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[**anmathur@iimahd.ernet.in**](mailto:anmathur@iimahd.ernet.in)

**Foreign investments as Nectar or Poison? Insights from Indian investments in Finland[[1]](#footnote-1)**

By Ajeet N. Mathur**[[2]](#footnote-2)**

**Abstract**

This paper contributes to expanding the conversations around investments of multinational companies from emerging economies (EMNCs) in developed countries to invite attention to management processes and business systems in how these combine to impact outcomes. There are very few studies of Indian OFDI to a developed country at the firm level, and none at all to Nordic Europe. The paper examines two cases of Indian foreign direct investment in Finland to raise working hypotheses that merit deepening studies for the geographical diversification by Indian multinationals. Tentative policy implications arising from these two cases of failures for host and home country and for other firms treading such paths are discussed. The paper concludes that the pull for OFDI from emerging and developing economies in investment-scarce developed countries can attract investments from developing countries that may not have potential for sustainable growth or shareholder value raising the spectre of adverse selection, besides moral hazards. Inward foreign investments regarded as nectar may be poisonous if the nexus of stakeholders lack motivations or capabilities to go beyond the lure of para-statal incentives and subsidies that could be one of the key pulls or drivers of such investments.

**Keywords:** OFDI, India, Finland, EMNCs.

**Introduction**

The trajectory and performance of outward foreign direct investments (OFDI) from developing countries to developed countries has implications for host and home government policies and also for enterprises treading that path. However, this has received scant attention of researchers in the case of Indian OFDI. There are very few studies of Indian OFDI to a developed country at the firm level, and none at all to Nordic Europe. This paper takes the growth story of Indian multinationals as its point of departure because however notable the results of successful outcomes when firms have grown and succeeded abroad, many have failed in their endeavours. These can be studied to examine the geography of successes and failures and the nature of challenges and management processes that led to failures. OFDI to countries that present a different business environment and considerable institutional distance from the home country call into question capabilities to bridge that.

Outward Foreign Direct Investment (OFDI) flows from developing countries at $ 553 billion comprised 39 percent of all FDI outflows in 2013 but the inflows in developed countries at $ 566 billion remained at half of the peak levels of 2007 (UNCTAD, 2014). The value of inwards FDI in Europe, traditionally the largest inwards FDI (IFDI) region was at one-third of the peak levels of 2007. The combined share of North America and Europe accounted for about 30 percent of all FDI inflows in the world in 2013 which is 20 percent lower than the levels of 2007.

OFDI from India was led by India’s private sector (except for few public sector players in Energy) and increased significantly after 2004. During 2004-07 Indian OFDI grew at 98 % per annum, ahead of growth rates of other OFDI countries such as China, Malaysia, Russia and Korea. Europe accounted for the largest proportion of Indian OFDI. Scholars such as Pradhan (2009) have tended to rely on anecdotal evidence to account for the drop in Indian OFDI after 2007, pointing to macroeconomic factors relying on official pronouncements of firms taken at face value without examining the microeconomic underpinnings. Nobody has explained why China’s OFDI continued to grow after 2008 and India’s didn’t.

Outwards foreign direct investment (OFDI) from India has traditionally been mainly in three kinds of directions: (1) towards other English speaking developed host countries, such as the UK, USA, Australia, New Zealand, Singapore, Hong Kong, (2) other developing countries in the neighbourhood (SAARC), South East Asia, Anglophone Africa and emerging economies, particularly, others in the BRICS nomenclature and, (3) the United Arab Emirates and Thailand. The recent geographical diversification in Indian OFDI to Hispanic Latin America, Nordic Europe, South Korea, Francophone Africa, enables such new experience to be scrutinized theoretically, empirically and methodologically and compared or contrasted with conventional geographies in this shift from the familiar to the unfamiliar.

This paper has three aims. First, the influence of the India’s resource endowment and institutional framework on how foreign economic relations policies have developed is scoped. This is done alongside Finland’s predicament as an investment-starved destination in recent years. Then, Indian foreign direct investments in Finland are examined to raise working hypotheses that merit deepening studies for such geographical diversification by Indian multinationals although the scope of this paper is limited to Indian investments in Finland. Thirdly, tentative policy implications for host and home country arising from two cases of failures are discussed. The paper concludes that the pull for OFDI from emerging and developing economies in investment-scarce developed countries can attract investments from developing countries that may not have potential for sustainable growth or shareholder value raising the spectre of adverse selection, besides moral hazards. Inward foreign investments regarded as nectar may be poisonous if the nexus of stakeholders lack motivations or capabilities to go beyond the lure of para-statal incentives and subsidies that could be one of the key drivers of such investments. The paper contributes to expanding the conversations around investments of multinational companies from emerging economies (EMNCs) in developed countries to invite attention to management processes and business systems in how these combine to impact outcomes.

**The context of OFDI from India and IFDI in Finland**

The European Union as a whole received about $ 248 billion of FDI inflows in 2013. Of this, a substantial portion came to the EU directly from Asia and another part from special purpose entities (SPEs) owned by Chinese and Indian enterprises in locations such as Taiwan, Mauritius[[3]](#footnote-3), Singapore, Hong Kong, Switzerland, and the EU itself (particularly, the Netherlands, Luxembourg, Austria and the EU tax-havens), with two countries, China and India accounting for over half of all EU inward foreign direct investment flows. This was despite Developing Asia remaining the world’s biggest magnet for FDI inflows and FDI outflows from China and India flowing also to other countries. India’s OFDI remains below the radar of UNCTAD analysis because it is routed through SPEs located abroad for a number of reasons. The Indian Rupee lacks capital account convertibility. Also fiscal obligations and disclosure requirements are higher than in ASEAN countries and Mauritius, all of which have double taxation avoidance treaties with India. Further, SPEs located abroad remain concealed and curtained off from prying investigators inquiring into possible economic crimes related to unaccounted wealth and *havala* transactions where foreign exchange is directly created abroad on the back of domestic underinvoicing and overinvoicing of trade account and current account transactions. Scholars have paid scant attention to Indian SPEs abroad because of the methodological problems involved in estimating flows into and out from SPEs located outside India. During the period 2000-2013 Indian OFDI led worldwide in greenfield projects in least developed countries and Indian OFDI has featured in some Greenfield projects and mergers and acquisitions in EU, including Finland. Only $ 226.7 billion IFDI stock and $ 119.8 billion OFDI stock is directly connected to India and the bulk of this came from the private sector. After the general elections in India in 2014, there is an ongoing debate on the need to wind up institutions such as the Planning Commission (Down to Earth, 2014) on grounds that business (including international economic relations) would be better served with stronger governance rather than pervasive, intrusive, costly, bureaucratic government machinery to orchestrate investments.

Finland’s OFDI stock was $ 101.3 billion and IFDI stock $162.3 billion in 2013. The latter figure is misleading because Finns and private Finnish entities tend to hold ownership through entities held abroad (about 60% of Finnish IFDI is held in Scandinavia, notably, Sweden in entities that have non-resident owners or entities controlling them from tax havens). For instance, 89% of Nokia stock was held abroad since 2002 and more than half of the capital stock in the top 20 private corporate entities in Finland is owned from abroad, though not necessarily by foreigners. The composition of the Board of Directors in such firms hardly shows up any foreign natural persons. Finland is one of the top ten OFDI countries in 2013 in the transition economies of Europe with $ 4 billion FDI stock. As regards IFDI during 2007-13, Table 1 indicates the sales value of cross-border mergers and acquisitions in Finland.

Table 1 about here

From Table 1, it may be noticed that the amounts involved fluctuated widely year to year. A closer inspection of the nature of investment flowing from India and Indian entities based on records of the Registrar of Companies in Finland further reveals that firms owned by Indians and Indian SPEs feature among those involved in mergers and acquisitions in Finland. This presents the possibility to explore the following questions:

Q.1 In these cases of Indian M&As in Finland, did the value of the post M&A firms increase or decrease by assets and sales values?

Q.2 Is there a difference across businesses among all M&As in the answer to (1) above?

Q.3 Is there a discernible difference across foreign ownership among all such M&As of any particular industry in the answer to (1) above?

When we turn to greenfield capital investments in Finland and by Finnish entities abroad, Table 2 is also intriguing.

Table 2 about here

First, it can be noticed that there is a net outflow of investment from Finland, regarded as the most competitive economy in the world (Steinbock, 2011) and considered (in perception surveys) as one of the best countries to do business in. This, in itself, need not be alarming if ‘Made by Finland’ is more useful for Finland than ‘Made in Finland’. However, Finland’s balance of payments does not show returns on factor incomes that would justify this claim. This cannot be brushed aside on grounds of climate (Sweden and Norway have the same climate and much more IFDI) or small size of market (Finland is part of the EU-28 internal market and the only Nordic country in the Eurozone). The political earthquakes witnessed in Finland in recent times attest to a shift towards anti-immigration and anti-foreigner sentiment amidst deteriorating public finances, worsening balance of payments, rising retrenchments and expanding unemployment. Evidence of xenophobia can be found in the pronouncements of the True Finns Party (a radical nationalist party). The announcement by the new coalition government led by the Kokomus Party that government debt would be increased to kick-start the economy that has been shrinking for two years in a row brought little cheer to those concerned about the inter-generational debt burden, slowdown of growth in output, dearth of new employment opportunities and lack of fresh investments in Finland since 2007. Yet, there have been several Indian greenfield investments in Finland after 2007 to study.

Several questions that can be inquired into concerning the trajectory of these greenfield investments arise:

Q.4 In what proportion of greenfield investments in Finland, did firms attain sustainable growth, enhance shareholder value or create employment ?

Q.5 Is there a difference across businesses in the answer to (4) above?

Q.6 Is there a difference across foreign ownership in the answer to (4) above?

The answer to these questions requires datasets to be constructed and rigorous analytical methodologies applied to a large enough sample for results to be significant. The purpose of this paper is to take first steps in this process by raising some working hypotheses based on initial analysis of an exploratory study of Indian investments that have failed in Finland.

**Policy Implications for home country India and host country Finland**

India’s direction of trade has shifted away from Europe towards UAE, USA, China (including Hong Kong) and Singapore as the top five destinations but India maintains a special agreement with Mauritius to facilitate both inward and outwards foreign investments. India tops the world in growth of stock market capitalization (+22.9%) in the first half of 2014 over December 2013 pointing to the possibilities inherent from the strength of growing Indian multinationals-these and others-that have capital to leverage for both greenfield startups and mergers & acquisitions.Europe, USA, Hong Kong, Singapore and UAE remain the top five destinations for Indian OFDI. Enterprises such as Bharat Forge, Infosys, Wipro, Tata Group, Aditya Birla Group, Havells, Bharti Airtel, Suzlon, Mahindra and Mahindra, Larsen & Toubro, NTPC, ONGC, and Arcelor Mittal are just some of the many Indian and Indian-owned enterprises that have significant foreign commercial presence. Among these, Bharat Forge, Infosys and Wipro have a global position in the top five within their industries (Guillen and Garcia-Canal, 2013). Not all of these have foreign commercial presence in Finland and would have to take note of the experiences of Indian investments in Finland in contemplating investments there.

The sluggishness in the Finnish economy has brought many Finnish enterprises to the brink of imminent collapse and investor fatigue. This could herald a new wave of mergers & acquisitions as the economy contracts. “Team Finland” (a bunch of Finnish parastatals) has been sending out business delegations to countries from where distressed firms are seeking fresh capital injections in their bid to resuscitate. The majority of firms in the October 2013 list of the business delegation to India led by Alexander Stubb (then Foreign Minister, and now the Prime Minister) belong to this category. Many more that did not make the trip are in the same dire straits. Yet, the experience of takeovers of Finnish firms by foreign investors has downsides. Firstly, there is a perception based on anecdotal evidence from takeovers by Chinese and Indian firms that some of these firms have been asset-stripped and driven to extinction. Foreign investors (especially, Indian and Chinese investors) have their own tale to narrate. Thus, it could be quite revealing for some of these cases to be researched to examine the phenomena closely and raise working hypotheses as to what has been happening.

**What the literature informs us**

Hotho (2014) has drawn attention to the explanatory power of national business systems that can be mapped by moving from typologies to taxonomies through configurational analysis of national business systems. It is possible to extend this logic to the differences between two or more national business systems. The dimensions considered taking this approach would include the fragmentation-coordination continuum, the nature and magnitude of community institutions and parastatals supporting business firms, capital market characteristics in terms of debt-equity gearing (Hotho observed that market capitalization to credit ratio in Finland was 4.7 compared with 1.2, the Nordic European cluster average), risk syndication mechanisms, and authority relations. Hotho concluded that the Nordic cluster does not resemble the institutional characteristics of any existing business system. According to Hotho, the Nordic cluster is not a hybrid combining features of other business systems and is yet distinctive and coherent. The Nordic cluster is characterized by low direct state involvement in business, high trust, a strong public training system, and considerable cooperation and coordination among the actors. This raises the question of the extent to which foreign investors have equitable access for sharing in the benefits of the system. This view concurs with Allen (2004) and Sorge (2005) but is different from the findings of Morgan (2007) because Hotho concludes that diverse interests of economic actors require reconciling through inclusion and coordinated on the basis of strong informal institutions. Institutional distance has also featured as an important determinant for OFDI in other studies (Mathur, 2012) This enables us formulate some hypotheses:

*Hypothesis 1: Foreign investors in Finland have equitable access to the informal institutions that facilitate coordination among economic actors*

The choice of control in cross-border acquisitions is influenced by spatial geography (Malhotra and Gaur, 2014). According to Malhotra and Gaur, “geographic distance hinders acquirers’ efforts to assess the true value of the target firm” and managing contractual relationships, prompting them to opt for partial control”. This can be verified by disaggregating these findings into the form of hypotheses and by adding to geographic distance, the notion of institutional distance, following on from Hotho.

*Hypothesis 2a: Foreign investors in Finland have problems to assess the true value of an acquisition due to geographic distance*

*Hypothesis 2b: Foreign investors in Finland have problems to assess the true value of an acquisition due to institutional distance*

*Hypothesis 3: Foreign investors in Finland are challenged to manage contractual relationships*

*Hypothesis 4: Foreign investors opt for a degree of control*

*Hypothesis 5: Hypothesis 4 may follow Hypothesis 2 or 3*

Kuznetsov and Kuznetsova (2014) have raised another interesting possibility to account for derailment of an enterprise, what they call, communication disengagement, a phenomena they observed in emerging markets and which may have reverberations in management processes of Greenfields and M&As of OFDI enterprises from developing countries when they function far from their communities in developed countries. This possibility is finds supported in the extant literature in the work of Botti (1992), Beugelsdijk, McCann, and Mudambi (2010), Birkinshaw, Brannon, and Tung, (2011), Caprar, (2011), and Gaur and Lu (2007).

**Methodology**

As a first level analysis, two cases of failures of Indian investments in Finland have been chosen-an acquisition and a greenfield start up. All the records available of these enterprises with the Registrar of Companies were scrutinized, including financial statements, annual reports, statutory notings on management and control, statutory auditor’s remarks, changes in Articles of Association and Board of Directors and any infringements or violation of law found in judicial review at the time of collapse. Based on these, certain specific questions have been formulated for the second stage when a deepening of the study would inquire into the decline and eventual insolvency/bankruptcy by interviewing the various actors involved in Finland and in India in an iterative action research mode. At the moment, only the first stage has been completed and that is being reported in this paper together with questions and working hypotheses for a more detailed follow-up in the second stage.

**Case 1: BREEZECAN[[4]](#footnote-4)**

Breezecan Oy was established by five business partners (all Finns) in Oulu, Finland on 13.4.2000 to market electricity produced from renewable sources of energy such as wind in the multiples of 1 megawatt. At inception, its assets of about € 1 million were funded from shareholders’ capital (2%), parastatal subsidies (12%), and long term debt capital (6 year term) from banks and financial institutions (86%). Its annual wage bill (including statutory pension contributions) was about € 36,000 in Year 2000. KPMG were its auditors. This business has a gestation period of about 3-5 years. Half of the debt capital was converted to equity in 2002 by which the control of the company from then on vested with a consortium consisting of a technology financing firm , an electricity distribution firm and an equipment provider. The Company then took on more long term debt from Finnvera (€ 67,000) and Sampo Bank (€ 56,000). The year 2002 was the first full year of production and the Company entered into agreements with ABB and Metso for the next phase of expansion with a project investment plan of € 675,000. The Company projected 15 MW capacity by the beginning of 2003.

Breezecan Oy reported losses through 2003 and 2004 but it had a stronger balance sheet with assets of € 2.7 million. By 31.12.2004, shareholders’ capital stood at € 60,182, with sanctioned subsidies of € 5.5 million. The ownership was reconstituted under the Proventia Group (turnover € 7.54 million). The original founder investors now owned between them only 93,000 shares out of a total of 2,288,090 shares with the remaining shares and control now held by Proventia-led consortium. At this stage, Head Invest Oy, one of the consortium partners was the majority owner in Proventia Oy, thus controlling 58 % of the shares. Ernst & Young were appointed the new auditors.

Breezecan executed a 1 MW project in Oikiluoto and a 3 MW project for a local powerhouse in Vihreäsaari, besides two projects in Portugal. However, grid parity was not achieved and the firm continued to depend on state subsidies channeled through parastatal funds. The firm reported losses of € 3.93 million in 2005 and € 8.67 million in 2006. This was after subsidies of € 10.49 million in 2005 and € 36.6 million in 2006. It opened subsidiaries in Estonia and Spain. And in 2006 business contracts in Czech Republic and Sweden ( 1 MW) were executed and one contract in China (1 MW) was also made. Two new Estonian projects for 8 x 3MW plus 4 x 3 MW were to be executed by 2008. Now Breezecan was doing well and looking up. Cash flows were positive and the current ratio had improved from 0.79 (2005) to 1.30 (2006). Breezecan employed 91 people in 2006.

During 2006, Breezecan was acquired (on 24.7.2006) by Indian investors from South India through a Venture Capital Firm (which I refer to as Ventures Limited). Two Indian directors joined the Board of Directors. The Company made an ambitious internationalization plan and sought partnership with TEKES and SITRA for more funding. R&D expenses now mounted to € 1.5 billion (about 10.1 % of the sales turnover). The share value was adjusted downwards to 12.45% of its previous value. An Indian subsidiary was added in 2008 for the manufacture of wind turbine parts. A grand strategic vision plan for worldwide marketing was announced in partnership with an Energy Company (which I refer to as Energy Limited) with an investment outlay of € 120 million. A new plant for 160 x 3MW turbines capacity was envisaged in Loviisa in Southern Finland.

In 2008, the turnover increased to € 67.6 million (€ 57.7 million in 2007) reporting losses of € 29.8 million (losses of € 17.6 million in 2007). A loan of € 10 million was taken from the State Bank of India through Ventures Limited. In Autumn 2008, € 27.6 million was transferred to be invested in the Indian subsidiary, lets calls it Parvati. Additional funding of € 37 million was loaned from the three biggest Indian banks. The current ratio improved further to 2.16 in 2008 (1.37 in 2007) but the turnover growth dropped to 17.2 % (52.7 % in 2007). The total number of employees was now shown as 289. In February 2008, two Finnish directors on the Board were replaced by two more Indians. A capital credit line of € 110 million was obtained for the Indian subsidiary. In the 2008 Annual Report, a very rosy picture for Breezecan Oy was projected for 2009 and 2010.

In 2009 and 2010, the losses increased substantially on marginally higher sales turnovers. In 2009, there was a loss of € 43 million (on a turnover of € 76.1 million) and in 2010, the loss reported was € 53.99 million (on a turnover of € 82 million). By 31.12.2010, the sharecapital was in the negative (- € 124.27 million) but the books were balanced because of a € 150 million credit line involving Indian banks through the Indian subsidiary. The employment levels worldwide were reported to be 871.(of whom 295 were shown as working in subsidiaries). Ventures Limited was renamed as, lets say, Global Limited. The 2010 accounts carry the signature of only one Finn Director still remaining-the rest being Indians. New subsidiaries were opened in Denmark and Sweden. The auditors, Ernst & Young, certified that all was well with the accounts. They concluded, on 22.6.2011 with an interesting observation: “*Without qualifying our opinion, we draw attention to the factors described under section Financial Position in the report of the Board of Directors. In this section the management has expressed the existing cash flow forecast and the company’s ability to receive additional working capital*”

The Annual Report claimed that the Industrial Development Bank of India (IDBI) had pledged € 52 million as infusion of capital to the Company through Group Companies belonging to the Industrialist owning Ventures Limited.

It is noteworthy that there were no shareholders present at all at the Annual Shareholders’ Meeting held on 30.6.2011. All shareholders except one were represented by a solitary Finnish Lady authorized to act on their behalf and the remaining shareholder was represented by a man authorized to act on his behalf. This only shareholder other than the lady exercised his right to seek information under Chapter 5 Section 25 of the Finnish Companies Act which could not be fully provided by the Managing Director present at the meeting.

The sales turnover dropped to € 37.8 million in 2011 and further to € 24.04 million in 2012. Losses (- €59.1 million in 2011 and - € 58.78 million in 2012) exceeded the sales turnover in both years. The Danish subsidiary entered liquidation on 1.10.2012 and the Swedish subsidiary on 15.3.2013. A sum of € 60 million was transferred from the Company to an investment company in 2012. The annual accounts of 2012 were signed only by four Indian directors on 27.5.2013. For the first time, auditors Ernst & Young expressed a qualified opinion stating: “ *We have not been able to obtain appropriate audit evidence sufficiently on the correctness of accounts receivables, accounts payables and provisions in the balance sheets of the parent company and the key subsidiaries. This situation has been generated due to different views of the counterparties on the existence and amount of payment obligation. In the audit procedure for external confirmations significant differences have been found between the views of the debtors and the creditors*.” The auditors further noted that manufacturing operations had stopped and the equity of the parent company was negative. There were insufficient funds to settle debts on due dates.

The District Court of Espoo initiated bankruptcy proceedings on 15.2.2013. The Registrar of Companies rejected the Company’s annual report filing on 2.8.2013 as defective.

The questions that arise concern failure of strategy and also raise doubts on related party transactions. The most charitable view would be to attribute the decline and demise to macroeconomic factors after 2008 that affected demand and examine why the Indian investor and the Finnish business system could not resolve the business crisis in a sector that does enjoy state support to renewable sources of energy. The nature of corporate governance and conduct of the actors opens up other questions for consideration, besides the hypotheses raised already.

Q.1 What attracted the investors to acquire Breezecan Oy to Finland?

Q.2 Did the investors lack capabilities to build a worldwide business including an Indian subsidiary’s low cost base combined with Finnish sites in Oulu and Loviisa?

Q.3 Was the Breezecan strategy flawed at a point in time or was it Don Quixote all along?

Q.4 Did the macroeconomic factors outweigh microeconomic possibilities or was there scope for better risk management?

Q.5 Did the investors run down the business by neglect or deliberately?

Q.6 Who gained, who lost?

**Case 2: BIOWORLD**

The case of Bioworld has its origins in the Indian investor’s presence in Europe as a supplier of automotive parts and machine tools manufactured in Pune. Eyeing opportunities to diversify, the Indian investor, lets call him, Mohan, established the firm Bioworld as a string of three different companies in 2007-one for clinical trials in the Turku Biocity, one for biomaterials in Oulu and one for bioinformatics in Helsinki. On zero turnover, the Helsinki enterprise made a loss of € 939, 544 in the second year of its operations after a modest turnover of € 8000 in the first year. On a share capital invested of € 20,000, Mohan had secured capital loans from Finnish parastatals to the tune of € 3,799,980. His ambitious plans had convinced Finnish officials that here was the answer to their prayers for internationaisation of Finnish biotech, biomaterials and bioinformatics. Mohan was given the equivalent of a knighthood before any business investment had shown results. In 2009, he reported sales of € 233,500 and a loss of – € 599,673. Liabilities in the form of capital credits from Finnish institutions exceeded € 7.18 million by the end of 2009. It seems that there was no business model to begin with because losses continued through 2010 and 2011 until the Company became insolvent on 4.10.2012.

The Oulu based sister company went through the same motions on the back of € 200,000 from Finnvera and other Finnish parastatals with accumulated losses of € 78,386, € 93, 317 and € 20,229 in three successive years. The Turku enterprise reported losses at the level of 70 % of its turnover. Nothing remains from these except unanswered questions.

Q.1 How did the Finnish authorities come to nurture unrealistic expectations ?

Q.2 Why did Mohan invest in an unrelated diversification in Finland?

Q.3 Could this have had a happier continuity?

**Conclusions**

It would be unfair to draw definitive inferences on either of the above cases without further inquiries with the protagonists to listen to their side of the story. This will be attempted in the months to come. Meanwhile, the hypotheses raised and the questions arisen from the cases are quite intriguing. In the case of Bioworld, Mohan seems to have been privileged to achieve insider status in informal networks without which Bioworld could not have been born. Yet, either because he lacked a robust business model or despite having one because he could not dance in step with the business systems, failed to survive let alone grow. In the case of Breezecan Oy, the Indian investor never integrated within the Finnish system and functioned from the periphery through increased control. The use he made of Finnish parastatals, Tekes and Sitra matched his appetite for similar extractions from the Indian banks and financial institutions-all for a cause that did not sustain. Was it geographic distance? Or was it institutional distance? Or was it simply the 2008 macroeconomic downturn? Or were there other motives for the actors involved or reasons or factors that need to be considered?

In view of the above, this narrative does not really end here. But a beginning has been made to examine cases of Indian OFDI to Finland. And this start of the journey has already raised more questions than it has answered. There is some evidence that the pull for OFDI from emerging and developing economies in investment-scarce developed countries can attract investments from developing countries that may not have potential for sustainable growth or shareholder value raising the spectre of adverse selection, besides moral hazards. Inward foreign investments regarded as nectar may be poisonous if the nexus of stakeholders lack motivations or capabilities to go beyond the lure of para-statal incentives and subsidies that could be one of the key drivers of such investments.

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**Table 1: Sales Value of Finnish firms acquired in cross-border transactions (in $ mln)**

Year Sales Value

2007 8571

2008 1163

2009 382

2010 336

2011 1028

2012 1929

2013 35

Source: Tilastokeskus, Finland and World Investment Report 2014

**Table 2: Capital Value of foreign Greenfield capital investments (in $ mln)**

**Year In Finland By Finland outside Finland**

2007 1269 13189

2008 2415 11071

2009 1208 3628

2010 1692 4351

2011 2153 5891

2012 1691 4795

2013 2461 6751

Source: Tilastokeskus, Finland and World Investment Report 2014

1. Paper accepted for presentation at the 4th Copenhagen Conference on ‘Outward Investment from Emerging Economies’, October 9-10, 2014. [↑](#footnote-ref-1)
2. The author is Professor of Strategy and International Business in the Business Policy Area at IIM Ahmedabad and the Project Director, Finland-India Economic Relations. Email: [anmathur@iimahd.ernet.in](mailto:anmathur@iimahd.ernet.in)

   [↑](#footnote-ref-2)
3. The cumulative outwards FDI stock from Mauritius exceeded $300 billion in 2013. Most of this is believed to be money parked in Indian special purpose entities (SPEs) that prefer Mauritius and Singapore for fiscal reasons. [↑](#footnote-ref-3)
4. The actual name of the Company has not been used. [↑](#footnote-ref-4)