**ACQUIRING FIRM-SPECIFIC ADVANTAGES: ORGANIZATIONAL INNOVATION
AND INTERNATIONALIZATION AT INDIAN MULTINATIONAL CORPORATIONS**

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ABSTRACT

Purpose - This study seeks to contribute to the relatively sparse literature on how emerging market firms (EMFs) acquire firm-specific advantages (FSA), how they adjust their organizational structures, processes, HR policies, leadership and cultures in the internationalization process, and how they interact with their domestic institutional context.

Design/methodology/approach - We report the results of a survey sent off to the most internationalized Indian firms, measured by foreign income. Our survey includes 26 variables measuring individual aspects of organizational innovation.

Findings - Our respondents report significant changes along all 26 organizational variables over the period investigated (2003-2008). Based on self-reported assessments by top managers, our findings suggest firstly, that Indian firms are rapidly transforming their organizations, secondly that Indian executives are increasingly confident that they will be able to compete successfully on an international scale, and thirdly that Indian firms may increasingly benefit from organizational innovation complementing their low cost advantages.

Research limitations/implications - Firstly, our sample size is relatively small at 76. Secondly, the ratings on the organizational variables we studied are based on self-reporting. Finally, our survey especially captures developments at the largest and most international Indian companies.

Practical implications - With its organization-wide scope of analysis, our study may guide EMF managers looking at organizational innovation in the internationalization context.

Originality/value - This paper elucidates the interplay of Indian firms' internationalization and organizational innovation.

Keywords: Emerging Market Firms, Organizational Innovation, Indian Multinational Corporations, Internationalization, Organizational Capabilities.

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INTRODUCTION

The recent economic history of India reads like a case study in globalization. After decades of inward-looking economic policies, India only opened its economy to the world in 1991. Licensing and restrictions for economic activity was abolished in most cases, and the path was made easier for Indian firms to go abroad and for foreign firms to enter India. Since liberalization, the value of Indian exports and imports has grown dramatically, with trade growing between 17-20 per cent over 2005-2010 (World Trade Organization, 2012). From April 2000 to April 2011, India attracted \$198 billion foreign direct investments (FDI) (Department of Industrial Policy & Promotion, 2012). FDI inflows into India increased from USD 73.5 million in 1991 to USD 32.1 billion in 2011 (World Bank).

At the same time, outward FDI have increased even faster over the past years (Subramanian, Sachdeva and Morris, 2010), allowing conglomerates such as Tata and Reliance, and information technology service providers such as Infosys, to rise to global prominence. In fact it appears that large Indian firms increasingly prefer overseas expansion to the domestic market, despite the presence of a very large home market in India. The reason for this is that although the economic liberalization initiated in 1991 succeeded partly in making it easier to do business in India, significant hurdles still remain in the form of red tape, lack of clarity in the regulatory environment, etc, that make overseas operations more attractive for Indian firms (Times of India, 2011).

Despite their growing presence on the world stage, there however remains a relative dearth of academic research on Indian multinational corporations (MNCs), and more generally on emerging market firms (EMFs) (Hoskisson, Eden, Lau and Wright, 2000; Jormanainen and Kovesnik, 2012; Peng, 2003). Little is known about emerging market firms' (EMFs) evolutionary trajectories, organizational designs, or the interaction between EMFs and their domestic institutional contexts. To what extent do EMFs suffer or benefit from their institutional heritage? Do EMFs perceive a strong liability of foreignness and newness abroad, due to their emerging market origins (cf. Zaheer, 1995)? Do EMFs pass through comparable development stages as developed market firms (DMFs)? If they do, this suggests that global competitive

pressures are stronger than domestic institutional forces, and that EMFs may over time more resemble DMFs (see Contractor [2013] for an excellent summary and also Narula [2012]).

This paper focuses on organizational innovation at Indian MNCs over 2003-2008. The paper reports and analyses the results of a new survey instrument sent off to the most internationalized Indian firms. This survey was based on a design that has been previously used to examine patterns and the evolution of organizational structures, processes and systems across European, North American and Japanese DMFs (Pettigrew and Fenton, 2000; Ruigrok, Pettigrew, Peck, and Whittington, 1999; Whittington, Pettigrew, Peck, Fenton and Conyon, 1999).

This paper is organized as follows. The next section discusses theoretical perspectives on EMFs and organizational innovation. The method section explains the survey instrument, variables and analytical methods used. Subsequently the results section presents and discusses our main findings. The conclusion section identifies the main contribution, relevance and limitations of this paper.

ANALYZING EMERGING MARKET FIRMS

The last decade has seen the rise and growing importance of EMFs on the global stage. For instance, Contractor (2013) reports from UNCTAD's World Investment Report 2012 that the 100 largest transnational companies (TNCs) from developing and transition economies already account for 32 percent of sales and assets and 56 percent of employees of all of the 100 largest TNCs worldwide. Several companies from emerging economies such as Embraer from Brazil, Lenovo from China and Infosys from India have created globally recognized brand names for themselves.

This rise to prominence of EMFs has increasingly caught the attention of management scholars. The literature on EMFs has shown a growing appreciation of the differences between DMFs and EMFs, and of the theoretical and methodological implications of these differences. In a first stream of the EMF literature, classical theories of the internationalizing firm have been applied in order to understand the rise of the DMF and EMF alike. Many DMFs have been pioneers of economic globalization or comparatively early followers, and by internationalizing took on formerly entrenched domestic players. Thus Dunning's OLI framework (1988) allowed scholars to track how firms leveraged existing Ownership-specific advantages, such as property rights and/or intangible asset advantages and advantages of common governance, Location-specific advantages, and Internalization-Incentive advantages (I). However, when EMFs set out to

internationalize, they were confronted with established DMFs and hypercompetitive markets. The OLI framework appeared more helpful in explaining how DMFs accessed emerging markets than in explaining how EMFs accessed developed market economies (Hong and Chen, 2001; Chen, 2008; see however Sun, Peng, Ren, and Yan, 2012). In particular, the OLI framework was less applicable to understand the rise of the EMF as it focuses on firms' *existing* advantages, yet fails to account for dynamic skill augmentation as recently seen in EMFs from countries such as India and China (Luo, 2002; Mathews, 2002; Mathews, 2006).

In a second stream, therefore, researchers have started to address the rise of EMFs' *nascent* advantages. Since EMFs do not typically possess unique firm-specific advantages (FSA) (Rugman, 1981), a key feature of EMF internationalization has been to acquire such FSA in the process (e.g. Lee and Rugman, 2012). Two recent frameworks have emerged that explain such FSA acquisition by EMFs. According to the first framework, EMFs apply an "international springboard strategy", and "systematically and recursively use international expansion as a springboard to acquire critical resources needed to compete more effectively against their global rivals at home and abroad and to reduce their vulnerability to institutional and market constraints at home" (Luo and Tung, 2007). A second popular approach is the LLL (Linkage, Leverage, Learning) framework (Mathews, 2002; Mathews, 2006). This framework similarly suggests that EMFs are latecomers to the industry where they seek to compete, which leads them into accelerated internationalization with the aim of gaining access to resources and capabilities not found in their home market. The two frameworks offer alternative ways of understanding how EMFs pursue "global growth through accelerated internationalization combined with strategic and organizational innovation" (Bonaglia, Goldstein and Mathews, 2007).

A third stream of the EMF literature has therefore looked at specific emerging markets' domestic institutional environments and the organizational, strategic and performance effects (e.g. Cheng and Yu, 2008; Contractor, 2013; Davies and Walters, 2004). For example, Contractor (2013) has proposed a number of institutional factors that may explain the success of EMFs internationally including patience and long-term orientation, greater tolerance or acceptance of ambiguity, a relationship-based home culture, propensity to learn from alliance/supply chain/outourcing partners, greater humility or servant-leadership style of top management, a frugal mindset, a "global" mindset. Further Contractor suggests that it is possible that the underdeveloped home country environment actually confers an advantage to EMFs in foreign environments, by making

them more resilient, adaptable, and more unwilling “to take no for an answer” in the foreign environments.

The following discussion focuses on India which is the context of this study and which has received markedly less attention in the EMF literature than China (Jormanainen and Koveshnikov, 2012).

A first motive in the EMF literature with a focus in India has been the issue of knowledge and learning in the context of firm internationalization. This is not surprising since Indian EMFs have been particularly successful in industries such as BPO (Business Process Outsourcing) and pharmaceuticals (UNCTAD, 2011). Ramamurti and Singh (2009) suggest that key FSAs developed by Indian firms since the 1990s include low-cost production and innovation capabilities, excellence in processes and project management, and an ability to quickly restructure and ramp-up scale. These FSAs are leveraged on India’s country-specific advantages (CSAs) including its large domestic economy, its technical and managerial human capital, relatively well-developed capital markets and rule of law, and historically-rooted entrepreneurial traditions. Chittoor, Sarkar, Ray and Aulakh (2009) found that Indian pharmaceutical companies facing discontinuous changes in their institutional environment internationalized their technology and financial resource bases, thus effectively transforming their organizations. Gubbi, Aulakh, Ray, Sarkar and Chittoor (2010) used a sample of 425 cross-border acquisitions to show how international acquisitions allowed Indian firms to internalize tangible and intangible resources, and thus create shareholder value. Analyzing 808 south-north acquisitions by EMFs including Indian firms, Rabbiosi, Elia and Bertoni (2012) found that EMFs’ international experience and home-country characteristics shape their learning and play an important role in determining their acquisition behavior in developed countries. Other authors, such as Kedia, Gaffney and Clampit (2012) have also posited that knowledge is the EMFs’ most important resource, as they attempt to overcome disadvantages as latecomers by seeking knowledge internationally.

A second motive in the literature on Indian EMFs has been the influence of business group membership. Elango and Pattnaik (2007) found that EMFs that belong to a business group may use their understanding of their parental networks to build capabilities (firm-specific advantages) for operating in international markets. Vissa, Greve and Chen (2010) found differences in behavior between business groups affiliated and unaffiliated firms which suggest the former are more externally oriented and more likely to respond to low market performance. Likewise,

Kumar, Gaur and Pattnaik (2012) highlighted the importance of gaining specific internationalization related knowledge and capabilities for the success of Indian business groups in international markets (see also Gaur and Kumar, 2009).

A third motive in the Indian EMF literature is the inclusion in global production or value chain networks. Kumaraswamy, Mudambi, Saranga and Tripathy (2012) studied the automobile industry in India and found that domestic supplier firms need to adapt strategies from catching up initially through technology licensing, collaborations and joint ventures with DMFs to subsequently developing strong customer relationships with downstream firms. Furthermore the authors suggest that successful catch-up through these two strategies lays the basis for a strategy of knowledge creation as domestic industry integrates with the global value chain.

However, as the above overview shows, there has been little attention in mapping patterns and trends in Indian EMFs' organizational structures and transformation. Not surprisingly, therefore, the views of (Indian or other) EMFs' strength in designing organizational structures and processes and managing human resources vary widely. On the one hand, some authors have pointed at the lack of global experience, managerial competence, and professional expertise in EMFs. According to Luo and Tung (2007), "many EM MNEs do not have sufficient experience in structuring, organizing, and managing large-scale and sophisticated world-wide operations". On the other hand, it has been suggested that "there are some indications that EMFs from China and India are utilizing very innovative approaches in their human resources management" (Jormanainen and Koveshnikov, 2011). The present paper seeks to address this research gap.

ORGANIZATIONAL TRANSFORMATION AND CAPABILITIES

It has long been understood that firms may build organizational capabilities or organizational configurations that can facilitate international success (Bartlett and Ghoshal, 1992a; Bryan and Joyce, 2007; Getz, 2009; Miles, Miles, Snow, Blomqvist and Rocha, 2009; Perez-Batres and Eden, 2008; Teece, Pisano and Shuen, 1997). Organizational capabilities are an important determining factor in firm performance (Cool and Schendel, 1988; Rumelt, 1991). Wernerfelt and Hansen (1989) for instance found that administrative factors explain about twice as much of variance in profit rates as economic factors. Rumelt, Schendel and Teece (1991, p. 22) stressed that organizational capabilities rather than product market positions or tactics are the enduring sources of competitive advantage.

In an extensive review of the literature on organizational “coordination” mechanisms used by MNCs for their international operations, Martinez and Jarillo (1989, 1991) suggested that companies adopt a mix of formal and informal coordination mechanisms to deal with the challenges of internationalization. Formal coordination mechanisms include centralization, formalization, planning and output and behavioral control systems. Informal coordination mechanisms include lateral relations, informal communications and organizational culture. Subsequent research on multinational coordination and the requirement to simultaneously meet the demands of integration and responsiveness led to proposed organizational models including the “transnational” (Bartlett and Ghoshal, 1989), “multifocus” (Prahalad and Doz, 1987) and “heterarchy” (Hedlund, 1986) (see Ghoshal and Westney (1993) for a summary). In the same context, Malnight (2001) summarized the literature on “ideal type” multinational organizations. According to him, such organizations are characterized by: 1) complex, internally differentiated structures 2) global dispersion of operations, interdependence and tight coupling of subunits, and 3) an emphasis on cross-unit learning and structural flexibility (following Bartlett and Ghoshal, 1989, 1990; Ghoshal and Bartlett, 1993; Hedlund, 1986, 1993, 1994; Nohria and Ghoshal, 1997; Prahalad and Doz, 1987, 1993). Several scholars have however questioned the actual extent of the move towards “ideal” and “high performance” organizational types (Pettigrew and Fenton, 2000) such as those elaborated in the previous sub-sections, and wondered whether these moves, if any, are idiosyncratic in different institutional contexts (Ruigrok et al, 1999).

All above insights have been based on DMFs. Very little is known and few studies have been published about the interaction between Indian firms’ internationalization on the one hand and strategic and organizational innovation on the other. Some sources have suggested that Indian firms have transformed their organizations beyond the 1990s realities of excessive centralization and high levels of inefficiency (e.g. McKinsey & Company, 2001; Forbes, 2002). Some authors have suggested that Indian companies have started to acquire new capabilities such as operational efficiency and improved marketing skills (Ahmad and Chopra, 2004; Ghoshal, Piramal and Bartlett, 2000). However, no systematic study has been conducted of patterns and trends in Indian EMFs’ organizational transformation.

To complicate matters further, no dominant method has crystalized in studying organizational innovation—whether in developed or in emerging markets. Organizational innovation has been studied at different (e.g. functional, divisional, firm, group or individual) levels, in different

contexts, and with a focus on its determinants, the organizational process, or the organizational outcome (Crossan and Apaydin, 2010). Crossan and Apaydin compare the field of organizational innovation with the “proverbial elephant” characterized by different philosophical traditions, theoretical lenses, and empirical traditions (Crossan and Apaydin, 2010).

In view of these many open issues, we propose that researchers, when studying the interplay of EMF internationalization and strategic and organizational innovation, should meet three tests. First, they should apply an instrument that has been used successfully in earlier prominent research on organizational innovation, even if in doing so they may risk applying a DMF lens. By applying an established instrument they may identify pertinent organizational features and prevent that EMF organizational practices that are merely different from DMF practices are mistakenly interpreted as innovative and deliberate. After all, “(a)ll organizational change is not innovation” (Singh, 2011). Second, researchers should apply a method that allows them to compare EMF and DMF patterns of organizational innovation. Only this way, meaningful differences between EMFs and DMFs may be established. Third, researchers should aim to measure and understand the full scope, instead of merely individual aspects of organizational innovation.

In this paper, we build on the work by Pettigrew and Fenton (2000), Pettigrew, Whittington, Melin, Sanchez-Runde, van den Bosch, Ruigrok and Numagami (2003), Ruigrok, *et al.* (1999), and Whittington, Pettigrew, Peck, Fenton and Conyon (1999) who understood organizational innovation in terms of structure, process and system variables. In the second half of the 1990s, the above authors were part of the INNFORM (Innovative Forms of Organizing) research group that developed a survey instrument in order to elicit detailed information on patterns and trends in Western-European, North American and Japanese firms’ structural, process-related and system-related organizations. The authors found, first, that over 1992-1996, new organizational arrangements had supplemented rather than supplanted the multidivisional organizational form across Western Europe (Ruigrok, *et al.*, 1999). Second, building on the notion of complementarities (Milgrom and Roberts, 1995) they identified ‘complementary linkages’ (of restructuring) amongst high and low performers, suggesting that successful organizational innovations clustered around nine variables, grouped in three categories (internal structures, internal processes, and external boundaries (Whittington, *et al.*, 1999).

Using this established instrument in the Indian context, the three above tests may be met. First, work using the instrument has been widely used and published; second, the results allow us to compare patterns and trends with those found in the earlier survey; and third, we will be able to identify to what extent Indian firms rather emphasize organizational innovation in terms of changing organizational structures, processes or systems. In doing so, we will be able to address the question to what extent EMFs effectively internationalize in order to overcome domestic institutional restraints (Mathews, 2006). Earlier research in this tradition found that U.S. firms rather tend to innovate their organizations by focusing on structural features, utilizing higher institutional degrees of freedom, while German and Japanese firms rather focused on process-oriented variables, e.g. because they were more retrained to change structural variables (Lewin, Massini, Ruigrok and Numagami, 2003).

SURVEY

In order to examine patterns and trends in organizational innovation in Indian firms, we chose to use a survey instrument. Surveys are useful to describe and analyze a large population, even more so if very little is known about this population. A survey also allowed us to capture management perceptions on the extent of transformation in their organizations.

We build on the survey methodology developed by Pettigrew and Fenton (2000) in their multi-country, multi-researcher INNFORM research project. Researchers based in France (ESSEC), Japan (Hitotsubashi), Netherlands (Erasmus), Spain (IESE), Sweden (Jönköping), Switzerland (St.Gallen), UK (Warwick), and U.S. (Duke) were involved in this project. The INNFORM survey instrument (available in Pettigrew, *et al*, 2003) has been described by Pettigrew and Fenton (2000, p. 37) as follows: “The survey instrument measured three sets of aggregated variables: changing structures, changing processes and changing boundaries. Changing structures measured layering, the existence of project-based structures and operational and strategic decentralization. Changing processes measured horizontal interactions, IT infrastructure and strategies, and new human resource practices. Changing boundaries measured outsourcing, alliances and diversification trends”.

We modified the INNFORM survey instrument in some important ways. First, some items had not stood the test of time. Thus, we excluded items that dealt with e.g. the rise of electronic data interchange and email, as well as items such as layering which were heavily influenced by the 1990s discussion of deconstructing conglomerates. We also removed questions on a holding

versus a multidivisional structure since we were unsure respondents would understand such differences in the same way as in developed market economies. Second, we added new questions on firms' internationalization strategies. Thus, we included items on market entry strategies, the extent of learning and innovation at subsidiaries, international rotation of managers, and brand recognition in international markets. Third, partly based on interviews with Indian executives, we adapted the survey to an EMF context. We conducted interviews with two-three top managers associated with the internationalization efforts at Infosys Ltd (a leading Indian IT EMC), ICICI Bank (India's leading private sector bank with growing international operations) and Suzlon (world's fourth largest wind power company). Based on their inputs we cut down the size of the survey, since it was felt that Indian respondents would not be open to completing a survey that took a very long time, or that included detailed financial questions. Thus, we excluded detailed questions on e.g. operating and financial performance.

We administered the survey as follows. First, in order to be able to study the interplay of firm internationalization and organizational innovation, we selected the largest 1000 Indian firms by foreign income (including exports and/or as sales of foreign affiliates, and other miscellaneous items such as royalties, dividend and interest incomes received in foreign currencies) for the financial year 2006-07 (the latest results available at the time of administration of the survey). The company list was derived from the CMIE Prowess database – a corporate database containing detailed information on over 10,000 Indian firms, which has been earlier used by e.g. Khanna and Palepu (2000). Second, we sent out the sample only to listed public and private sector Indian firms, as listed companies are more used to disclosing information, which is a challenge researchers particularly face in the Indian context. Third, like with the INNFORM survey, we asked respondents to compare their current (i.e. 2008) position with that of five years previously, using a five-point Likert scale. The time frame of five years was chosen to ensure a sufficiently long period to capture organizational innovation, while at the same time ensuring a reliable respondent recall (cf. Pettigrew and Massini, 2003). Fourth, we asked respondents to rate an abridged list of the conceptualized variables on their importance in facilitating internationalization success. Again this was done using a five-point Likert scale and served to have a first-hand validation of the relevance of the conceptualized variables in reference to Indian firms. Fifth, in view of the fact that Indian firms have little experience in responding to surveys from non-government sources, we did not ask companies to provide financial or other

potentially confidential information, or to provide information that would be time-consuming to collect. Sixth, in order to increase the response rate we required only one response from each company. In an EMF context, respondents are less used to completing research surveys. Requesting more than one response per company may foster unnecessary suspicion with respondents (“why don’t they believe me”, “what are they after”) or could induce coordination among respondents before sending off the survey.

The questionnaire was finalized in March 2008 and mailed by regular post to the chairmen/managing directors of the list of 1-500 top companies ranked by the level of foreign income. A follow-up mailing was done to non-respondents about 3 months later. Subsequently, a second mailing was sent out to companies ranked 501-1000. We did not send a follow-up mailing to this group 501-1000 for two reasons. First, we obtained a significantly lower number of responses from these smaller companies in response to the first mailing (only 21 out of the total 76 usable responses came from this group of 501-1000 companies). Second, the follow-up mailing to the first 1-500 top companies had not yielded a large number of additional responses. The addressees were requested either to complete the questionnaire personally, or request an appropriate member of their staff with a strategic overview of their international operations to do so. This request was made to ensure as far as possible that the respondents would have an overview of what their company looked like at the current time and also five years earlier. Companies below the top-1000 were ignored because they had foreign earnings close to or less than USD 2 million, which would make their international operations relatively insignificant in absolute terms.

In all, we obtained 79 responses, out of which 3 responses were unusable (for details see table 1). While an overall response rate of 7.6 per cent is admittedly low, this may still be considered satisfactory, given (a) the lack of experience at Indian firms in responding to surveys implemented by a university, as this was not an official (e.g. government-run) survey, (b) the relatively large size and detailed nature of the questionnaire, and (c) the fact that the questionnaire was supposed to be filled in by the topmost members of the companies’ management teams. The usual tests for randomness of response were carried out for the sample, which suggested a slight bias in favor of the larger and more internationalized respondents. However, in view of (a) the sample selection of Indian firms ranked by international sales, (b) the objective to study the interplay of internationalization and organizational innovation, and (c)

the fact that this is the first time a large scale study has been undertaken of organizational innovation in India, we believe this bias does not undermine the purpose of this exploratory study.

KEY ORGANIZATIONAL FEATURES STUDIED

An exploratory review of the literature on organizational excellence led to the identification of five organizational design categories or areas that find consistent mention as important in the firm internationalization context. These are organizational structure, processes, HR policies, leadership and culture (Bartlett and Ghoshal, 1989; Doz and Prahalad, 1984; Gibson, Ivancevich, and Donnelly, 1979; Pettigrew and Fenton, 2000). These five broad categories are briefly described next. Each category was further conceptualized into its measurable variables, which we present in the Results section of this paper in Table 2.

1) Structure

Thompson (1967) defines organizational structure as “an organization’s internal pattern of relationships, authority, and communication”. In the literature on organizational structure, characteristics such as centralization, formalization, flexibility, and the emergence of cross-unit and cross-functional teams have been identified as important foci of research in the firm internationalization context (Fredrickson, 1986; Malnight, 2001; Martinez and Jarillo, 1989; Pettigrew and Fenton, 2000). This typology forms the basis of our conceptualization of structure variables for the purposes of this study.

2) Processes

Organizational processes have been defined by Lawler (1996, p. 49) as “the systems that the organization puts in place to help control, manage, inform, and direct its members’ behavior, both individually and collectively, so that they focus on the correct strategic actions”. In the context of internationalizing companies, Bartlett and Ghoshal (1992a, Ch. 8) and Ghoshal, Piramal and Bartlett (2000) argued that in order to effectively tackle the demands of internationalization, companies need to develop the use of three types of processes (in addition to mastering their operational and strategic processes): entrepreneurial processes, integrative processes and renewal processes. This general process-typology is adapted in this study to examine organizational processes in the context of firm internationalization in the present study.

3) HR Policies

Human resource (HR) policies refer to the recruitment, development and deployment of human capital (Hatch and Dyer, 2004). In the internationalization context, this includes choosing people with the right skills for international management, training them through education and international assignments, deploying them effectively throughout the organization, appraising them correctly, and finally establishing a satisfactory career path for them (following Bartlett and Ghoshal, 1992b; Black, Gregersen and Mendenhall, 1992; Gomez-Mejia, 1988). The above forms the basis for our HR variables conceptualization.

4) Leadership

Etzioni (1965, pp. 690-691) describes leadership as involving “the ability, based on the personal qualities of the leader, to elicit the followers’ voluntary compliance in a broad range of matters”. The leadership function of an organization is suggested to play an important role in organizational performance (Hambrick and Mason, 1984). Key leadership areas relevant to the firm internationalization context include leadership vision and (stretch) goal setting (Collins and Porras, 1994; Hamel and Prahalad, 1989; Hamel and Prahalad, 1993) as well as international experience of the top management team (Maruca, 1994; Gregersen et al, 1998; Daily, Certo and Dalton, 2000).

5) Culture

Organizational culture has been defined by Schein (1985) as “a pattern of basic assumptions – invented, discovered, or developed by a given group as it learns to cope with its problems of external adaptation and internal integration – that has worked well enough to be considered valid and, therefore, to be taught to new members as the correct way to perceive, think and feel in relation to these problems”. Organizational culture has been suggested to be a rent-yielding strategic resource with the potential to generate sustainable competitive advantage (Lado and Wilson, 1994).

Important culture attributes in the firm internationalization context include the self-confidence of employees in their international competitive ability, the cross-cultural competence of employees, the attractiveness of the workplace and its culture, and the ability of organizational culture to bind the organization. These attributes are conceptualized in Table 1.

RESULTS

Table 1 summarizes our sample. The sample covers a very broad scope of firms and includes some of India’s largest and best-known firms. The sample displays a wide variety of foreign

sales percentages. In 2008, the most internationalized firm reported 96 percent of its sales abroad, while the least internationalized firm in our sample only generated less than 3 percent of its sales abroad.

--Table 1 about here--

Table 2 summarizes our organizational innovation variables. For space economy reasons, this table also includes the relevant results of our survey. The last three columns report the values of these variables five years earlier, in the year 2008, plus the change (increase/decrease) in these variables over the five years.

--Table 2 about here--

The results of our survey indicate that the surveyed firms report to have implemented significant organizational innovations in the five years preceding 2008. Two sided t-test analysis suggests that the difference in variable ranks between the two time periods was significant at the 0.01% level in the case of all the variables. Below, we examine our highlights.

Fig. 1 summarizes the five areas where Indian firms reported the highest levels of implemented organizational innovations. Respondents rated their companies highly in terms of the “world class” quality of their products and services for the year 2008, and also gave high ratings to the quality of leadership in providing vision and stretch goals (4.29/5). Finally, our results indicate that employees at Indian companies have developed a high level of self-confidence in their competitive ability (4.05/5).

--Figure 1 about here--

Fig. 2 presents the organizational variables showing the highest percentage change over the five-year period preceding 2008. The significantly large increase in the use of information technology to integrate international activities is not surprising, given India’s well-known strength in this field. Fig. 2 also suggests that Indian firms have become significantly flatter and decentralized, and are also focusing on innovation and learning, and organizational adaptability.

--Figure 2 about here--

Meanwhile, at the level of the main organizational categories, the highest overall organizational transformation was seen in organizational structure followed by processes and culture. This was calculated by averaging the ratings for each of the conceptualized variables that constituted the respective category (see Table 2).

Finally, we asked respondents to rate the organizational variables conceptualized in this study on their importance in facilitating internationalization success, based on respondents' experiences within their organization. Results show that every variable was rated a mean score above the value of 3/5 suggesting that all the variables conceptualized in this study were considered important by respondents in facilitating internationalization success. Fig. 3 presents the five organizational variables that received the highest ratings. Each of these variables received a rating between important and very important (higher than 4/5). Three organizational process variables including achieving world class quality, technological and operational competence and organizational ability to renew and readapt were ranked amongst the top-5. The other two top-ranked variables belong to the leadership category, again underlining the importance of the top management team in achieving international success.

--Figure 3 about here--

The survey had one open question, which asked respondents if there were any other organizational factors they thought were important in the firm internationalization context. 23 respondents filled in this part. The range of answers was very wide and difficult to cluster. Some of the organizational factors mentioned as important include: "increase in social responsibility levels and bringing down the carbon footprint", "general grace in conducting business", "building customer relationships", "understanding the local legal framework", "high quality infrastructure for employees", "salary levels for employees should be much higher than they currently are in India", "quick market analysis and response", and "sense of pride in being from 'the emerging global India'".

DISCUSSION

The purpose of this study has been to map patterns and trends in Indian firms' organizational innovation. Our main result is that Indian firms that have substantial international activities over 2003-2008 reported to have implemented major organizational innovations. Our survey included 26 variables measuring individual aspects of organizational innovation. Respondents reported significant changes along all 26 variables, which suggests that over 2003-2008, Indian firms have implemented organizational innovations across the board, i.e. in terms of structures, processes, HR policies, leadership, and culture.

This paper contributes to a research stream that seeks to understand the rise of EMFs' nascent FSA (Rugman, 1981) and that examines how EMFs acquire FSA in the internationalization

process (e.g. Lee and Rugman 2012). EMFs have typically faced the challenge to develop adequate structures, processes and systems over a short period of time allowing them to operate sizeable operations on a world-wide scale (Luo and Tung 2007). Meanwhile, there is a growing literature on how EMFs are strengthening FSA by transforming and innovating their organizations (e.g. Ahmad and Chopra 2004; Chittoor, Sarkar, Ray and Aulakh 2009). A common denominator of these studies appears to be that internationally operating EMFs (i.e. EMNCs) are leading this process (cf. Bonaglia, Goldstein and Mathews 2007; Liou, Rose and Ellstrand 2012). Since we sent our survey specifically to Indian firms with substantial foreign income, this may explain why we obtained significant changes across all variables in our study. Numerous questions remain regarding the ways in which EMFs build FSA. It seems plausible enough that EMFs, and in particular EMNCs, will initially transform their organizations across the board in view of their nascent development stage. However, in view of the growing division of labor and global specialization in the world economy (UNCTAD, 2011), EMFs and EMNCs may eventually progress towards developing FSA that are distinct from those of DMFs and that are difficult to imitate. Future research should seek to identify FSA *differences* between DMFs and EMFs, as well as *amongst* EMFs, for instance based on EMNC internationalization trajectories. This could be done by conducting cross-country studies or, more realistically, by adopting established instruments such as the INNFORM instrument employed in this study.

Turning to the Indian context, we find that Indian firms appear especially confident in terms of leadership development. This is remarkable as leadership capabilities have not been prominently discussed in the EMF literature, and have not been associated primarily with Indian firms. However, in her popular business book *Business Maharajas*, Gita Piramal (1996) already pointed to the important role played by leadership at top Indian companies in the success of their companies in the pre- and post-liberalization eras. Cappelli, Singh, Singh and Useem (2010) identified as one of the success factors of Indian companies that Indian employers and top managers display a high level of reciprocity *vis-à-vis* their workforce, supporting their employees both at work and outside the work place, thus implicitly motivating them to work in line with the firm's interests in return. These authors also found that while U.S. executives have tended to become "increasingly attentive to external demands – regulatory concerns, the board, and shareholders", Indian executives on the contrary have tended to become more involved with setting strategy and have an "intense focus on culture and human capital" (Capelli, Singh, Singh

and Useem 2010). The fact that Indian executives reported significant changes along all 26 *organizational* variables supports this notion.

We found no explicit evidence that Indian firms felt a competitive disadvantage as a result of their domestic institutional environment (cf. Mathews, 2006; Yamakawa, Peng and Deeds, 2008). First, Indian firms reported the highest change levels in innovating organizational structures. This suggests that Indian firms have considerable degrees of freedom to adapt their organizations. Earlier research on the effects of domestic institutional contexts suggested that inflexible domestic institutional (e.g. legal or political) barriers to organizational restructuring had led German and Japanese firms to focus on redesigning processes (Lewin, Massini, Ruigrok and Numagami 2003). Second, our respondents rated the “world class quality of products and services” highly. This is remarkable as Indian companies have not been traditionally associated with high quality products and services (McKinsey & Company, 2001). Respondents may have been overly confident, yet this finding does suggest that Indian firms no longer consider their “made in India” label a major liability, and effectively are of the opinion that they are making progress in overcoming the “liability of Indianness”.

This paper raises several methodological issues. Since we sent the survey to Indian firms with international operations, it seems plausible enough that respondents reported significant changes along all 26 variables. However, the question should still be raised how likely it is that Indian firms actually implemented organizational innovations across all these dimensions. The survey instrument has been designed to measure change which may have led our respondents to understate the situation five years prior to the survey, or overstate the situation in 2008, thus creating the impression of “positive” or “desirable” change. DMF respondents to the INNFORM survey on which our instrument was based reported changes in both directions (Pettigrew and Fenton, 2000). More research will be needed to establish if and when EMF top executives tend to report to scholarly surveys by responding “as it is” rather than what they want researchers (or themselves) to believe.

Due to the limited sample size we are unable to make any inferences on the causality of the relationship between organizational innovation and internationalization, i.e. we are unable to establish if organizational innovations have driven internationalization or *vice versa*, or certain internationalization trajectories and market entry modes tend to be associated with specific

organizational transformations. A more elaborate data set may help to establish such correlations and causalities.

IMPLICATIONS AND LIMITATIONS

The present study has implications for DMF and EMF managers alike. Our survey suggests that Indian firms with international activities, that earlier were often associated with poor organizational features, are rapidly transforming their organizations. Indian executives are increasingly confident that they will be able to compete successfully on an international scale. If their assessments were to be correct, it will put greater pressure on DMFs and EMFs from other countries to face up to successful Indian competitors as the latter complement some of their low-cost advantages with organizational innovation. Given that our study is unique in attempting a full-scope analysis of variables that may be considered important in the internationalization context, instead of looking at just individual aspects, it could also serve as a potentially comprehensive guide to EMF managers looking at organizational innovation in the internationalization context. Non-risk-averse young managers, both from emerging and developed markets, joining the ranks of an EMF, and especially of an EMNC, are likely to experience an interesting and dynamic work environment and an opportunity to witness a key global business transformation.

There are a number of limitations of this study. First, the size of the sample was relatively small at 76. Future work should attempt to obtain larger samples which will give higher confidence in the results, and which will allow for more detailed econometric analyses. At the same time, obtaining survey response rates of 15 per cent or higher when asking such delicate and detailed organizational questions will be a challenge in many emerging markets. Second, the ratings on the organizational variables in this study are based on self-reporting, which can bring its own bias. In our case, the question remains if some respondents may have displayed a certain degree of hubris in answering the survey. Third, we had a sample bias in the sense that the companies that responded to the survey were significantly more international than the sample of surveyed companies, and significantly larger than the entire universe of Indian firms. Thus, the findings of our exploratory study have a higher relevance for more internationalized Indian firms and are not generalizable to all Indian firms or other EMFs.

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Table 1 Descriptive statistics of sample of companies (for the year 2008 in Rs. 10 mn)

Variable	Obs	Mean	Std. Dev.	Min	Max
Total Sales	76	4476.19	16379.87	25.91	119465.30
Foreign Sales	76	1403.82	6859.55	10.39	58532.42
FSTS %	76	37.71	26.51	2.74	96.32

Note: FSTS=Foreign Sales to Total Sales

Table 2: Patterns and trends in organizational innovations at Indian firms

<i>Organizational innovation</i>	<i>Usefulness in internationalization</i>	<i>Prior studies</i>	<i>Avg. ratings for variables (1-5) scale</i>		
			<i>5 yrs back 1-5</i>	<i>Year 2008 1-5</i>	<i>Change %</i>
STRUCTURE					
Decision-making decentralization to international operations and subsidiaries	Facilitates speed and the ability to respond to localized needs	Birkinshaw, 1997; Ireland, Hitt, Camp and Sexton, 2001; Kanter, 1985	2.75	3.76	50.83*
Formalization of best practices and operating procedures	Helps ensure consistent and higher quality output	Fredrickson, 1986	3.02	3.92	43.37*
Professionalization of workforce	Useful in countering bureaucratic effects of high formalization	Fredrickson 1986; Hall 1972	3.04	3.84	38.26*
Use of cross- functional/ divisional/geographical teams and collaboration	Effective coordination tool as organizations become more complex	Galbraith 2002; Ghoshal and Bartlett, 1990	2.59	3.53	54.27*
Average			2.85	3.76	46.68
PROCESS					
Technological and operational competence vis-à-vis international competition	Helpful in reducing costs and increasing quality	Bartlett and Ghoshal, 2000; Pande , Neuman and Cavanagh, 2000	3.01	3.88	39.18*
“World-class” quality of products and services	Increases international competitiveness and helps in overcoming “liability of origin”	Douglas and Judge, 2001; Powell, 1995; Zaheer, 1995	3.40	4.30	36.66*
Innovation and learning at international operations and subsidiaries	Enables transfer, adaptation and improvement of knowledge	Bartlett and Ghoshal, 1992a; Kanter, 1985	2.90	3.90	48.76*
Foreign market-entry and market-development skills	Useful when entering markets where one’s products are relatively unknown	Kotler and Keller, 2003; Slater and Narver, 1999	2.83	3.70	38.81*

Recognition of brand in international markets	Creating awareness and loyalty for products and overcoming “liability of origin”	Schultz and Schultz, 2001; BusinessWeek, 2005 a and b	2.65	3.5	44.8*
Level of employee entrepreneurship	Helpful in seizing international opportunities	Covin and Slevin, 1989; Oviatt and McDougall, 1999	2.75	3.50	38.69*
Use of IT systems for worldwide information-sharing	Facilitates free information flow and creation of flatter and more responsive organizations	Galbraith, Lawler and Associates, 1993; Lawler, 1993	2.60	3.65	60.50*
Managerial rotation through international operations	Tool for socializing, spreading tacit knowledge, and fostering the communication system	Edström and Galbraith, 1977; Martinez and Jarillo, 1989	2.30	2.86	28.73*
Ability to quickly renew and readapt existing routines and practices	Useful in dealing with environmental changes and complexities	Nonaka, 1990; O Reilly, Harreld and Tushman 2008; Teece, Pisano and Shuen, 1997	2.90	3.85	47.70*
Average			2.81	3.68	42.64
HR					
Extent to which international experience is considered a selection criterion	Prior international experience facilitates performance in international assignments	Carpenter, Sanders and Gregersen, 2001; Roth 1995; Sambharya 1996	2.75	3.35	34.01*
Extent to which personality factors are considered as selection criterion	Factors such as open mind, self-confidence and cross-cultural abilities facilitate success in international assignments	Katz and Seifer, 1996	3.30	3.98	36.18*
Extent to which necessary job qualifications are considered a selection criterion	Job proficiency helps mitigate the challenges of the international environment	Black, Gregersen and Mendenhall, 1992; Briscoe and Schuler, 2004	3.48	4.04	26.85*
Extent to which desire for foreign assignment is considered a selection criterion	Motivation of self and family helps overcome challenges of operating in international locations	Black, Gregersen and Mendenhall, 1992; Briscoe and Schuler, 2004	3.07	3.55	27.84*
Extent employees are given training in international management skills	Can be an alternative to hiring people from outside the organization	Briscoe and Schuler, 2004; Gomez-Mejia, 1988	2.44	3.15	40.11*
Tailor-made employee appraisal and reward systems for international assignments	Appraisal systems should be sensitive to local issues; reward systems should have incentive/equalization components	Briscoe and Schuler, 2004; Gomez-Mejia, 1988	2.31	2.93	38.24*
Strong international career planning process	Employees should not feel penalized for taking on international assignments and should be properly reintegrated upon return	Black, Gregersen and Mendenhall, 1992; Bolino, 2007	2.42	3.02	35.23*
Average			2.82	3.43	34.06
LEADERSHIP					

Role of leadership in providing vision and stretch-goals	Compelling and salient visions enhance commitment to strategic direction; stretch goals foster success	Hamel and Prahalad, 1989, 1993; Oswald, Mossholder and Harris, 1994	3.62	4.29	30.29*
Extent to which leadership brings international experience to the company	Aids multinational decision-making	Daily, Certo and Dalton, 2000; Gregersen, Morrison and Black, 1998; Maruca, 1994	3.21	3.90	35.76*
Average			3.41	4.09	33.02
CULTURE					
Employees' confidence in being able to successfully compete with the best in the world	Employees' confidence/self-efficacy associated with work-related performance	Barling and Beattie, 1983; Gist and Mitchell, 1992; Taylor, Locke, Lee and Gist 1984;	3.12	4.05	44.88*
Employees' level of cross cultural competence	Offers the ability to transcend barriers in communicating and dealing with people	Johnson, Lenartowicz and Apud, 2006; Levy, Beechler, Taylor and Boyacigiller, 2007	2.74	3.56	40.87*
Unifying and binding effect of culture	Helps communicate the way of doing things, decision making styles, and values and objectives	Martinez and Jarillo, 1991; Pfeffer, 1982	2.83	3.58	40.47*
Company as a sought-after workplace for international employees	Great workplaces receive more qualified job applications and increase retention rates	Great Place to Work Institute; Kerr and Slocum, 1987	2.70	3.38	36.42*
Average			2.84	3.64	40.66

* Difference in variable ranks between the two time periods significant at the 0.01% level in t-test analysis

Fig. 1: Organizational innovations where Indian firms report highest scores in 2008

Fig. 2: Organizational innovations where Indian firms report the highest percentage change

Fig. 3: Organizational innovations rated highest by respondents on their importance in facilitating internationalization success