CHAPTER VII

SUMMARY, CONCLUSIONS AND SUGGESTIONS

Multinational Corporations (also known as MNCs, MNEs or Foreign Controlled Companies) have become the buzzword of globalization. UNCTAD World Investment Report, 2012 enunciates that there are 80,000 parent MNC firms having 8,00,000 foreign affiliates all over the World. With an expanding international production base, foreign sales, employment and assets of these MNCs is on an increasing inclination too. In the year 2011, production of MNCs generated a value-addition of approximately $16 trillion, which in turn accounts for a quarter of global GDP. This production led to sales of $33 trillion in turn. In addition, foreign affiliates of MNCs contributed more than 10 per cent to global GDP and also exported more than $6 trillion which accounts for one-third of total global exports (World Investment Report, 2011).

As MNCs are called technologically most advanced nations of the world, therefore, these are expected to play a crucial role in inter-connecting rich and poor economies by transmitting capital, knowledge, technical know-how, better management practices and creativity across the nations (Findlay, 1978; Turok, 1993; Young et al., 1994; De Mello and Sinclair, 1995; Caves, 1996; Rodriguez-Clare 1996; Blomstrom and Kokko, 1997; Borrensztsein et al., 1998; Moran, 1998; Blomstrom and Sjoholm, 1999; Griffith, Markusen and Venables, 1999; Lim, 2001; Giarratana, 2004; Gorg and Strobl, 2005; Bergman, 2006; Branstetter, 2006; Lee, 2007; and Marcin, 2007).

However, as far as effects (also called as spillovers) of MNCs in host countries are concerned, researchers fail to reach a unanimous conclusion as to whether these are definitely positive or otherwise (Haddad and Harrison, 1993; Kokko and Tansini, 1996; Djankov and Hoekman, 1998; Aitken and Harrison, 1999; and Konings, 2001). Whereas, a body of researchers are of the view that these MNCs cause the domestic firms of the host nation to increase their efficiency, yet another line of scholars are of the view that the productivity of domestic companies may undergo a decrease due to competition generated by these MNCs (Aitken and Harrison, 1999; and Marchin, 2007). In addition,
foreign firms may also allure the most competent skilled labour force of the domestic corporations (Marchin, 2007).

Since the initiation of its economic reforms process in 1991, as a part of economic and industrial development strategies, India has managed to draw a large inflow of inward FDI. Therefore, to assess the impact of FDI through MNCs various studies have been carried out in the pre as well as post liberalization period in India. As far as contribution of exports by the MNCs is concerned, studies don’t have a unanimous viewpoint. Whereas, scholars such as Lall and Mohammad (1983), Pant (1995) and Majumdar and Chhiber (1998) hold a view that higher foreign share in turn leads to higher exports, others researchers such as Kumar and Siddharthan, (1994); Athyere and Kapur, (1999); and Banga, (2000) share a different opinion.

Moreover, the same trend continues in the studies concerning the contribution of MNCs to the R&D in India. While some researchers have found a positive impact of R&D spillovers of MNCs on Indian industry (Basant and Fikkert, 1996; Athyere and Kapur, 1999; Banga, 2000 and so on) yet some others (Kumar, 1994 and Aggarwal, 2000) are of the view that in India MNCs have a low R&D intensity.

Despite of these differences, the views regarding higher profitability in case of MNCs seem to be unanimous (Kumar, 1994 and Athyere and Kapur, 1999), lavish expenditure on advertisement than domestic Indian firms (Kumar, 1994 and Athyere and Kapur, 1999) and leaning of spillovers to high-tech and scientific sectors than low-tech sectors (Kathuria, 1998 and Feinberg and Majumdar, 2001).

Hence, a concrete understanding of the contribution of MNCs in positive or adverse form in emerging economies is becoming imperative to shape their regulatory regime. If MNCs offer benefits to domestic economy of host country, policy makers will willingly offer incentives to lure more and more MNCs in their economies (Oman, 2000; Blomstrom and Kokko, 2003 and Meyer, 2004). Therefore, with the surge of FDI, it becomes imperative to study and analyze the important determinants as well as to evaluate the comparative performance of foreign multinational and domestic companies during the post liberalization period.
7.1 CONCEPTUAL FRAMEWORK FOR DEFINING MNCs

Many counties in the world are slowly accepting the revised definition given by International Monetary Fund (IMF) in 1993. This definition has also got support of OECD, Paris and Reserve Bank of India and is given hereunder:

“A direct investment enterprise is defined as an incorporated or unincorporated enterprise in which direct investor, who is resident in other economy, owns 10 per cent or more of the ordinary shares or the voting power (for an incorporated enterprise) and the equivalent (for unincorporated enterprise).”

7.2 SPILLOVER EFFECTS OF MULTINATIONAL CORPORATIONS ON HOST COUNTRIES

Authors such as Globerman (1979), Blomstrom and Kokko (1993) and Meyer (2003) are of the view that spillovers take place when the advantages occurring from firm-specific assets of any company can not be fully internalized, thus making the uncompensated benefits to leak from these MNCs to domestic companies as well as suppliers in the host nation. Harris and Robinson (2004) have highlighted following three types of spillovers

- **Intra-Industry Effects** These include demonstration effects (Girma and Wakelin, 2001; and Meyer, 2004) resulting from imitation of foreign products and processes, competition effects resulting in reduction of costs (Aitken and Harrison, 1999) and labor market effects (Driffield and Taylor, 2001) resulting in improved human capital in the host nation.

- **Inter-industry Effects** These include forward linkages (Lall, 1978; Markusen and Venables, 1999; Kugler, 2001; Smarzynska, 2002 and Meyer, 2004) resulting in upgradation of quality and lowering of cost thus weeding out the crowding out of less efficient domestic firms as well as backward linkages (Markusen and Venables, 1999 and Kugler, 2000) through purchase of improved quality intermediate products.
• **Agglomeration Effects** Include labor market effects such as foreign firms trained workers to domestic firms or upward pressure of wage costs (Driffield, 1999) and infrastructure effects resulting in access to R & D of foreign firms or negative spillovers in the form of increased cost of resource access etc. (Audretsch and Feldman, 1996. Taylor and Wren, 1997).

7.3 REVIEW OF LITRATURE

• **Profitability Performance**: there is a lack of consensus among the scholars regarding nature of relationship between foreign ownership and profitability performance. Studies conducted by Lecraw (1983), Shapiro (1983), Kim and Lyn (1990), Grant (1987), Boardman et al. (1997), Chhiber and Majumdar (1997), Majumdar (1997), Gugler (1998), Oulton (1998), Barbosa and Louri (2005) for Greece, Douma et al. (2006), Gurbuz and Aybaz (2010), and Gelubcke (2011) conclude the existence of a positive relationship between foreign ownership and profitability performance of a company. However, there exists another group of researchers whose studies proved either no or a negative relationship between the two (Michel and Shaked, 1986; Konings, 2001; Munday et al., 2003; Barbosa and Louri, 2005 for Portugal; Gedajlovic et al., 2005; Mihai, 2012; and Gelubcke, 2013).

• **Export Intensity**: Developing countries invite MNCs in expectation of giving a boost to their exports and building higher foreign exchange reserves etc. Although, regarding this parameter too, there seems to be no clear consensus among the findings of the studies. The category which supposes existence of a positive relationship between foreign ownership and export performance include Willmore (1976) on Central America, Lall and Mohammad (1983) for India, Willmore (1986, 1992) on Brazil, Subrahmanian and Joseph (1994) and Mahabare (2001) and Aggarwal (2001) on India, Rasiah and Gachino (2004) on Kenya, Cetin and Ackrill (2006) on Turkey, and Wignaraja (2008) on Sri Lanka. However, studies conducted by scholars such as Cohen (1975) for Brazil, Morgenstern and Muller (1976), Lim (1976) on Malaysia, Fairchild (1977) on
Mexico, Jenkins (1979) on Mexico, Newfarmer and Marsh (1981) on Brazil, 

- **Research and Development Intensity** Dunning (1994) concludes that MNCs have conducted most of the world’s R&D activities. The study of literature reveals that the views of researchers differ on this aspect concerning MNCs too. While Lecraw (1983), Anderson and Gatignon (1988), Kim and Lyn (1990), and Nakamura (1991), Kumar (2003), Kimura and Kiyota (2004), Sasidharan (2006), Yasar and Paul (2007), Dachs et al. (2008), Urem et al. (2008) found that a TNE’s affinity for a wholly owned subsidiary increases with higher R&D intensity, Gomez-Casseres (1989), Hennart (1991) and Kumar (1994a) find either no or negative relationship between the two variables.

### 7.4 SIGNIFICANCE OF THE STUDY

This study derives its significance from the fact that only a few studies have been carried out in the recent times in order to develop an understanding about various aspects of performance of multinational companies operating in India. Secondly, the present study covers a comprehensive period of 18 years from 1992-2009 since large scale economic reforms have been initiated. Therefore, the present study will be relevant for the researchers and policy makers as a debate is continuing on the subject as to what extent these multinational corporations should occupy the role in a developing country like India. Therefore, the present study will contribute to fill up this gap as the study covers a comprehensive period of 18 years of post liberalization.

### 7.5 OBJECTIVES OF THE STUDY
The present study has been designed to analyse the dynamics of foreign MNCs and domestic companies operating in three sectors within Indian manufacturing i.e. chemical, food and machinery in general and following in particular:

- To study the historical background of MNCs in India;
- To analyze the government policy changes in regard to MNCs since post independence era;
- To study the comparative performance of selected manufacturing companies with regard to ownership pattern in financial, exports and research and development arena;
- To study the determinants of foreign ownership in Indian manufacturing; and
- To suggest suitable recommendations for the review of policy changes.

7.6 RESEARCH METHODOLOGY

The relevance and reliability of any research work rests upon methodology used for research. Hereunder, the process and sources of data selection and collection, specification of model and analytical tools used to meet the objective of this research work.

7.6.1 Statement and Overview of the Study

“The main aim of this study is to understand the dynamics of performance of Foreign Multinational Companies operating in India during the Post Liberalization Period along with making a comparative analysis with that of domestic companies. In addition, an attempt has been made to analyze the policy related issues governing foreign MNCs in India and to suggest future measures to attract FDI in India benefitting both the host country (India) as well as MNCs operating here.”

7.6.2 Hypotheses of the Study
To attain the objectives of the study, the following null hypotheses have been designed:

**PROFITABILITY PERFORMANCE**
There exists no significant difference in mean of *profitability performance* of Foreign Multinational Corporations and Domestic companies operating in India in
- Chemical sector;
- Food sector; and
- Machinery sector

**EXPORT PERFORMANCE**
There is no difference in mean of *export intensity* of Foreign Multinational Corporations and Domestic companies operating in India in
- Chemical sector;
- Food sector; and
- Machinery sector

**RESEARCH AND DEVELOPMENT INTENSITY**
There is no difference in mean of *Research and Development intensity* of Foreign Multinational Corporations and Domestic companies operating in India in
- Chemical sector;
- Food sector; and
- Machinery sector

7.6.3 Universe of the Study
The universe of the study includes both foreign multinational companies as well as domestic companies in India listed in BSE in the year 2009 compiled from the largest electronic database PROWESS developed by the Centre for Monitoring of Indian Economy (CMIE). PROWESS provides financial information for 27,122 large and medium Indian and foreign companies operating in India (www.prowess.cmie.com). The Prowess database is built from Annual Reports, quarterly financial statements, Stock Exchange feeds and other reliable sources. The database is normalised to enable inter-company and inter-temporal comparisons by CMIE. This enhances the usefulness of the database in decision making.

7.6.4 Sample and Sampling Unit

As the study aims to attain its objectives through firms operating at micro level, therefore, the most suitable unit of the analysis is company/firm/corporation as drawn from the review of literature. The sample of the study is based on both foreign multinational and domestic companies operating in India. Though these companies were operating in various sectors such as “chemicals”, “food”, “machinery”, “metal”, “non-metallic”, “textiles”, “transport” and “miscellaneous” etc. yet as these three sectors namely “Chemical”, “Food”, “Machinery” constituted a major share of over 65 per cent in Indian manufacturing, therefore, it was decided to restrict the data collection to these three sectors to draw the results within given timeframe.

7.6.5 Period and Nature of Data

As per requirements of the objectives of the study, secondary data was considered to be more suitable to draw the results. As the study relates to post-liberalization period, therefore, 1992 was selected as the base year, as the reforms were initiated in mid 1991 in India. The study covers a comprehensive period of 18 years starting from 1992 to 2009 relating to post liberalization period when large scale policy reforms had been introduced in the industrial and foreign trade policy. In order to study the dynamics related to these companies, the data pertaining to financial indicators comprising of both foreign multinational as well as domestic companies given in financial statements in the form of annual reports of the sampled companies has been used.
7.6.6 Techniques Applied for Empirical Analysis

The collected data has then been analyzed by various statistical, econometric as well as accounting tools and techniques. Besides ratio and trend analysis, the following techniques have been applied on the data to draw the results:

7.6.7 Independent Samples t-test

The independent samples t-test is used to compare the statistical significance of a possible difference between the mean of two groups on some independent variable i.e. t-test attempts to determine if the samples have been drawn from populations having different mean values or not. The suitability of t-test is based on satisfaction of assumptions that each of the two populations should follow a normal distribution; and both populations should have homogeneous variances.

7.6.8 Welch t-test

Independent sample t-test fails to provide reliable results when assumption relating to homogeneity of the variances is violated. In such a case, another form of t-test namely Welch’s t-test (Welch, 1947) is applied which has an in-built application called the Welch correction designed to take care of unequal population variances. In Welch’s t-test, the degrees of freedom are modified and the standard error does not ‘pool’ the sample variances to estimate a common population variance.

7.6.9 Levene's Test for Homogeniety of Variances

Levene's test of Homogeneity of Variances (Levene, 1960) is an inferential statistic used to assess the equality of variances in different samples. This test was applied to choose between independent sample t-test and Welch t-test to determine that variances of the populations from which different samples or groups have been drawn are equal. The Levene test statistic is defined as:

\[ H_0: \sigma_1 = \sigma_2 = \ldots = \sigma_k \]

\[ H_a: \sigma_i \neq \sigma_j \quad \text{for at least one pair} \ (i,j). \]
7.6.10 Binomial Logistic Regression

Binomial Logistic Regression determines the impact of multiple independent variables presented simultaneously to predict membership of one of the two dichotomous dependent variables. While logistic regression gives each predictor (IV) a coefficient ‘β’ which measures its independent contribution to variations in the dependent variable, the dependent variable can only take on one of the two values i.e. 0 or 1. The logistic regression works with odds rather than proportions which are simply the ratio of the proportions for the two possible outcomes. (Dayton, 1992). An explanation of logistic regression begins with an explanation of the logistic function, which, like probabilities, always takes on values between zero and one:

\[ f(z) = \frac{e^z}{1 + e^{-z}} \]

The input is \( z \) and the output is \( f(z) \). The variable \( z \) is usually defined as

\[ z = \beta_0 + \beta_1 x_1 + \beta_2 x_2 + \beta_3 x_3 + \cdots + \beta_k x_k, \]

where \( \beta_0 \) is called the "intercept" and \( \beta_1, \beta_2, \beta_3, \) and so on, are called the "regression coefficients" of \( x_1, x_2, x_3 \) respectively. Since the dependent variable is dichotomous, so the usual regression least squares deviations criteria for best fit approach of minimizing error around the line of best fit is inappropriate. Instead, logistic regression employs binominal probability theory in which there are only two values to predict. Logistic regression forms a best fitting equation or function using the maximum likelihood method, which maximizes the probability of classifying the observed data into the appropriate category given the regression coefficients. Goodness of fit and overall significance statistics used in logistic regression are different from those used in linear regression.

7.7 SCOPE AND LIMITATIONS OF THE STUDY

This study has universal applicability as the data consists of all the Indian and foreign companies operating in India in three sectors viz. chemicals, food and machinery. As the
study attempts to measure the performance of MNCs in India compared to their Indian counterparts, the results are able to provide a base for the policy makers to estimate the impact of operations of MNCs in Indian market, thereby be able to formulate suitable policies. This study will further help the entrepreneurs to know the areas where foreign companies fail to perform and the extent of competition and hence to guide them to invest their money wisely and earn profits. However, the present study suffers from the following limitations:

- The study relies on secondary data; therefore, the study suffers from all limitations that are suffered by a research based on secondary data.

- As the topic of the research is too comprehensive to cover all the units as well as sectors in the universe in the given time frame, therefore, the study remained confined to three main corporate sectors of India i.e. chemicals, food and machinery.

7.8 MAJOR FINDINGS OF THE STUDY

7.8.1 Historical Background of Multinational Corporations in India

The existence of MNCs in India is not a recent phenomenon (Belhoste and Grasset, 2008) and can be traced back to early 1600s whereby the Britishers came to dominate the Indian scene through their MNC known as East India Company in the colonial era. Though lack of availability of complete and authentic data makes its intricate to draw a complete history of MNCs in India (Nayak, 2006), yet, it can be logically divided into two parts i.e. pre-independence and post independence phase:

7.8.1.1 Policy of India towards Multinational Corporations during Pre-Independence Phase
As per Nayak (2006), during the period ranging from 1900s-1918 (called as the first phase of FDI history of India), no restrictions on the nature as well as type of FDI were found to exist. Majority of these investments were exploitative in nature concentrated in the sectors such as mining and extractive to suit the general British economic interest. The period from 1919-1947 (second phase of FDI in pre-independence period) brought actual FDI in India as introduction of import duties ‘stimulated’ various British companies to invest in the manufacturing sector to protect their businesses in India. In addition, some Japanese companies also enhanced their trade share with India.

7.8.1.2 India’s Policy Towards Multinational Corporations and FDI Since Post Independence Era

In post independence era, the Indian policy framework concerning MNCs and FDI can be divided into four phases. The first phase (1948–1966) called as the period of “cautious welcome policy” which favored liberal entry of foreign capital through technical collaborations, simple licensing procedures and lucrative tax concessions. The second phase (1967-1979) called as “The Period of “Selective and Restrictive Policy” followed a liberal attitude towards foreign capital and a new institution called as Foreign Investment Board was set up to deal with the entry of FDI in India. However, in 1973, activities of these MNCs and large industrial houses were sought to be restricted (Mathur, 1992) through Foreign Exchange Regulation Act, 1973 (FERA). In order to resolve critical situation created by second oil crisis and failure of India to give a boost to its manufactured exports, the overall policy framework for FDI during eighties (especially in 1984-85) became more liberal. This phase (1980-1990) is called as the period of “partial liberalization”. (Nayak, 2006). In early nineties, the balance of payments problem became quite severe. Along with, a rapid increase in India's external debt and increasing political uncertainty made international credit rating agencies to lower both short and long term borrowing rating of India. This resulted into tough borrowing position in international commercial markets and outflow of foreign currency deposits by NRI from India. Further, Gulf war made this situation rather worse through rise in petroleum prices which resulted in introduction of fourth phase (1991-2001) of FDI policy called as the
period of “Liberalization and Open Door Policy”. To attract FDI, a Foreign Investment Promotion Board (FIPB) was authorized to provide a single window clearance system in order to invite and facilitate MNC investment in India. New sectors viz. mining, banking, telecommunications, highways construction and management were thrown open to foreign MNCs.

7.9 A CRITICAL EVALUATION OF EXISTING IMPEDIMENTS AND REMEDIAL MEASURES FOR REMOVAL OF THESE HURDLES

Based on the analysis of above policy frameworks, a critical evaluation of existing impediments and remedial measures for removal of these hurdles are discussed hereunder:

- **Overlapping Central versus State Policies**

  The study found that sometimes the rules of centre and state governments are in conflict with each other leading to a confusion among the foreign investors. Therefore, foreign MNCs still prefer to enter in business through joint ventures, partnerships, manufacturing alliances, taking leases from domestic companies, operating through “work contracts” or by acquiring domestic companies already having licenses rather than acquiring licenses from government.

- **Exorbitantly High Tax Rate Structures**

  Exorbitantly high tax rates are considered as an impediment to foreign investment in India as India is deemed to have one of the highest corporate tax rate structures as compared to other countries in the Asia- pacific region (KPMG, 2007; ENS Economic Bureau, 2007).

- **Lack of Developed Infrastructure**
Existence of the state-controlled physical infrastructure is often considered as another impediment to MNCs entry, (Sheel, 2001) especially in the manufacturing sector in India.

- **Corruption**

  Kumar (2000) brings out reasons for reluctance of foreign investors from investing in India formed by legal hurdles, lack of institutional reforms, bureaucratic decision-making and the allegations of corruption at the top level. Treadgold (1998) also stressed that foreign investors find it difficult to cut a path through the paper work of overlapping government agencies.

- **Political Instability**

  The foreign investors perceive Indian political environment to be inharmonious and peevish for creating an amicable atmosphere for foreign investment (Kapur and Ramamurti, 2001). They hesitate to invest in India due to the political instability resulting into unstable policies. Moreover, the multiplicity of regional political parties results into a clear majority at the centre level forming unstable coalition governments.

- **Inflexible Labour Laws**

  Global Competitive Report, 2011-12 ranked India much behind in terms of labor market flexibility due to stringent labor laws in India compared to other countries. Inflexibility brought out by Indian laws and regulations during cyclical downturn discouraged MNC employers to give a boost to labor hiring in India as it abandoned them from closing down their inefficient and unprofitable businesses.

- **Government Ceiling on Foreign Ownership**
As per AmCham, due to the barriers to FDI posed by Indian Government, India was able to attract only $5 billion from the United States, whereas during the same time China grabbed about $60 billion (Business Line, 2012).

- **The Excessively Rigid Role of RBI**

  The foreign investors blame Reserve Bank of India for slower inflow of FDI in India due to various reasons such as (i) excessive rigidity in granting permissions; (ii) delay in allowing authorization for outward remittances; and (iii) problems with downstream investment facility under automatic route (Srinivasan, 2000).

7.10 COMPARATIVE PERFORMANCE INDICATORS OF FOREIGN MULTINATIONAL AND DOMESTIC INDIAN CORPORATIONS: THE EMPIRICAL FINDINGS

The analysis of the data by applying technique of t-test revealed that

- As far as chemical sector is concerned, the two groups of companies operating in Indian chemical sector exhibited a statistically different mean values for the parameter profitability performance, thereby, leading to rejection of the null hypothesis. The analysis revealed that liberal policy regime laid down by reforms influenced the activities of foreign MNCs in a positive manner and their performance improved significantly after introduction of reforms initiated in view of liberalization of economy.

- The null hypothesis was also rejected for machinery sector as the mean of profitability performance of two groups of firms was found significantly different from each other after three year of initiation of liberalization. It was found that the performance of foreign multinational corporations to be superior to their Indian domestic counterparts as in chemical sector.

- However, these results were not maintained for foreign multinational corporations operating in food sector of Indian manufacturing leading to acceptance of null hypothesis. No significant differences were found in mean of
performance of two group of companies. Moreover, the mean of profitability performance was found to be negative for post liberalization period for foreign MNCs.

• As far as export performance is concerned, the two group of firms were again found to exhibit significant differences in their export intensity leading to rejection of null hypothesis. Export intensity of foreign multinational firms was found to be lower than their Indian counterparts. It leads to the conclusion that foreign MNCs were producing and selling their production in the domestic market i.e. India only to tap its huge potential. This finding is contradictory to the objectives of economic reforms, which expected that foreign investment will lead to higher export earnings and forex reserves. Therefore, policy makers must focus on initiating negotiations with MNCs regarding export obligations to attain the objectives of liberalization.

• The similar results are maintained for food sector as the foreign multinational corporations were not found to exhibit a different export performance than their domestic Indian counterparts. Therefore, their preference to produce and sell in India is clearly revealed in this sector too.

• However, as far as machinery sector of Indian manufacturing is concerned, though no significant differences in export intensity of the two groups of firms has been found for this sector for the first half of the post liberalization period, yet, the results were reversed in the second half of the period under study. In latter period, the multinational corporations were found to turn towards exports and exhibited a higher export intensity.

• As far as research and development intensity is concerned, null hypothesis was rejected for the first half of the period where the mean of R&D intensity for foreign MNCs was found to be higher than their Indian counterparts, yet, this difference vanished in the latter half of the period under study, leading to the conclusion that liberalization had a negative impact on the R&D intensity of the foreign MNCs.
However, as far as food sector of Indian manufacturing is concerned, the results are in contradiction with the results of R&D behavior of firms in chemical sector. This is so because, in the latter half of the period under study, the R&D intensity of foreign multinational corporations improved significantly. It implies that foreign multinational corporations have started paying attention towards R&D investments in order to gain an increasing market share in India. However, for machinery sector of Indian manufacturing, the null hypothesis was found to be true as the two groups of firms didn’t exhibit a significant difference in their R&D intensity.

The comparative analysis of MNCs operating in India and domestic companies reveals that liberalization contributed significantly to profitability of foreign multinational firms in India. However, multinational corporations operating in India could not contribute significantly to export basket of India, rather, they prefer to sell their output in domestic market. As far as R&D intensity is concerned, the policy makers need to device some measures so that R&D spillovers of these multinational corporations be allowed to be flown to in domestic firms. The empirical analysis highlighted the fact that these multinational corporations are not serious to carry out R&D in India.

7.11 DETERMINANTS OF FOREIGN OWNERSHIP IN INDIAN MANUFACTURING

The following facts came out while tracing out for determinants of foreign ownership in Indian manufacturing through econometric modeling viz.

- As far as chemical and machinery sector of Indian manufacturing are concerned, variable profitability performance (return on sales) is turning out to be a crucial determinant of deciding ownership structure of a company i.e. foreign or domestic. For both these sectors, liberalization seemed to have a positive impact as far as return on sales is concerned. This is so because, this variable had become more significant in second sub-period of 2001-2009 than in first one viz. 1992-2000. These results are in conformity with the previous studies conducted by Studies conducted by Lecraw (1983), Shapiro (1983), Kim and Lyn (1990), Grant...

- Export intensity was also observed to be important determinant in deciding ownership pattern as it was observed that domestic companies were consistently having higher export intensity than foreign MNC companies for these sectors. These results match the finding of studies conducted by Cohen (1975) for Brazil, Morgenstern and Muller (1976), Lim (1976) on Malaysia, Fairchild (1977) on Mexico, Jenkins (1979) on Mexico, Newfarmer and Marsh (1981) on Brazil, Kumar (1994) on India, Kumar and Siddharthan (1994) on India, Athukorala et al. (1995) on Sri Lanka, Pant (1995) on India, and Erdogan (2010). It is therefore suggested that for encouraging manufactured exports from host countries, negotiations with MNEs regarding export obligations can turn out to be effective.

- Variables such as Size as well as Royalty Payments of the company was also observed as a significant determinant of ownership structure for all the three sectors under study as foreign companies were found to be bigger in size than their domestic counterparts. However, the same was not true for research and development intensity for any of these sectors. The findings of this study match the findings of researches conducted by Hall and Weiss, 1967; Lecraw, 1983; Mahmood and Hussain, 1991; Willmore, 1992; Majumdar, 1997; and Blomstrom and Sjoholm, 1999.

- Dividend payout was found to determinant of ownership for chemical sector of Indian manufacturing only matching the findings of Manos (2002), Kumar (2003), Gedajlovic et al. (2005), Cook and Jeon (2006), Douglas and Jin (2006), Nor and Sulong (2007), Baba (2009), Chai (2010), Gupta and Banga (2010), Jin et al. (2011), Abdullah et al. (2012), Lam et al. (2012), Warrad et al. (2012), Ullah et al. (2012), Gharaibeh et al. (2013), Nawaiseh (2013) and Thanatawee (2013).

- Advertisement expenditure also turned out to be among the determinants of ownership in Indian manufacturing on the similar lines as found by Willmore.

- However, for variables import of capital goods as well as raw materials, the results were found to be in conflict among these sectors. Whereas, import of capital goods was not found to be a significant determinant for food sector in post liberalization period, for machinery sectors, the result was other way round and the same variable was found to be significant. Therefore, it can be concluded that foreign firms were found to have imported their capital goods from abroad rather than acquiring it from domestic market in host country. The same is found true for latter half of post liberalization period for chemical sector of Indian manufacturing too.

7.12 SUGGESTIONS AND POLICY IMPLICATIONS

The critical analysis of the policy measures introduced during the post reforms period leads to the conclusion that much more remains to be implemented in order to improve the consistency in policy making and executing, improving quality of governance and overall regulatory framework as well. This is particularly imperative in the case of foreign investments coming in sectors such as infrastructure that are critical for overall growth and development of India in the years to come. On the basis of above analysis, following suggestions are made for the considerations of the policy makers in future:

- The deficiencies in the various industrial policy statements made during the post liberalization period are required to be identified and corrected as per the requirements of the country. There is a need to understand impact of foreign investment on balance of payments, self-reliance, indigenous R&D, employment and India’s stand on MNCs etc.

- The rationale of restricting FDI is to provide protection to the domestic enterprises. However, government should undertake a careful sectoral analysis for identification of the sectors where domestic players are unable to furnish the needs of growing domestic as well as export demand for goods and services. This will not only result into bringing the investment into deficient sectors but also
develops a sense of competition and generation of *spillovers* to the domestic players that will ultimately lead to benefiting the domestic economy to grow in the long run.

- Developing country like India is lacking in development of infrastructure due to the pursuance of neo-liberal policies adopted during the post liberalization period, therefore, efforts must be made at both state and central level to attract foreign investment in infrastructural development projects such as highways, rural electrification, and power generation and transmission.

- There is a need to introduce strict policy measures to make the MNCs accountable in terms of achievements of national objectives such as contribution to the foreign currency reserves, creation of employment etc.

- The findings of the present study reveals that MNCs could not contribute much to the exports earnings and had focuses more on the domestic markets which is contradictory to the objectives of foreign investments. Policy efforts must be made to invite MNCs in the sectors where India wishes to augment its exports. This is because, this objective will be mutually advantageous to Indian economy as well as MNCs. Export objective is commensurate with the MNC objective of profit-maximization. At the same time, exports will result into generation of foreign exchange. This foreign exchange can be further utilized to import capital equipments for growth and development of other sectors.

- Policy efforts must be directed to encourage MNCs to invest in agricultural sector. This is because majority of Indian population is dependent on agriculture. However, due to lack of investment, productivity in this sector is still very low. Encouraging foreign investment in this sector will not give a push to productivity but also lead to creation of employment and development in rural India.

- An attempt must be made to identify sectors where MNC investment will lead to realization of economies of scale which domestic firms are unable to carry out due to lack of capital and technological know-how. This will result in effective
capacity utilization of those sectors. Moreover, this will also lead to reduction in prices of goods for domestic customers and enhancement of quantity of exports due to lower prices. Government should develop a policy through which conditions should be imposed upon the MNCs to invest in R&D from the profits earned from Indian operations.

7.13 SCOPE FOR FURTHER RESEARCH

Although, all efforts have been made to take into account majority of dynamics of MNCs in India, yet this research just paves the way for the future researchers to identify the issues and problems which contribute to the achievement of national objectives. Some of the issues which must draw attention include the following:

- As the study focused on three significant major performance comparisons between the two group of companies viz. financial, export and research and development, the future researchers may make an attempt to other aspects related performance to make a further in depth contribution to this field of research.

- As the study focused on manufacturing sector of India, an attempt may be made to compare the performance of the service sector. This is important due to the fact that contribution of the service sector to GDP has increased manifold during the post liberalization period in India.

- As the research was based on secondary data sources, an attempt may be made to undertake a primary data survey to explore mindsets of foreign investors investing in India. This can further help to frame a realistic policy framework as the present research has already pointed out that literature reveals a gap between the actual policy framework and expectations of the potential foreign investors in India. Some of issues which need further probing are:

  - conflict between centre and state policies relating to foreign investment as Gujarat state of India is luring higher FDI than other due to its differential policy statement on FDI;
Perceptions of the foreign investors regarding tax structures in India;  
- Perceptions of investors regarding infrastructural facilities provided in India;  
- Perception of investors regarding corruption, rigidity of administrative departments and red-tapism in India;  
- Perception of investors regarding labor laws in India; and  
- Perception of investors regarding ceiling and form of foreign investment in India in different sectors.

- A research can be undertaken into developing novel models of foreign-domestic private sector (F-Pvt.), foreign-public sector (F-P), foreign-private-public sector (F-Pvt.-P) in India to boost the economic growth without compromising with national sovereignty.

- Another area of interest could be the impact of MNCs operations on the employment generation, social security measures for the employees as well as job security of workforce of the MNCs.

- Last but not the least is the issue of evasion of taxes by the MNCs, due to the existence of dual tax treaties in India and the resultant loss to national revenue.