and internationalization process*

As outlined above in section 4.1 TML was still a manufacturer of CVs when the environmental changes began to accelerate as a result of India’s New Economic Policy with far reaching consequences for the Indian passenger car market. In a time-span of only 15 years TML managed to build an entirely new set of capabilities and a new product (the Indica), entered into creative innovation with the Nano development and finally transformed itself in one big ‘leap’ into a global car manufacturer through the JLR acquisition. How was this accelerated capability building process possible and could it have taken a similar trajectory if the company would have been a stand-alone automotive manufacturer (which had to rely on the capital market for its financing)? In the following we want to shed some light on this question by taking a closer look at some of the major contributions to TMLs capability creation and internationalisation process which derive from its organisational ‘embeddedness’ in the Tata Group. In our analysis of the TML case we discern internal resource access, sharing and transfer at central group level and affiliate network level, access to external relational and reputational resources, and financial back up. We will discuss these areas of embeddedness advantage in turn.

##### *Dynamic capabilities as an internal central group resource*

At the end of the 1980s TML was a CV manufacturer which had grown over the last decades under the protective cover of the Indian ‘Licence Raj’. It was the later group chairman RT who became TML chairman in 1988 and held this position concurrently since 1991 who had the strategic intent and the decision power to initiate and drive the entry into passenger cars and the three transformational projects (Indica, Nano, JLR). TML did hardly dispose of these capabilities *inside* its organisation as its top management and the core of its engineers had grown and prospered in the CV segment. However, RT could overcome the limits and ‘rigidities’ of TML’s organisation and instigate a transformational trajectory by ‘providing vision, guidance and perspective’ based on a broad group strategy which was owned and supported by the GEO (Kumar 2009). Apart from the mentioned projects TML undertook also significant efficiency enhancing restructuring initiatives which relied on the expertise of lateral transferees and experiences in central group functions and other group companies (India Knowledge Wharton 2010). In a more general vein these group dependent transformational changes and asset enhancements can be seen as dependent on dynamic capabilities at group level (on dynamic capabilities see Teece et al 1997).

##### *Project execution capabilities as an internal group resource*

The Tata Group supports its affiliated companies through various group level functions and initiatives and helps improving its overall efficiency as well as the ability to carry out major projects. As has been

shown for the technology acquisition and internationalisation strategies of major Korean chaebols like Samsung or Hyundai a *'project execution capability' as a group level competence* was one of the core ingredients in their capability creation strategies (Amsden/Hikino 1994). In a similar vein the Tata Group contributes knowledge, experience and capabilities in handling complex projects like the Indica project, the Nano project or the JLR acquisition. In supporting affiliate companies in planning and managing complex projects TML can rely on a number of organisations which are directly attached to the central group companies Tata Sons and Tata Industries Ltd. These are inter alia Tata Strategic Management Group, the largest Indian owned management consulting firm which serves internal clients by about 50% or Tata Consulting Engineers Ltd with more than 2400 highly qualified and experienced technical professional (TM Website). Apart from the various directly supporting functions at central group level there is also a large reservoir of project and process management knowledge (like for instance in Tata Consulting Services) which can be mobilized for instance through temporary assignments or long-term transfers.

#### *Access to talent as a group level and affiliate network resource*

The Tata Group has a long tradition of nurturing and developing talent through Tata Administrative Services (its training and development division) and related initiatives. As a premium employer with superior learning and development opportunities across the group and an active promotion of inter-company mobility it attracts India's best university graduates and retains them to a higher extent than other organisations. It is therefore obvious that TML by being part of the Tata Group has access to a better pool of qualified candidates than it would otherwise have a resource advantage which is very important in the competition among automotive manufacturers in India.

In the case of high priority projects like the Nano the recruitment of a capable and 'open minded' development team from within TML might have been difficult if not impossible. As table 2 shows TML could rely to a large extent on 'lateral recruits' from central functions or other Tata companies to staff an exceptionally young development team with average age of the team members between 25 and 30 (Lim et al 2009, 15). This arrangement of relying to a large extent on 'supplementary' human resources has certainly helped TML to solve the classic 'ambidexterity' problem (O'Reilly/Tushman 2007): in this case to simultaneously *exploit* current capabilities through further extending and improving the Indica/Indigo range and at the same time *explore* new frontiers with the Nano project.

Table 2: Manpower Pool Deployment for the Nano Project

Division	Campus recruits	Internal Transfer in TML	Lateral recruits
Central Quality	21,1	2,6	76,3
Eco Car Planning	0	33,3	66,7
Finance and Business Planning	0	33,3	66,7
HR/Admin/HDT/Security/Safety/CSR	2,9	14,7	82,4
Kaizen Promotion Office	38,5	7,7	53,9
Manufacturing	8,3	5,8	85,9
Manufacturing Planning	13,5	19,2	67,3
New Product Introduction	14,3	57,1	28,6

Source: Palepu et al 2010, 18

#### *Access to technical knowhow and services as an affiliate network resource*

Although the Tata Group can be perceived as a 'conglomerate' with many 'unrelated' businesses TML is nevertheless embedded in a cluster of related companies in the Group's 'Engineering Products and Services Sector'. This group internal cluster comprises TataAutocompSystems (TACO) already mentioned

above. As mentioned already TACO was involved in the Nano development; it is a valuable low cost supplier to TML, a knowledge resource and 'window to the world' through its many JVs and it enlarges the pool of qualified engineers and managers for TML. Another partner is TAL Manufacturing Solutions, a Tata Group company which provides manufacturing engineering, manufacturing IT and other services to TML and other OEMs. Tata Technologies with the INCAT acquisition belongs to TML and supports product development and a broad range of engineering services. All these companies and other group companies from Tata's 'Materials Sector' (e.g. Tata Steel), its 'Information Technology and Communications Sector' or its 'Chemicals Sector' can be considered as 'extended resources' or 'network resources' in the sense that they can be tapped for knowledge and expertise, may act as outsourcing partners, or supplier of low cost inputs. The support may take the form of inter-company information flows, temporary assignments or staff transfers in case of important projects. While TML has successfully built significant *external* collaborative or network resources especially through the Nano project this base is augmented significantly through these '*internal* network resources'.

#### *Reputational and social capital of the group and access to external resources*

Probably one of the most important assets for TML is the Tata name which has been built over more than 140 years and is meanwhile carefully nurtured through corporate communication and PR. Tata as a corporate brand increases the trust of TML's external stakeholders in the company which in turn increases effectiveness and efficiency of searching for and contracting with external partners. Examples for this value enhancing and cost saving resource leverage are manifold. When the Indica was launched (and now also after the Nano launch) there were serious hick-ups and bugs to overcome with most new complex products. The Tata brand serves as a kind of guarantee that the problems will be fixed. Other important areas are long-term relationships with world class suppliers which are especially important in the Nano project (and put to a test when the manufacturing site had to be shifted from Singhur to Anand), the Fiat-TML cooperation, dealings with local Governments, relationships with dealers and distributors or even the JLR deal. All these stakeholders and partners can be tied into the TML network to a large extent based on the trust in the Tata name. This type of relational contracting has been shown to support competitive advantage especially with many examples from the automobile industry (see e.g. Dyer 1996). The Tata Group's image and relationships with Governmental authorities are of significant value for TML in obtaining approvals, acquiring land rights and linking up with India's governmental programmes for becoming a global hub for the small car automotive industry. On a global level TML can rely on the image and the relationships of other already much more internationalised Tata companies. The recruitment of two experienced German automotive top managers in 2010 to head TML and JLR may have been facilitated by the perspectives of TML as a Tata Group company which give these managers sufficient confidence and optimism to join.

#### *Capital back-up, leverage and risk reduction*

TML came into being by an investment of the Tata Group in 1945. While the company has been listed on the Bombay Stock Exchange already for a long time it was listed in New York in 2004. The group has certainly been instrumental and supportive in getting TML to fulfil the financial and reporting requirements of a NYSE listing and the Tata name will have contributed to the credibility of and trust into the company. Since 2004 Citibank as a depository for TML's ADRs has held between eight and 14% of TML's ordinary shares. The internationalisation of TML's capital base with the help of the group is an important contribution to the company's position and reputation.

The strain on the company's resources through the Nano project and much more through the JLR acquisition is clearly visible in the development TML's debt levels. TML's equity ratio on a consolidated basis (including JLR) fell from a level of 61 % in 2004/05 to 50% and 42% in the two following years, and reached a dramatic level of only 15% in 2008/09 as a result of the coincidence of the JLR deal with the global financial crisis (figure A in annex III). The Group generally acts either formally or informally as a guarantor or 'lender of last resort' for its group companies – no major Tata company could be let into bankruptcy without massive repercussions on the value of other Tata listed companies. This role was

severely tested when the global financial crisis started only few weeks after the formal completion of the JLR takeover in June 2008. When the rights issue which was supposed to largely refinance the bridging loan for the acquisition did not get acceptance in the market the Tata Group absorbed the shares which led to an increase in Tata Group share holdings in TML from 30,7 to 39,1 % between FY 2008 and 2009 (figure B in annex III). The Group has also been deeply involved in securing additional funding for the refinancing and working capital needs of JLR in months and years following the deal (see for instance Indu/Gupta 2009).

## 5. Conclusions

### *Asset seeking vs. asset creation in the TML case*

We started our paper with the discussion whether emerging market firm internationalization is driven by 'asset seeing' or 'asset exploitation'. Now, looking at case of TML we saw that the company managed to 'leapfrog' in a period of less than 15 years from being a commercial vehicle manufacturer into a medium sized passenger car manufacturer and a force to be reckoned with in this sector (although the final outcome is not yet sure). The capability creation process took place in successive and 'cumulative' waves of initiatives and projects which involved deliberate strategic capability creation through a combination of internal learning and absorption of increasingly more sophisticated external know how. In this process TML linked increasingly into external international networks and also built and acquired international resources. This '*backward*' internationalisation through resource linkage and acquisition provided the basis for TML's domestic competitiveness and for the transition from a more imitative to a creative innovation trajectory. [in this sense the LLL framework seems to reflect well this process although in the case of TML it was not only 'linkage' (European Technical Centre in the UK, Joint Ventures of TACO), but in the case of INCAT also outright acquisition]. It also laid the ground for a '*forward*' internationalisation which is very likely to take place in the coming years with the export of the Nano. The final accelerated 'leap' into full forward internationalisation with the JLR acquisition was a truly transformational step. The terms 'asset seeking' or 'asset augmenting' may be too incrementalist to capture this process. The alternative posed in internationalisation theory of *first* building the competitive advantage which is *then* 'exploited' internationally or going international right away to build the advantage itself seems somehow artificial. Only if one adds the perspective of 'backward resource internationalisation' TML can be said to have taken asset seeking internationalisation already before the JLR deal [confusingly 'resource seeking' FDI is a term used by Dunning et al to mean mainly 'natural resource' seeking investments e.g. by oil companies or mining companies]. The acquisition of JLR does also not fit the exploitation/augmentation dichotomy, but represents rather an instant leap where the assets and the internationalisation position are built/acquired *simultaneously*.

### *Group embeddedness, capability creation and internationalization in the TML case*

The goal of this paper was to explore the relationship between group embeddedness and capability creation/internationalization advantage in the case of TML. Reviewing the literature on BGs we deduced that there appear to be two core benefits from BG embeddedness. The first was seen to be the privileged access to internal and external resources to create capability and to internationalize. The second and related benefit was seen in the reduction of risk for firms that are creating capability and internationalizing in a domestic and international market environment where competition is fully developed. Exploring the case of TML there were strong indications that Tata did strongly benefit from group related access to internal and external resources. Access and use of internal resources comprised the use of human resources, expertise and sister companies within the group. At the same time, there was also a strong indication that TML was able to attract external (domestic and international) resources that were related its group embeddedness. Cases in point were exploiting the reputational capital of the group in attracting national and international talent as well as partners in the development of new products. We also found evidence that risk reduction played a major role in the process of internationalization of TML. This was particularly the case when difficulties with the Nano project and

the financial crisis coincided with the JLR acquisition. Under these adverse conditions the Tata Group bailed out TML that would have otherwise faced bankruptcy.

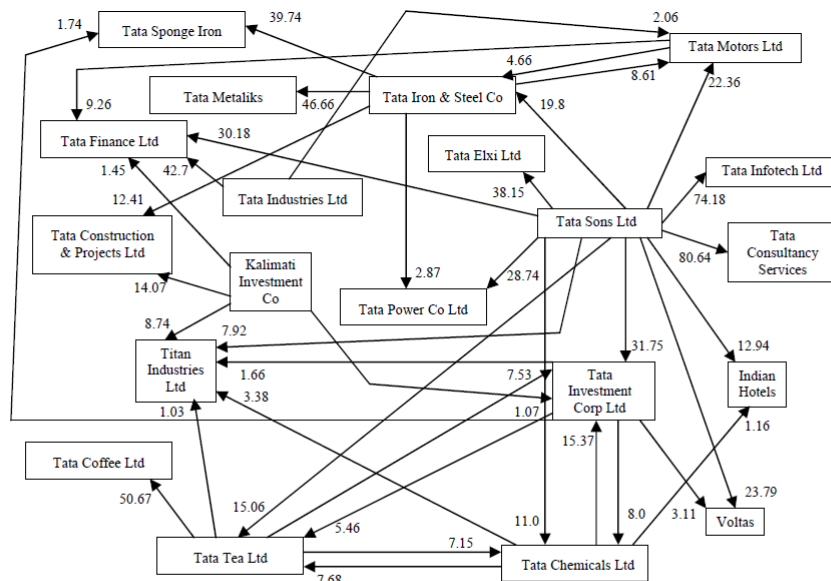
Hence, the case study suggests that TML could not have achieved its transformation as a standalone unit – even more so if it would have been dependent on capital market financing. The ambitious and transformational projects were clearly driven and facilitated through dynamic capabilities at Group level. TML could not only leverage various existing group resources in its major projects, but the Group actively built complementary resources through the entry in automotive supply sectors. We believe to have shown that an analysis of the firm's group embeddedness is a fruitful approach to the study of MNE capability creation and internationalisation processes. The fact that very fast and transformational processes of this kind cannot be explained on the base of internal capabilities alone does, however, not mean that it is always group embeddedness which contributes to an explanation – although we believe that is will in a larger number of cases. There may also be functional substitutes for 'group embeddedness' as a capability creation/internationalisation driver: this could for instance be government support (e.g. in the case of Chinese companies) or network / collaborative strategies (like in the contract manufacturing firms described by Mathews 2002).

The last issue also points to a strong limitation of our single case analysis. While this case strongly suggests that group embeddedness gives companies a strong competitive advantage vis-à-vis other domestic competitors, we would require in a next step a comparative format to see if and how firms who do not have such an advantage perform the challenge of building capability and internationalize. Finally future research would need to explore more systematically how the importance of business group embeddedness in the internationalization of emerging market firms differs across different points in time within firms as well as across salient dimensions such as industry- and country-background.



Annex I

Structure of Tata Group's Listed Firms during Financial Year 2005

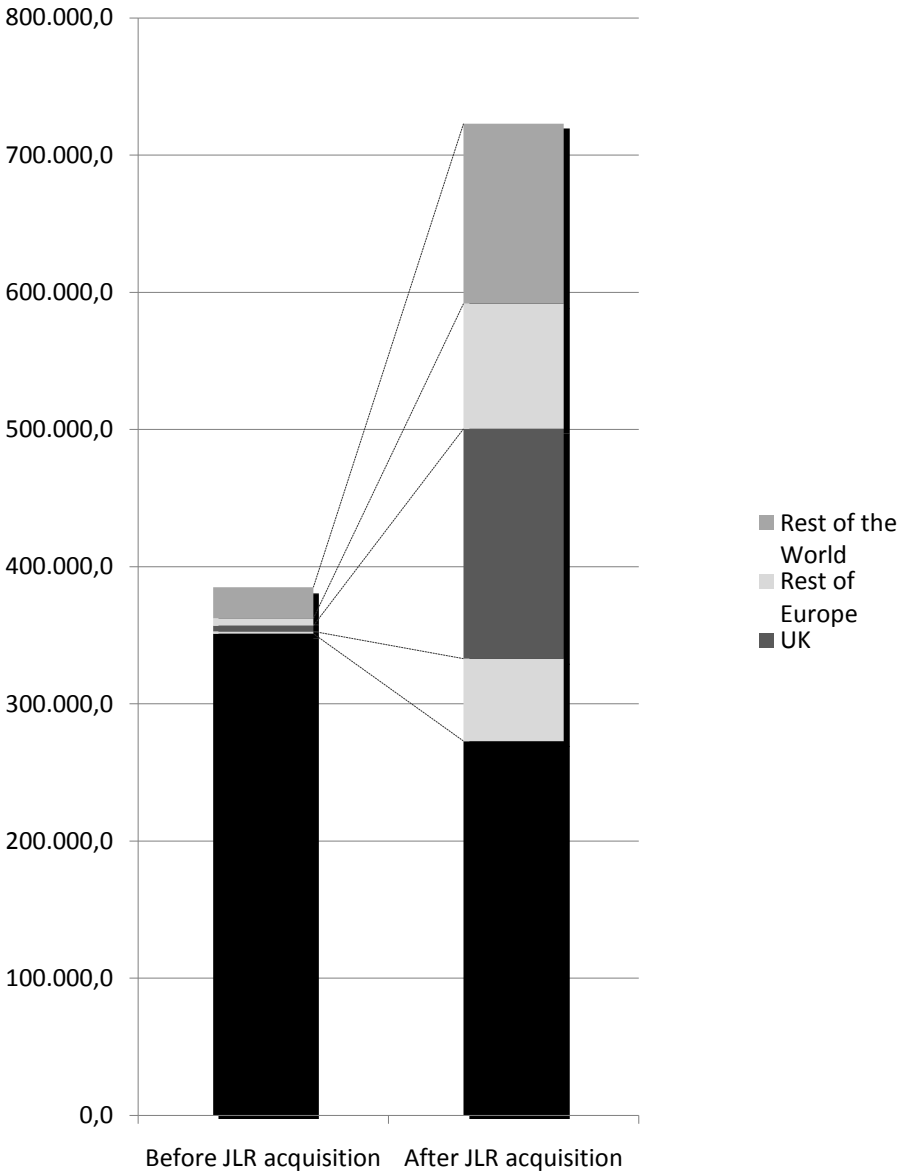


Note: (a) Shown above is the Equity Ownership Pattern of major Tata affiliates having more than 1% as of Year 2005; (b) Tata Sons is the primary holding company of the group. Most of the firms are held by Tata Sons, Tata Industries, Tata Investment Corporation, and Kalimati Investment Company. The Tatas control more than 83% in Tata Sons and more than 74% in Tata Industries. Information on the other holding arm, Kalimati Investment Company is not available.

Source: Kakani/Joshi 2008, 18

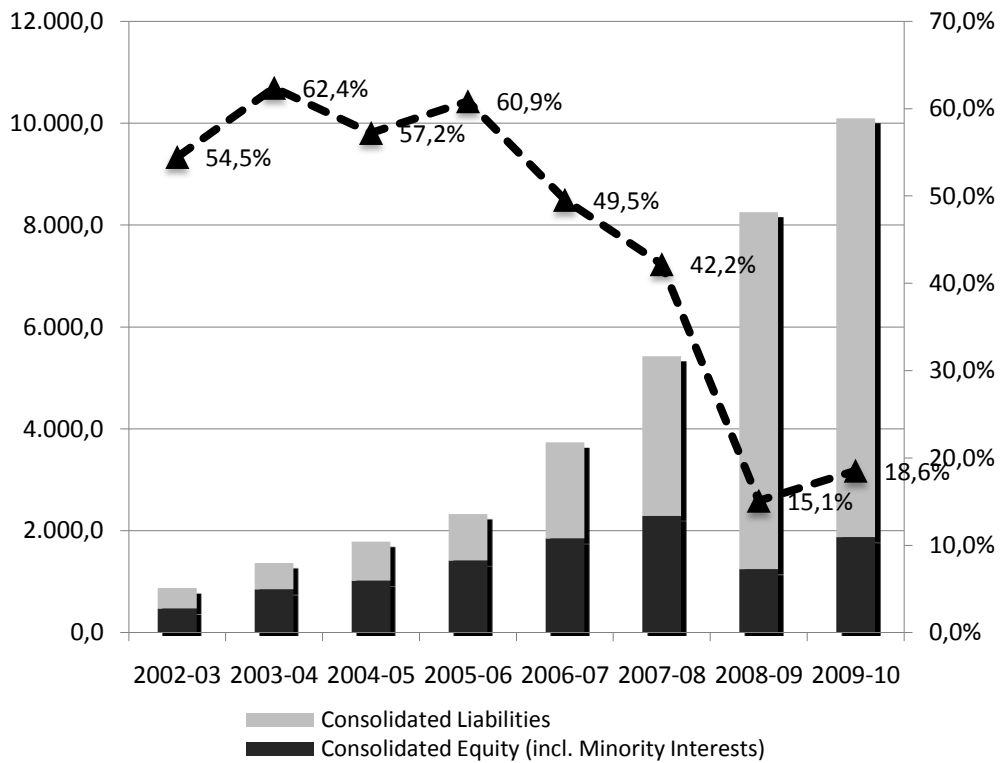
Annex II

Consolidated Assets before and After JLR Acquisition, in Million INRs



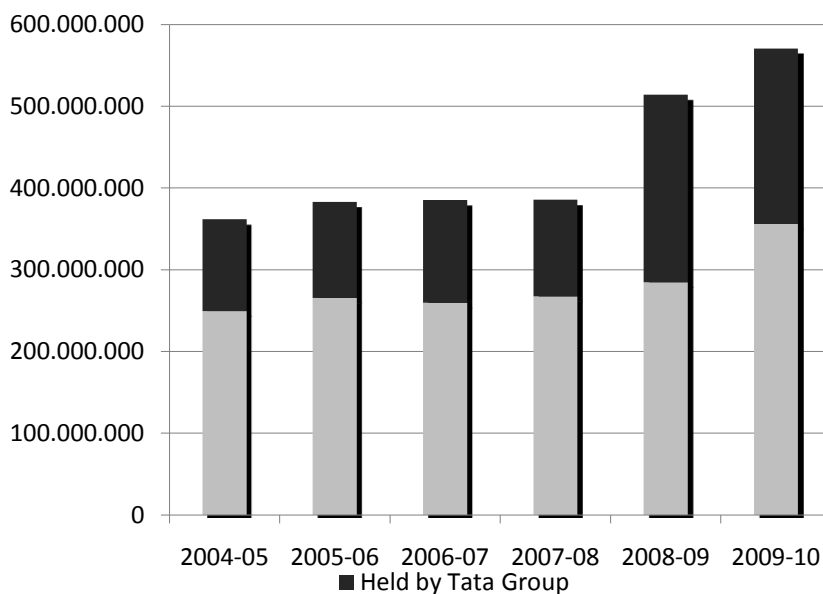
Source: 20-F Filings for SEC

**Figure A: Consolidated Equity and Liability (Million USD) & Equity Ratio (%) of TML**



Source: Compiled from TM Annual reports, Translation into USD using World Bank exchange rates

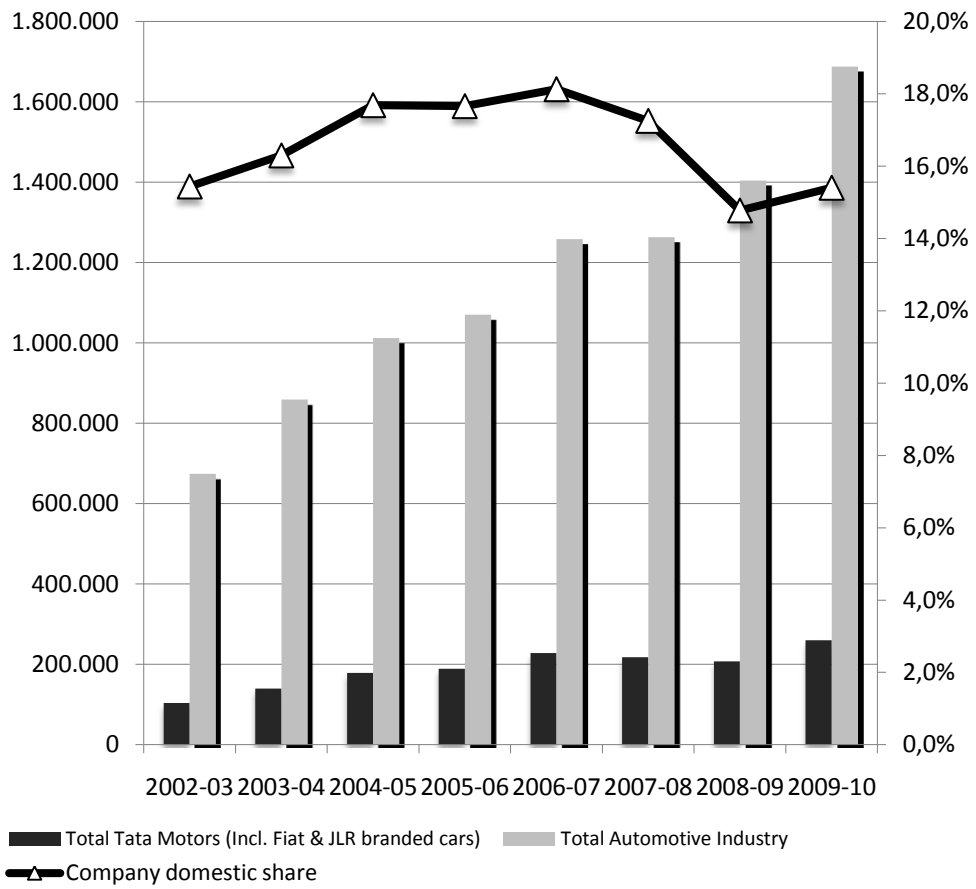
**Figure B: Total Number of Shares of TML (Ordinary & A Ordinary Shares) at the end of FY**



Source: Compiled from SEC 20-F filings and TM Annual Reports

Annex X (not used so far)

Figure A 3: Unit sales for Passenger Cars in India – Share of TML



Source: SIAM Data in TM Annual Reports

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