6. Indian Case Studies

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INTRODUCTION

The Indian case studies illustrate in particular the influence of industry-specific regulation and the nature of competition on entry strategies. The case of Baccardi-Martini illustrates the relationship between the regulatory environment and its disparity across states with the strategic decisions taken at corporate level. The Packaging case, which is reported anonymously, illustrates a staged acquisition of a private business previously owned by a domestic conglomerate, and acquired by a global player in the specific industry. The ABN Amro case illustrates the expansion of a foreign-owned bank during the stepwise liberalisation of the financial services industry, among other strategies by acquisition of the retail operation of another foreign investment bank.

BACARDI-MARTINI INDIA LTD

The joint venture Bacardi Martini India Ltd. (BMIL) was established in 1998 between the multinational wines and spirits major, the Bacardi-Martini group and a relatively small Indian distiller, Gemini Distillers. Bacardi-Martini itself is the outcome of a 1992 merger between Bacardi, well-known internationally for its rum, and Martini & Rossi, which established its reputation in the wine business before going on to acquire a presence in other segments of the alcoholic beverages market. Both were family-owned and controlled firms. Bacardi had its roots in Cuba, before moving its base to the Bahamas and has a very large presence in North America. Martini & Rossi originated in Italy and grew to become a pan-European entity. During the 1980s, the two companies entered into marketing and distribution alliances to take advantage of each others' continental presences. These alliances were formalised by a merger in 1992.

In the early 1990s, when India opened its alcoholic beverages industry to foreign investment, a number of global majors entered. Foreign shareholdings in this industry were restricted to a maximum of 74 per cent.

As a consequence, compounded by specific characteristics of the industry, entry in India was exclusively through the joint venture route.

The significance of this case is two-fold. First, it demonstrates the impact of the local regulatory environment on the investment decisions and strategic choices made by the foreign entrant. This is of course an industry characteristic, and the implications of the analysis are general. Second, there is a very important distinction between BMIL and other entrants. BMIL's main product in India is rum, which is distilled from molasses, an intermediate product in the sugar-cane-sugar linkage. The predominant product segment of the other entrants is whisky, which is typically distilled from grain. As it happens, the overwhelming majority of India's alcoholic spirits production (which does not include beer and wine) is distilled from molasses. Even Indian whisky is largely a mix of alcohol distilled from molasses with appropriate flavours and colours. More expensive brands are blended with varying proportions of grain-based alcohol, but even these do not meet the international standard for "whisky", which defines the product as exclusively grain-based. In this context, BMIL, the only significant rum producer to have entered the Indian market, is the only one of these ventures whose main product is consistent with the conventional domestic feedstock. This increases the possibilities of externalities from backward linkages.

The origins of this case study are somewhat unconventional. While the country team was exploring possibilities, the lead researcher was working on a project commissioned by the Confederation of Indian Alcoholic Beverage Companies (CIABC), an industry association representing the foreign and larger Indian companies in the business. The objective of the project was to demonstrate the collective benefits to state governments from harmonising their various tax regimes for alcoholic beverages, which were extremely disparate. In the process, some understanding about the nature of the existing regulatory regime was gained. The project also provided the researcher several opportunities to interact with managers from both the foreign and Indian companies, which contributed to an understanding of the relationship between the regulatory environment and its disparity across states on the one hand and their strategic choices on the other. In addition to several conversations with the two top managers of BMIL during the course of the other study, structured interviews were held with both of them in December 2002.

The discussion of this case is structured as follows. Section two describes the regulatory environment in which the industry operates and how this could potentially affect the strategy of the foreign investor. Section three provides a brief picture of the structure of the alcoholic beverages industry in India, with the idea of establishing the competitive space in which BMIL operates. Section four analyses BMIL's operations in terms of the general analytical framework, focusing on the issues that emerged as significant during the discussions and interviews.

The Regulatory Framework

The Tax System

India has a federal fiscal system, with three tiers of government – central, state and local – possessing the constitutional right to levy taxes. Each tier is constrained in terms of what activity it can tax and what kind of tax it can impose. The bulk of revenue at the central and state levels is collected by indirect taxes – excise taxes levied on the value of production of goods at the centre and sales taxes levied on the value of transactions of both goods and services at the level of the state. There are a few exceptions to the exclusive power of the central government to collect an excise tax (i.e. a tax at the point of production). Alcoholic beverages are by far the most important exception. Therefore, each state government has the exclusive right to collect taxes from alcohol either produced or consumed within its borders. For the Indian states collectively, alcohol taxes represent the second largest source of revenues after sales taxes. In recent years, while the latter have contributed about 60 per cent of aggregate state tax revenues, the former have accounted for about 15 per cent.

At the core of the tax regime on alcohol are three elements. The first is tantamount to a specific (dependent on alcohol content) excise tax levied at the point of production. The second is a license fee levied on trade in alcoholic beverages, either retail or service. The third is a tax related to the movement of products across states – an export fee in the state in which it is produced and an import fee in the state in which it is consumed.

In practical terms, however, the discretion states have over this base has resulted in a proliferation in the number and complexity of the levies imposed under each of these broad categories. CIABC estimates that there were 117 different types of levies on alcohol over all the states. The end result of the evolution of the tax and regulatory regime across different states has been a significant dispersion in the effective tax incidence on alcoholic beverages across states, and consequently, in retail prices.

Other Regulatory Instruments

The tax system is accompanied by a variety of regulations at each stage on the sequence from production to consumption. At the production stage, the basic requirement in all states is a license to set up a facility, which may be a brewery, a distillery or a blending and bottling plant. The license specifies production capacity. The issue of new licenses is typically dependent on perceptions about the adequacy of existing capacity. There are added considerations in the states that produce sugarcane, from which molasses, the basic feedstock for distilleries, is extracted. Molasses is the source for both industrial and potable alcohol. There is a concentration of distilleries in these states, which supply industrial alcohol to downstream users and potable alcohol to blending and bottling plants both within the state and in other states. Given constraints in the area under sugarcane and production and yield risks, expansion in distillery capacity is likely to contribute to price volatility as well as supply uncertainty to existing facilities. There is, therefore a "risk management" element in the licensing structure. The price and other conditions attached to the license vary from state to state.

At the consumption stage, there are license fees, which differ for retail and service establishments. All states impose a set of restrictions, which vary widely, on location and timing of such establishments. The mechanism of licensing itself varies across states. Some states have a system of fixed license fees, while others auction licenses. Further, many states have restrictions on ownership at different stages of trading activity. For example, some states allow private ownership of retail establishments, while restricting wholesale procurement and distribution activity to public enterprises, owned by the state government. At least one state allows private activity in the wholesale trade, while restricting retail activity to public enterprises.

Inter-state movements of alcoholic beverages are also subject to regulations both by the producing state and the consuming state. This is apart from the regulations governing movement in molasses and alcohol. An important component of movement regulation is the notion of brand registration. Typically, a brand that is not produced in a state has to satisfy certain conditions before being allowed to distribute in that state. For example, it may be asked to prove that it sells a certain minimum volume in the rest of the country before being registered in a particular state. Finally, all of these state-specific instruments are supplemented by national restrictions on advertising and promotion of alcoholic beverages.

This brief and perhaps oversimplified description of the variety of taxes and other regulatory instruments prevailing across Indian states is relevant to this case study for a number of reasons. First, the independent pursuit of alcohol policy by various states has resulted in a significant fragmentation of the national market. Each state effectively constitutes a separate market, with its own distinct features. Local knowledge about the markets in which an entrant aims to compete is critical to the likelihood of success of a strategy. More specifically, knowledge about the regulatory complexities in each state is a vital input into evaluating the potential of each market and designing a strategy that optimises revenue and profitability in the markets that the entrant has decided to focus on.

Second, also related to the fragmentation of the market, the returns to any national-level investment, such as advertising or other brand-building efforts, are likely to be significantly diluted. Movement and distribution restrictions are always potential disruptors of any attempt to quickly cash in on a brand-building campaign by setting up and sustaining supply chains. This is particularly important for multinationals, whose brand identities are already established in the domestic market, even though the majority of customers many not have ever consumed the products that they offer. Brand identities have to be reinforced or repositioned as a prelude to their entry into the market. From a cost viewpoint, it clearly does not make very much sense to develop several different state-level campaigns to do this. Reconciling the national-level brand-building strategy with the state-level supply and distribution constraints is, therefore, a priority.

Third, the fiscal significance of alcohol-related revenues inextricably links this entire industry with the political-bureaucratic process. Major decisions relating to licenses, tax rates and license fees are all influenced, if not dominated, by political considerations. Long-standing political connections are perceived as a valuable asset in this business.

The Structure of the Indian Alcoholic Beverages Industry

The structure of the industry is clearly influenced by the regulatory environment and the consequent fragmentation of markets. There are basically five categories of alcoholic beverages – beer; wine; Indian Made Foreign Liquor (IMFL), which includes whisky, rum, vodka and other similar spirits; country liquor, which is the indigenous equivalent of IMFL – essentially, flavoured alcohol, with an alcohol content somewhat less than the standard for IMFL; and, toddy, which is a mildly fermented juice extracted from palm and may be considered the indigenous equivalent of beer, in terms of alcohol content. The regulatory framework covers all these categories. Besides these, there is a significant presence of illicitly brewed alcoholic beverages, which escapes the tax and regulatory net.

The IMFL segment has the largest sales volume overall, and is divided into a number of price niches. The lower-end niches are catered to by regional or local players (confined to a state or even a part of a state), whose products carry brand labels, but do no promotion at all. Their selling point is price and availability. The middle niches attract regional players and most of the national players, so conscious branding activity takes place here, even though price is still perhaps the dominant factor, i.e., brand premiums, if they do exist, are relatively small. However, volumes tend to be large and the larger players just cannot ignore the opportunity. In the higher-end segments, the large, national players have a dominant presence. In this segment, brand premiums are significant and producers exploit every opportunity they have within the regulatory constraints to promote brands. Volumes obviously decline, significantly as prices increase, but margins are high and worth going after, even with relatively small volumes.

This is the segment in which the typical foreign entrant competes. There has been some entry in the beer market (SAB Miller and Fosters, for example). However, the overwhelming focus of foreign entrants – Seagrams, Pernod-Ricard, IDV, for example, has been on the higher-end IMFL segment especially, the whisky segment. Firms like IDV have made forays into the middle range whisky categories, but, by and large, the emphasis is on small volumes and high brand premiums.

They face intense competition from domestic players, who, as indicated earlier, straddle both the higher-end and the middle segments. They thus benefit from both higher volumes and established brand loyalties.

BMIL's Strategy: Goals, Resources and Spillovers

As mentioned above, the target segment of the majority of foreign entrants into the Indian market has been the higher-end whisky segment, with some exceptions. BMIL's goals were unique in this respect. It entered with its flagship brand Bacardi White, which, in the Indian context was in a previously unknown market segment. Historically, rum produced in India has been dark. Its positioning in the market was somewhat below the middle range domestic whiskies. It is a product closely associated with the military services, to which it is issued as part of their regular monthly supplies, exempt from the tax burden that civilian consumers have to bear. There was an attempt to create a market for white rum by a major domestic spirits manufacturer in the early 1990s, but it was not successful. The introduction of Bacardi white rum into the Indian market, at a price significantly above the highest-priced brand of domestic (dark) rum, was tantamount to establishing an entirely new market niche.

Choice of Mode

Bacardi's organisational history is that of a family owned and managed company, and its merger with Martini & Rossi did not significantly change that. Clearly, given a choice, it would have preferred to come into India through the wholly-owned subsidiary route. This could have involved acquisition of an existing firm which held a valid license for the manufacture of alcoholic beverages. The limits on foreign ownership in this industry were the primary motivation for its decision to enter through a joint venture. Having made this decision, however, the choice of the partner was driven by strategic considerations.

Ownership Structure

BMIL is a 74:26 joint venture between Bacardi-Martini (through Bacardi International of the USA) and Gemini Distilleries of Mysore, Karnataka. Bacardi International acquired 74 per cent stake in the going concern, with an overall valuation of Rs. 320 million in 1995. In 2000, with BMIL's operations gaining in steadiness, its US parent decided to infuse an additional Rs 290 million into the Indian subsidiary producing and marketing the popular Bacardi rum. The money was brought in through issuance of non-convertible, non-cumulative preference shares. The shareholding of Bacardi International in BMIL remains unchanged at the existing level of 74 per cent.

Since the resident shareholder's equity holding cannot be lowered than 26 per cent at any point in time, it chose the preference share route to infuse funds into the venture.

Strategic Considerations for Choice of Partner

The parent company considered three possible partners, two located in the state of Karnataka and one in the state of Maharashtra. Both states are major sugar cultivators and therefore have significant distillery capacity. Both are also relatively prosperous and relatively large consumers of alcoholic beverages. Due diligence and valuation exercises were undertaken. The final choice of Gemini Distilleries was influenced by the strength of the political connections of the owner, who at the time was a member of the Indian Parliament. The parent had no expectations of the local partner with respect to any managerial or technical inputs. However, there was an expectation that the partner would be valuable in dealing with regulatory and “environmental” issues. The partner was seen as the venture’s interface with the political and administrative systems. Its role has continued along these lines through the course of the venture, including on obtaining the necessary approvals and permissions within the state of Karnataka as well as in other states (as a member of parliament, the owner is a national-level politician).

Resources from the Parent

The infusion of financial resources by Bacardi-Martini into the joint venture was used mainly to bring in new equipment, including a maturation facility, which was critical to the positioning of the product in the Indian market. An important input from the parent firm was the waste treatment facility, using anaerobic technology, which was introduced for the first time into the Indian distillery industry. This technology was originally developed in-house by Bacardi as a proprietary process, but has since been divested to another company. The process produces methane gas, and can be used to fuel boilers or to co-generate electricity. The project was expected to promote this technology in a number of industries including food and beverage, pharmaceuticals, pulp and paper, petroleum and chemicals. Whether this has since happened is not clear, but discussions with the head of technology indicated that environmental regulations were pressurising domestic producers to upgrade their waste treatment facilities and that having a working model of this technology made it easier for them to assimilate it.

Local Resources

The local partner’s inputs into the venture have already been addressed. Their value is a direct function of the complexity of the regulatory framework within and across states and the continuous interface that a producer has to have with government. However, outside of the partner’s contribution, other local resources were also significant. The raw material was completely indigenous; although there were some yield problems with the local molasses, these did not detract from its quality and acceptability even for the standards that the venture was aiming for.

Most significantly, managerial resources were almost exclusively local. The CEO, who initiated Bacardi-Martini's presence in India with the commencement of the search for a local partner is Indian, with several years of experience both in the alcoholic beverages industry and the local operations of a major consumer goods multinational. The head of technology is also Indian, with long experience of the industry in a number of the major domestic players. One of the critical competences in this product is the final blending of stocks of different maturities. In the parent company, blending is a closely guarded skill, confined to the inner circle. The initial blending expertise was, therefore, inevitably from outside the country, but the situation changed relatively quickly. The master blender is currently Indian, having received training in the parent's establishments outside the country.

Expansion Strategy

In 1998, Bacardi International made an effort to take over domestic alcoholic beverages major Jagatjit Industries. The offer by Bacardi for Jagatjit fell through, reportedly because of disagreement over the acquisition price. In 2001, Bacardi International acquired American Beverages (Mauritius). This company had 51 per cent shareholding in Whyte & Mackay India with another domestic major, Radico Khaitan as the local joint venture partner. The two companies, Whyte & Mackay India and BMIL, operate as independent entities while attempting to exploit scale economies in sales and marketing.

In 2000, BMIL entered into a marketing pact with the Scotland-based Grants to market the Scottish firm's whisky brands in the country. The deal was to help bring two whisky brands - Glenfiddich and Grants - to the country. This was part of Bacardi's plans to bring all categories of liquors in India. It markets Grants' brands in the same way as other brands.

Both these moves have established the Bacardi-Martini group's presence in the whisky segment of the Indian market, where it is in direct competition with all the other foreign players that have entered the market, as well as with the premium products of the domestic players. Other than the acquisition-based expansion into the highly competitive whisky segment, BMIL also attempted to create a new market niche for low-alcohol drinks, introducing their international brand "breezer" into the Indian market.

Marketing Strategies

There are two distinct strategies discernible in the company's marketing plan. One is centred around the "Bacardi" identity, which encompasses the premium rum and the Breezer products. In promoting these products, BMIL followed the international positioning of Bacardi – youth-oriented and aspirational. Sponsorship of events, particularly concerts that attract young people, is an important component of this strategy. Bacardi does this around the world and has pursued a similar strategy in India. The other strategy relates to the whisky segment, in which its association with Whyte & Mackay and Grants gives it access to a wide price range of products.

Outcomes

Being a closely held company, BMIL is not required to publish financial information and was unwilling to provide information on sales volumes or financial achievements. However, the company indicated that it has maintained "growth" in excess of 30 per cent per year. Certainly, its marketing strategy for the Bacardi label is relatively high profile and anecdotal evidence suggests that the flagship product has gained significant acceptance in the major Indian markets.

In the interview, the country head outlined his perception of BMIL management's fulfilled and unfulfilled expectations from the India venture. On the fulfilment side, he indicated that establishment of the Bacardi brand and the success with the creation of the market for the premium white rum. He also noted that this was achieved by a largely domestic human capital resource. On the negative side, he felt that the business continued to be at the mercy of arbitrary tax policies of state governments (he was a prime mover of the tax harmonisation project mentioned in the introduction).

Conclusion

Bacardi-Martini's choice of the joint venture as a mode of entry into India was inevitable because of the policy restriction on foreign ownership in this industry, but its choice of partner had obvious strategic elements. The choice was motivated largely by the complexity of the local regulatory environment, which differed from state to state and effectively fragmented the market. In these circumstances, local knowledge, and more so relationships with the bureaucracy and the political class were perceived as assets. The expectation from the local partner focused exclusively on the management of these relationships. Technical and managerial resources were contributed exclusively by the foreign partner.

However, as in the ABN-Amro case, the joint venture relied almost exclusively domestic managerial resources. In fact, it is debatable whether Indian managers can be considered a "local" resource, because they appear to be quite mobile globally. The employer therefore has to compete not just with local firms (or local affiliates of foreign firms) but also with firms in other locations. However, if this resource cannot be considered fully mobile, it seems to be an important source of cost advantages for foreign entrants, who bring in technology and capital but have no need to bring in high-cost expatriate managers. The fact that even a highly exclusive skill like blending is also in domestic hands underlines the importance of the cost/productivity advantages that local human capital resources provide to foreign entrants.

The technology that the venture brought in for waste treatment is the source of potential positive externalities. Regulation is forcing domestic producers in this as well as other process industries to upgrade waste treatment technology. The existence of a working model in the country, as well as people who have experience with it is probably an important element in making the transition easier.

Finally, one important global resource that the company contributed was its marketing strategy. This appears to have helped in creating a new market for its flagship product, and associating it with the same set of values that it identifies itself with internationally. Global media exposure appears to have played a part in this, but active local promotional efforts among the target segment of consumers seems to have worked as well. For at least some products, the message truly appears to be universal.

PACKAGING

In this case, a multinational enterprise that specialised in a specific segment of the food packaging industry acquired a business in its sector from a major Indian business group with most of its activity in another industry. The packaging industry is highly dependent on domestic production due to transportation costs and integration in the supply chain of the local food industry. The industry supplies other companies where timeliness and quality are of great importance. In consequence, supply disruptions due to, for instance delayed processing of imports at Indian ports, could cause substantial losses to the industrial customers.

A large business group headquartered at New Delhi established the firm after World War II. While the main activity of the group is in the paper industry, this particular firm operated in an unrelated industry. It had four production units, two in northern India and one each in western and southern India.

The foreign firm is a world leading MNE in its segment of the international packaging industry. Its headquarters are based in a western country, but the Indian affiliate reports to its regional headquarters that are closer to India. The CEO of the subsidiary is however from a third country and is drawn from the western activities.

The Indian company was among the leading firms in the industry in India, but small by international standards. Its quality and output was well received in the market and it had a stable share in a moderately growing market. In this particular product segment, the company was in the top 3 in terms of sales. The top 5 companies together control about 90 per cent of the market. Moreover, smaller firms using a recycling based production process take up part of the market. Despite their small size, these companies are highly competitive and limit the effective market for the larger producers.

With the reforms following 1991, the government relaxed conditions for international collaborations. The Indian business group and the international packaging MNE saw it in both their interests to establish technical collaboration. They did so in 1991 when the MNE introduced new technology in the Indian company. Under the technology agreement, the Indian company paid 2 per cent royalty on exports. However, no royalties were charged for domestic sales.

The reforms affected the company in another way. With relaxed FDI policy, many MNEs entered India and many more were expected to set up operations in the near future. This meant that their international suppliers were also interested in setting up a base in India. This particular MNE also supplied to other major MNEs internationally and this following-the-customer-motive may have contributed to its early entry to India. Despite the reforms, setting up a greenfield unit in India takes a long time. Consequently many MNEs would have preferred to take over Indian companies rather than rapidly entering the Indian market, had this been permitted. Since the government at that time tended to be less open to acquisitions, many foreign companies entered into joint ventures with Indian partners.

The MNC bought 51 per cent stake in the Indian company, establishing a new legal entity under a new name. The company now paid a 3 per cent royalty on domestic sales in addition to the 2 per cent royalty payment on exports to the international MNE. The Indian business group had several reasons to wish to sell its packaging business:

- The group was itself going through a major restructuring, where different parts were being divided between various family members. This created a negative perception in the market.
- The restructuring process coincided with a recession in the Indian economy. Hence positive effects could not be realised in the short run. The investors thus rated the company as un-competitive.
- The packaging company had a low degree of synergy with most of the other activities of the business group. It lacked dedicated approach and had traditionally resorted to backward vertical integration. The group wanted to sell off side businesses such as this packaging unit, and focus on its core activities.
- The company needed funds for its investment and services segment. The cash flow from realisation of the sale was to form the basis for the needed investment.
- The company was facing a major liquidity crunch, as most of the other companies of the group were not performing financially well; consequently availability of the funds also might have been an issue.

- For the purpose of monitoring its side business, the company had set a 25 - 25 rule. Probably, the packaging business was sold after it failed to meet the criteria.

At an early stage, the international MNE was not a very aggressive partner in the joint venture and it continued to be run in the same manner as before. Senior, middle and junior level employees of the company remained. The international partner transferred a few key technical personnel to India, however, no major changes occurred in the management structure, or the way decisions were taken.

The employees representing the international partner increasingly felt that a more aggressive path needed to be developed to permit robust growth in the changing competitive environment. They foresaw a need for relatively large investments in upgrading machinery and expanding plant capacity. The Indian group however was either unwilling or unable to come up with the funds required for this investment. By 1997 it was decided that the foreign partner would fully take over the company, but keep all the employees and restructure the company according to its perceptions of the Indian market. The factors that facilitated the acquisitions were :

- Need for investment in plant and machinery;
- Insufficient financial resources of the Indian partner;
- Lack of synergies for the Indian partner but a core activity for the international company;
- Relaxed government controls on FDI acquisitions.

The multinational enterprise had multiple motives to acquire the Indian Packaging firm in full:

- Despite losses, the new firm that was formed continued to be the largest supplier of the key products in this industry in India;
- It had valuable client relationships with, among other firms, several foreign MNEs in the food and pharmaceutical industries;
- The acquisition provided a good fit with the MNEs global strategy, and allowed it to expand its market reach in its core business to India. It was trying to reach the Indian markets owing to the relaxed conditions for investments. In fact, in 1997 it entered a similar venture in another state in India, and in 2000, it initiated talks for further acquisition-based growth in India.

The Indian company received government approval for a complete takeover by its foreign partner in 1997, yet it took three year to implement the takeover. Since then the employees of the MNC have been completely in charge of the company. The firms invested in upgrading plant and machinery in one of the three plants after the acquisition, with moderate changes in the others too. While the financial investment has not been huge by the standards of this industry, employees reported that the major change has been in the 'style' of the operations of the company.

On the other hand, almost half of the top twenty managers have left the company. They were replaced by new employees, who are predominantly Indian and were recruited from different industries. The regional headquarters has also sent in its technical people who oversee the operation of the plants. However, there is not much interaction between the international and Indian organisation. The international and regional headquarters do not provide any significant help to the Indian operations. The help has been limited to technical assistance and some transfer of financial resources.

The new employees report some difficulty in interacting with the older employees. The latter are reported to have a more ‘relaxed’ and ‘less aggressive’ attitude. There has been less change in middle and junior levels of the hierarchy. This mix of old and new therefore exists both at the plant and machinery level, as well as at the employee level. And it appears to not have been smooth.

Despite the technology transfer, newer equipment, and transfer of skills in the form of international expatriates, customers report a fall in quality. Employees within the company accept this fall and ascribe this to the making the 'old' and the 'new' work together.

Curiously, commentators also point to the poor 'India' skills of the international personnel from the regional headquarters, whereas those from western global headquarters are relatively more successful. These authors have also come across such arguments from other sources. That is, it is easier for western expatriates to function in India than for those more experienced with working in East Asia. Many expatriates report that conditions in India are more like Eastern Europe than Southeast Asia. This has also made the transition more difficult.

ABN AMRO INDIA

Introduction

ABN Amro Bank has been doing business in India since the early 1920s. Its relevance as a case study in a project on entry strategies is, therefore, subject to question. However, in the context of the evolving policy scenario in India, with reference to both foreign investment and the financial sector, it would be fair to say that the process of reforms initiated in 1991 significantly changed the operating environment for foreign banks. During the early 1990s, many lines of business in the broad category of financial services were opened up to foreign entities. There are, of course, many regulatory constraints still in place, which have played an important, even predominant, role in shaping the present structure of the bank’s Indian operations.

The case study is structured as follows. An overview of the financial sector in India, focussing on its dynamics over the decade of the 1990s. ABN Amro's expansion and diversification strategy in the context of the sectoral developments, drawing on inputs from the interviews with bank managers, where necessary, and resource dimensions of the entry are addressed.

The Recent Dynamics of Indian Banking

The Indian financial system was fairly liberal until the late 1950s with no ceilings on interest rates and low reserve requirements. However, the government tightened its control in the early 1960s by means of controlling the lending rates and higher liquidity requirements. By this time all banks other than SBI and its seven associate banks were under private ownership. In order to serve the masses with a better credit planning, the government nationalised 14 of the largest private banks in July 1969. Further, six more private banks were nationalised in April 1980. However, the small private banks were also allowed to play while the expansion of existing foreign banks was stringently restricted (Sarkar, 1999). These nationalised banks though played a positive role by dispensing credit to the small borrower under social obligations but at the expense of achieving profitability and efficiency. By the mid-1980s the banking sector was gradually liberalised in order to channel scacre invisible funds to the most productive uses and reduce the cost of investable funds. The liberalisation of the financial sector was even more necessary in view of the adoption of the macroeconomic stabilisation and structural adjustment programmes initiated in the early 1990s (Gokarn, 2001).

At the core of the restructuring initiated in 1992, deregulating the financial sector and particularly the banking segment was a major activity. One of the major policy changes was raising the interest rate on deposits, which was intended to lead to increase in the rate of savings. The deregulation of the lending rates, lowering of reserve requirements and introduction of internationally accepted prudential norms was intended to increase the supply of credit and raise the quality and quantity of investment. The new policies also directed the nationalised banks to rely on the capital market for supplementing their equity base. The reforms aimed at creating a competitive environment by allowing entry of new private and foreign banks.

The banking sector is dominated by scheduled commercial banks, which account for nearly 95 per cent of all banking operations. Among the scheduled banks are the public sector banks namely the State Bank of India and its seven associates, 19 nationalised banks, 32 private domestic banks (24 old and 8 new) and 42 foreign private banks along with 196 regional rural banks. By the year 2000, the number of scheduled commercial banks increased to 297, from 274 in 1987.

The removal of entry restrictions in 1993 sparked the entry of new private and foreign banks. Nine domestic and 21 foreign banks were started over a period of seven years, between 1993 and 2000. Though there were more foreign players in terms of number, their market share in terms of total assets account for only 8.3 per cent of the total assets of all SCBs during the period 1999-2000 (RBI 2001: 46)

The number of foreign banks in India has almost doubled from 24 to 45 during 1993 to 2000. The presence of more firms among the foreign banking sector has also reflected on the concentration ratio, the share of the top five foreign banks in terms of total assets has declined. The ratio was 0.99 during 1991 to 1992; it fell to 0.60 in 1995 to 1996 and then declined sharply to 0.28 in 1999 to 2000. From this we conclude that the new policy has had a positive impact in increasing competition among the foreign bank operators.

It is worthwhile to look at the performance of foreign banks in terms of select indicators and compare it with all SCBs during the period 1990 to 2000. In terms of conventional criteria, foreign banks have been functioning relatively better as compared to all SCBs. While over the period 1990 through 2000 the net profit to total assets of foreign banks has been 0.83 per cent, it has been only 0.18 per cent for all SCBs. Net profitability of foreign banks has increased to 1.12 during 1995 to 2000 from the level of 0.46 during 1990 to 1995.

An analysis of financial data from domestic and foreign banks suggests that the latter performed better compared to all SCBs in terms of profitability despite incurring a relatively high intermediation cost and interest cost. This profit making behaviour of the foreign banks can be explained by the trends in net interest incomes. The net interest income to total assets has been high for foreign banks as compared to all SCBs through the decade.

Finally, the foreign banks have been keeping higher reserve surplus to meet exigencies. This is evident from the ratio of provisions and contingencies to total assets, which is higher for foreign banks. During 1990-1995, this ratio was 3.19 per cent for the foreign banks and 1.79 per cent for all SCBs. During 1995-2000, the ratio of provisions and contingencies to total assets declined slightly for the foreign banks and all SCBs, though it remained higher for the foreign banks.

There are a number of implications from this comparative picture of the evolving structure of Indian banking for the strategic analysis of foreign banks. First, in the post-liberalisation business environment, foreign banks as a group are on a relatively more robust footing. Their realisations are higher, their costs lower and their ability to meet prudential requirements greater. The reasons for this are partly historical and are not particularly important in and of themselves. But they are significant to the extent that they constrain the competitive responses of domestic public sector banks. As the concept of financial intermediation evolves, reducing or eliminating the boundaries between different sets of activities, the foreign banks are, as a group, relatively better placed to expand their activities to take advantage of new opportunities.

Second, with reference to the issue of appropriateness of this case study in an entry strategy context, the significance of the change in the environment meant that every player had to re-evaluate their business opportunities and re-orient their strategies to exploit the opening up of the environment. In that sense, even though ABN Amro has been in India for a long time, its perceptions about the market, like those of other banks, would have been transformed after 1991 and its subsequent business decisions can reasonably be compared to more classic "entry" decisions. The main difference, of course, would be the strength of its prevailing local knowledge, which would influence its prioritisation of local alliances, in its expansion strategy.

Third, there is a significant limitation in confining the description of structural change to banking, when expansion strategies of major players involve straddling many, or all, segments of the financial services spectrum. However, the perspective taken here is that of an organisation that has essentially been in a relatively narrow banking niche using its established strengths to expand into other areas of banking as well as other financial services. In the next section, we make some comparisons between ABN Amro and other organisations pursuing similar strategies for leveraging from a relatively narrow business to a universal presence.

ABN Amro's Global Strategy

The ABN Amro bank is a conglomerate bank with international services that span consumer banking, structured finance, transaction banking, debt underwriting and distribution, broking, corporate finance, investment banking and fleet management. It expanded its operations to 74 countries and territories by 2000, from 52 countries and territories in 1991. The number of branches also increased from 1928 in 1991 to 3594 branches by the year 2000. Similarly, the employment at the ABN Amro Bank was 56,747 employees in 1991, but almost doubled to 115,098 by 2000.

In 2002 the bank ranked fifth in Europe and sixteenth in the world on tier 1 capital with a total asset of over EUR 543.2 billion. Over the past ten years its assets have grown at an average growth rate of 13 per cent, with a sharp increase in the second half of the nineties. However, the financial performance of ABN Amro in terms of rate of return (profit before tax to total assets) has not shown a similar hike over the same period. The average profitability ratio was 6.3 per cent during 1991-1995 and this increased only at a marginal level (7.9 per cent) in the later half of nineties.

Initially the bank was organised so as to expand its operations in maximum countries. Such a structure was revamped with the new strategy in 2000, which embodied a vision to maximise the shareholder value. This year also marked the end of the Universal Banking concept of the ABN Amro

Bank. Consequent to its newly adopted strategy the bank restructured its organisation into three Strategic Business Units (SBUs) that were aimed to focus on client groups. The three SBUs were namely Wholesale Clients, Consumer & Commercial clients and Private clients & asset management. These SBUs were focussed on major international corporations and institutions, individuals and small to medium-sized business enterprises, asset gathering activities and fund management respectively.

Also in the year 2000, the bank restructured itself towards a more market-oriented strategy in order to reach its client groups. While the bank operated in 76 countries and territories during 1999, it operated in 74 countries and territories in 2000. Although the number of countries and territories has gone down by two over a period of only one-year, the number of branches and offices has gone up. In 1999, the bank had 3583 branches and offices world over which increased to 3594 in the following year. This can be accrued to the branches and offices belonging to the newly acquired firms and businesses in the operating countries in 2000. In fact, ABN Amro expanded its operations through many mergers, acquisitions and alliances. For instance, it acquired Alleghany Asset Management which is a major asset manager with over 550 institutional clients in the US and principal offices in Atlanta and Chicago. This deal itself contributes almost 40 per cent growth in ABN Amro's global assets under management and allows ABN to distribute Alleghany funds worldwide and Alleghany to distribute ABN funds. Another acquisition was Michigan National Corporation, a commercial bank holding company based in the state of Michigan, with assets of US$ 11.6 billion, 3600 staff members and more than 180 offices. In June 2000, ABN Amro Lease Holding acquired the Dial group with operations in France, Italy, Spain and UK.

Further, as part of their new governance structure the bank introduced the concepts of interest rate risk, operational risk, market risk, country risk and credit risk in order to preserve the quality of its products and survive in an uncertain market environment. The bank also introduced value-based measures for compensation and a new remuneration structure for top management. All these factors had a major role in better performance of ABN Amro in the absolute sense. However, the efficiency ratio has declined for the bank due to high operating costs. This was the result of higher expenses owing to internal growth, information technology projects, acquisitions and higher performance-related bonuses.

ABN Amro in India

The ABN Amro Bank had a significant presence in the foreign sector of the Indian banking industry. It was traditionally known as the "Diamond Financing Bank" due to its services to the diamond clients in the two major metros of the country Kolkata and Mumbai. Consequent to the merger of

Table 6.1 Compound annual rates of growth (%)

	Deposits		Advances		Total assets		Investments	
	ABN	Foreign banks	ABN	Foreign banks	ABN	Foreign banks	ABN	Foreign banks
1991-92 to 1999-00	33.15	33.22	45.43	38.43	41.61	36.54	41.63	38.98
1991-92 to 1994-95	32.23	71.29	60.06	74.30	40.12	71.59	14.68	71.82
1995-96 to 1999-00	55.75	15.56	42.99	13.88	44.67	16.84	79.67	30.10

Source: Prowess

ABN (Algemene Bank Netherland) and Amro (Amsterdam Rotterdam) worldwide in 1991, the ABN Bank in India turned into a full-fledged bank in the name of ABN Amro Bank.

It took off in a big way with a comprehensive range of services. It has shown a tremendous growth especially after the mid nineties. For instance, it ranked third amongst all the foreign banks in terms of total assets in 1991 to 1992. It however, lost its rank to the new foreign entrants that emerged after the deregulation of the banking sector. It ranked nine during 1995 to 1996. By the late nineties, ABN Amro Bank began to strengthen its position in India and ranked sixth in 1999-2000. Thus, even when the C_5 ratio was on a fall, the ABN Amro Bank could manage to improve it's ranking in terms of its market share based on total assets. In India, the foreign competitors of ABN Amro Bank include Citibank NA, Standard Chartered Grindlays Bank Ltd., HSBC, Bank of America NT & SA and Standard Chartered.

The overall growth of ABN was relatively high as compared to foreign banks through the nineties. In general, the growth rates presented in Table 6.1 show a higher growth in deposits, advances, total assets and investments of the ABN Amro Bank compared to the overall growth of the entire foreign bank segment during 1991 to 1992 to 1999 to 2000. Though the performance of ABN in India during the first phase of nineties i.e. 1991 to 1992 to 1994 to 1995 was not all that encouraging, it has picked up in the later half of nineties i.e. over the period 1995-96 to 1999-2000 (based on Prowess data). For instance, the deposits of the international bank (ABN Amro) grew at a Compounded Annual Rate of Growth (CARG) of 55.75 per cent during 1995-96 to 1999-2000 while the corresponding rate for all foreign banks was only 15.56 per cent. This was in contrast to the rates that were observed during the early nineties. During 1991 to 1992 to 1994 to 1995, the CARG for ABN Amro was 32.23 per cent as against a high CARG of 71.29 per cent for all foreign banks. A similar trend is seen in reference to other attributes such as the advances, investments and total assets. This confirms our earlier statement that in the late nineties the ABN Amro Bank became more aggressive in order to regain its position or rank among the other foreign players.

Post-1991 Strategies

The following discussion focuses on the various growth strategies adopted by ABN in order to face the increasing competition. It adopted a multi-pronged growth strategy by the way of restructuring and introducing new services/products through diversification, acquisitions, and joint ventures. Much of this took place in the late nineties. This was in convergence with the decision taken by the parent bank to emerge as regional power in the Asian continent. The recognition of the importance of the Indian market motivated the Dutch banking major to build India as one of its strongest operations.

In order to increase its client base, the bank targeted both individuals as well as corporations. Two new services were introduced by 1998. These were the Savings Advantage Account for the individual and the Current Advantage Account. In addition, variants of credit cards and debit cards were also launched in the same year. The bank also tried to widen its branch network. Besides its branches in the metros, the bank decided to open new branches in middle level cities. In 2001, ABN Amro had seven branches, all in metro cities. With historical offices in Mumbai and Kolkata, new branches were opened in Delhi (1991), Chennai (1994), Pune (1997), Baroda (1999) and Hyderabad (2001). However, later it decided to have only 10 to 12 branches across the country. This decision was aimed to reduce the associated costs while increasing its reach through a powerful network of direct selling agents. Thus, it introduced a concept of doorstep banking.

The bank enhanced its reach to the customers by introducing the concept of doorstep banking, national call centre, internet banking and setting up Any Time Money (ATM) counters. It planned to increase the number of ATMs from 28 to 43 by March 2001. The courier service system was made to deliver cash and drafts in minimum time at a nominal charge more efficiently. Further, the tele-service networks were strengthened to provide round the clock information and service to the account holder.

Acquisition

Aspiring to strengthen itself in the consumer banking segment, the global ABN Amro Bank, Amsterdam, decided to increase its focus on the consumer banking segment world-wide. It planned to generate as much as 40 per cent of its revenues from this activity by the year 2008. Considering the importance of Indian market in the Asian continent, a similar emphasis was put on the Indian branch of ABN to enhance its presence in the consumer-banking segment. Consequent to this, in 1999, the ABN bank in India took over the retail business of another international bank in India, the Bank of America.

This acquisition was a quick step towards capturing a hold on the desired segment, and the banks' portfolio widened. At an acquisition price of Rs. 12 billion[14] the Dutch bank gained control over the four offices of the Bank of America across the country. As part of this deal, the deposit and loan portfolio of the Bank of America worth nearly Rs. 8 billion was taken over by ABN Amro Bank. In addition, almost 90 per cent of its retail assets of the Bank of America were transferred to ABN Amro. They thus got a readymade retail market of more than 100,000 customers. One of the critical issues in this acquisition deal were the employees of Bank of America. ABN Amro agreed to absorb half of the workforce of the retail segment of Bank of America, thus the acquiring bank absorbed 250 employees.

Subsequent to the takeover, the total assets of ABN Amro grew by 88 per cent during 1998-99 to 1999-2000. The total assets increased to Rs. 75.17

billion in 1999-2000 from the level of Rs. 39.77 billion in the previous year, whereas the total assets of Bank of America decreased from the level of Rs. 72.35 billion to Rs. 56.79 billion during the same period. Thus, the acquisition contributed to a more than two fold increase in the total assets of ABN Amro Bank. This was also reflected in the growth of sales of the ABN Amro in India.

The acquisition is best viewed in the context of the global strategies of the two banks. Bank of America was keen on exiting from this line of business in India, despite a reasonably well-performing operation. ABN Amro, with consumer banking being one of its global thrust areas, was looking to expand its relatively small Indian operation. It could, of course, have chosen an organic growth strategy, but preferred the acquisition route for some simple economic reasons. It saw consumer banking as an investment-intensive area, with long gestation periods and, therefore, slower growth prospects in the short-to-medium term. On the other hand, wholesale banking, targeted at corporate clients, justifies an organic strategy. When the opportunity to acquire a going consumer operation came their way, they took advantage of it.

Of course, there was a trade-off in terms of organisational compatibility, particularly when, as mentioned above, so many old employees remained in the new structure. An explicit integration strategy was put in place, which was referred to in our interview as the “grafting model”. The respective strengths of each organisation were analysed. ABN Amro came out strong on the fronts of cost management, cross-selling capabilities across its different business lines and transparent human resource practices. Bank of America, on the other hand, was perceived to have been strong on internal processes, good process-business interface leading to high service efficiency and, very importantly, superior consumer risk management practices. The integration process basically aimed at retaining these process and risk management capabilities in the new organisational structure.

Diversification

Apart from expanding the capacity of existing product lines through acquisition, ABN Amro has also diversified its product lines through greenfield investment and joint ventures. It has diversified into debt market financing segment by setting up a Non Bank Finance Company (NBFC) in 1999. This was set up in the name of ABN Amro Asia Corporate Finance Limited with an inflow of foreign investment of Rs. 23 million. It was immediately followed by the policy changes adopted by government in order to encourage the new financial services activities. This firm aimed to undertake fee-based activities such as corporate finance advisory services. The ventures' debt financing portfolios include short-term debt instruments such as call money-linked debentures and other such products. It also provided general liaison marketing and representation services to the corporate sector mainly to foreign companies setting up shops in India. While ABN Amro has 75 per cent equity stake in this fund-based joint NBFC venture, the rest 25 per cent is split into three local partners including the Burmans of Dabur, a relatively large pharmaceutical and consumer goods company in India.

It also used the joint venture as part of its diversification growth strategy. This joint venture was in the name of Lease Plan Fleet Management (India) Private Limited. The ABN subsidiary i.e. ABN Amro Lease Holding Company had 51 per cent control while giving 49 per cent to its Indian partner i.e. International Travel House (ITH). It introduced a concept of fleet management to undertake the business of leasing and fleet management of company car fleets. Further, Lease Plan offered a solution that overcame the problems associated with traditional forms of buying, lease managing and disposal of fleet of vehicles.

The ownership structure of both these ventures was motivated predominantly by regulatory constraints. ABN Amro, as a global policy, prefers to maintain 100 per cent ownership of its overseas (certainly, in emerging markets) operations. Its choice of joint ventures or alliances is determined simply by whether the line of business is within its strategic priorities and the constraints that the host country regulations impose on ownership and structure. For that matter, even the separation between the banking and the securities business in India into two distinct entities is in response to regulatory requirements. As regulations permit, the organisation will converge to the global structure of business groupings, exiting all its joint ventures and alliances.

With respect to its partners in these ventures, there is a clear perception that they are passive or sleeping partners. There is no expectation that they bring any real resources to the operation and there is a clear understanding with them that changing regulations will immediately result in restructuring.

ABN Amro's Strategic Group

The overall strategy of ABN Amro, which could reasonably be termed "universal banking", is being followed to a significant degree by a number of other organisations in India. From the management's vantage point, there are three foreign companies and one Indian company that are comparable in terms of strategic scope and scale of operations. The foreign companies are Citigroup, HSBC and Standard Chartered. The Indian company is ICICI Bank. All of these have gone through significant mutations in the past few years as they have acquired other companies, started off new lines of business, reverse merged (in the case of ICICI). It is therefore difficult to make comparisons of their performance over time. Nevertheless, in Table 6.2, we present a summary comparison between ABN Amro and these institutions.

Table 6.2 ABN Amro's strategic group: Business Volumes (Rs bn)

	Deposits	Advances & loans	Total assets	Investments
A B N-Amro Bank N.V.	581.54	939.71	1715.98	260.73
Hongkong & Shanghai Banking Corp.	3844.38	2145.89	5216.24	1471.80
Standard Chartered Bank	2738.57	2018.46	4193.88	883.36
Citibank N A.	6775.19	3478.64	8642.77	2316.55
I C I C I Bank Ltd.(domestic)	2984.78	15582.81	24481.11	4036.69

Table 6.2. (continued) ABN Amro's strategic group: Compound annual rates of growth (%) 1995-96 to 2001-02

	Deposits	Advances & loans	Total assets	Investments
A B N-Amro Bank N.V.	42.48	30.48	28.14	41.91
Hongkong & Shanghai Banking Corp.	21.46	24.09	24.19	27.34
Standard Chartered Bank	17.60	28.30	28.54	41.26
Citibank N A.	14.47	21.85	16.40	17.21
I C I C I Bank Ltd.(domestic)	48.56	20.22	27.46	43.93

Source: Prowess and Company reports

The comparisons show that ABN Amro was the smallest member of this group about five years ago, but it has been amongst the fastest growing, both through organic growth and acquisitions. Interestingly, some of the other firms, which were far larger to begin with, have also been able to sustain relatively high rates of growth, which indicates that overall market penetration for their portfolio of services is relatively low. This reflects back on an important structural characteristic of the Indian financial sector – the continuing significance of government-owned companies and the organisational and strategic constraints they operate under.

This backdrop explains a perception on the part of ABN Amro's management that the Indian market remains a highly contestable market for all the services that these organisations offer. Where there is high penetration, e.g. in savings and chequing accounts, improved technology provides a competitive edge. ABN Amro is actively discouraging visits by customers to its branches for routine transactions as a cost-saving measure. This option is not yet available to its public sector competitors. Further, there is also a perception of an absence of first mover advantages in such a market, so there is no compulsion to race into a product or service. Later entry with better preparation is also a viable strategy. The perception that emerged from the interviews was one of extreme contestability of the Indian market for a whole range of financial services. In
activities in which the market appeared relatively well-penetrated, superior technology, which contributed to lower transactions costs and better service quality, was a viable competitive strategy. In segments in which penetration was low, the strategy was to use the most "appropriate" organisational form, which included joint ventures. These would simultaneously neutralise entry barriers imposed by the regulatory framework and leave the field open for complete control if and when these barriers were removed. The driving force of the strategy was to gain entry in all the segments in the Indian market, which its global strategy warranted. The nature and scale of the entry, however, was dictated by local conditions.

The Value of Local Resources

The picture emerging from the discussion in previous sections points to an entry strategy that is completely driven by the business and organisational priorities of the global entity. Country specifics in terms of joint ventures or alliances are entirely dictated by regulatory constraints. There appears to be no value contributed by the domestic partner, though it contains some very prominent people on the Indian business scene, who are expected to remain passive through the duration of the alliance.

However, there is a very high dependence on local resources with respect to human capital. The current proportion of expatriate managers is very low and the bank has never had a significant presence of them. While some of the senior managers have foreign degrees, the CR himself has been entirely educated in India. The management's characterisation of their relationship with the parent is "global strategy, local operations", meaning that while the broad parameters of business are set by the parent, the country managers have considerable autonomy with respect to local priorities in terms of business lines in response to domestic opportunities. There is very little day-to-day supervision of the country business heads by their superiors in the global organisation (some report to the HQ in Amsterdam, while others to the regional HQ in Singapore). As an example of this autonomy, the securities company took significant local initiatives in setting up a bond house and a custodial service.

It should be kept in mind that it is not entirely appropriate to categorise local managers as a local resource. They are increasingly entering the global workplace from their initial local employment. If one were to view this resource in its global dimension, then one would have to conclude that the organisation really has no dependence on a non-tradable local resource. In ABN Amro, as in the other multinational banks operating in the country, it is quite feasible for managers to move from one country to another. However, when we view the bank's market strategy in conjunction with its human resource strategy, the predominance of local managers perhaps reflects the emphasis on identifying and responding to local opportunities. This would put some premium on familiarity with the local conditions and ways of doing business. In this respect, it is perhaps reasonable to conclude that the bank has tried to find complementarity between global marketing strategies and local human resources. On all other fronts – internal processes, risk management and so on, the company basically follows global templates with whatever local adaptation is necessary.

Spillovers

Spillovers from foreign investment are typically categorised into two types – efficiency gains that accrue to the entire domestic industry from the increased competition and efficiency gains that accrue to domestic firms from proximity to a technologically superior foreign firm. From the description of the strategic group in which ABN Amro operates, it is quite clear that most of its direct competitors are also multinationals with similar strategic objectives. There is only one domestic member of this group. Others may aspire to it, but are some way off from achieving the kind of significance in each segment that this group collectively has.

Given this, the "competition" spillover is very likely to have been realised. The significance of the presence of a particular player in any segment and its willingness to enter new lines of business consistent with its global strategy would clearly keep all the competitors in the group on their toes. The speed with which all these players introduce new products and services and the aggressiveness with which they market them is clear evidence of the competitive pressure in this segment.

On the more conventional technology and knowledge-related spillovers, the bank's strategy seems designed to minimise them. Its joint venture strategy emphasises relationships with partners who are in entirely different businesses. Joint ventures, which are generally seen as having high potential spillovers in the right conditions, clearly do not generate anything more than peripheral benefits to the partners. The second channel for these spillovers is the mobility of human resources. The interviews suggested that exits among senior managers of the Indian operations were relatively low, but the financial sector in India, particularly the strategic group in which ABN Amro operates, is known for relatively mobile human resources. To the extent that these movements are restricted to the group, as is quite likely to be the case, the spillover benefits are internalised to a few players. Mobility outside the group will obviously bring knowledge and experience to other players in the financial sector, but, by most accounts, it is far more limited at this stage in the evolution of the sector.

Concluding comments

ABN Amro's Indian operations began in 1921, but it was only in response to the opportunities provided by the liberalisation of the early 1990s that it manifested the strategic behaviour that this overall study is concerned with. In seeking to establish itself as a universal bank in India, it followed both the acquisition and joint venture route. Its acquisition decision, in which it took over Bank of America's consumer banking activities, was clearly seen as a way to bypass the time and costs associated with greenfield investment. In the process, it had to go through a complicated assimilation and adjustment process, but this has generally been perceived as successful.

Its joint venture decisions were motivated not by any need to leverage local resources, but purely by regulatory restrictions, which prohibited it from entering these activities by itself. Its partners were, typically, prominent players in other fields, who had no strategic interests in financial services. ABN Amro believed that it had all the process and skill capabilities to go it alone in these businesses if the opportunity were to present itself.

While it put virtually no premium on local resources in terms of the broader business processes, it has relied quite heavily on local managers to implement its strategy. This is consistent with assessments made during the interviews. Although the decisions on which business to enter were based on the organisation's global strategy, there was a fair degree of local autonomy in terms of deciding timing, scale and other details related to entry. In this context, there would be some premium on knowledge of the local conditions and business practices, which would justify an emphasis on local over expatriate managers. Finally, with regard to spillovers, the most likely source of positive spillovers is the increased competitive intensity within the strategic group in which the bank was operating.

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