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Keywords: firm growth, internationalization, resource based view, emerging market, multinational firms.

GJMBR-B Classification: JEL Code: E00
Resource based View on Growth of Emerging Economies Multinationals: A Case Study of Tata Motors

Sandeep Yadav

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Keywords: firm growth, internationalization, resource based view, emerging market, multinational firms.

I. Introduction

Tata motors initially started as Telco (Tata Engineering & Locomotive Company Limited) in 1945. It was established in India to manufacturer the steam locomotives. They formed a strategic alliance with Daimler-Benz from 1954 to 1969 to get expertise in producing the commercial vehicles. Telco has acquired enough resources to independently manufacturer and design the commercial vehicles till the time (Singh & Srivastava, 2012). Later, Telco started production of the engineering equipment’s and finally the large scale construction equipment machinery and automobiles. In July, 2003 Telco was renamed as Tata Motors. Tata motors emerged as a leader in the commercial vehicle segment. In the year 2009-10, Tata motors became the world second largest bus manufacturer and fourth largest truck manufacturer (Singh & Srivastava, 2012).

Tata motors started internationalization by starting export in 1961. The export of the passenger and commercial vehicles expanded in the many regions outside India gradually such as Africa, Europe, South America, South Asia and Middle east. They also started their international manufacturing facilities through strategic alliances with other firms and own subsidiaries in Thailand, Spain, Kenya, Bangladesh, South Korea, Ukraine, Russia, South Africa and Senegal. Tata motors also has several manufacturing plant across India (Singh & Srivastava, 2012). Tata motors growth can be explained by the important factors as understanding of customer needs, response to economic changes and ability to innovate with transition of market needs and demands. Resources play an important role for the growth of the firm. As per the resource based view the valuable, rare, inimitable and no substitutable resource provide a competitive advantage to the firms.

This paper review the growth and internationalisation of the Tata Motors using the resource based view. We emphasize on the process of acquisition of the resources and the process of internationalization of the Tata Motors. We have used a case study approach to explain the process of growth of Tata motors as a late entrant in the international markets from an entrant in the medium sized passenger vehicle manufacturer. This study reveal a pattern of catchup process by emerging economies multinationals. This helps in understanding the process of internal capability building as well complementing by external resource acquisition. Tata motors is affiliated by one of the India largest business group called Tata group. Study also reveal the resource sharing within the group firms and catch up process of Tata motors. We found that group level capabilities help in creation of new resources and acquisition of external resources. The speed of the catch-up process is accelerated by the group affiliation. Group affiliation advantage is realized by resources sharing among group affiliated firm and the central group support.

Tata motors is an interesting case to explain the growth of the firm using the resource-based view. The theory helped to understand the growth pattern of the emerging market multinational firms. The historical perspective of business restructuring and leadership by Ratan Tata is an important part of Tata motors growth (Crainer, 2010). The initial stage of the firm growth is to development the internal resource capabilities and latter the firm expanded in the various product markets. The expansion of the firm boundaries helped to create a market power and expanding in to various market. The complementarity of the external and internal capabilities of the firm is a competitive advantage for the firm. The innovation plays a large role in the internationalization of

Author: Doctoral Student, Strategic Management Area, Indian Institute Management Kozhikode Kerala, India-673570.
e-mail: sandeepy12fpm@iimk.ac.in
the firms. The business group affiliation played a large role in the grown of TM’s as an emerging market multinational firm. The business group affiliation provided the brand name, reputational advantage, complementary resources, developed project execution capabilities and improved the dynamic capabilities of the firms.

II. Case Selection and Research Method

We have selected the case of Tata motors. This sufficiently cover the growth of an emerging economy multinational firm. Tata Motors(TM) case also helps to understand the relationship between the firm internationalization and group embeddedness. TM is a subsidiary of the India’s largest private Tata business group. TM is a major manufacturing firm of passenger cars in the India emerging economy. TM have faced the intense competition pressure from the domestic as well as international players in the segment. The competition is neutralized by TM by the process of internationalization to acquire the capabilities and assets. The firm has made required efforts to become the internationally known player and exploited its resource capabilities across the borders. TM is also benefited by the group learning spillover by other sectors such as consumers goods, business process outsourcing and steel segment internationalization. The selection of TM for the case of internationalization of emerging market multinationals (EMNCs) has various advantage such as enabled comparative case analysis. This case can be compared with earlier EMNCs internationalization such as Hyundai and Mahindra & Mahindra. TM case can also be compared with the other emerging economies multinational firms such as Geely, Cherry and BYD from China. The another advantage of selecting TM is the rich source of the archival data availability about the company. The data for the case is taken from newspapers, companies website, academic articles, case studies, company reports, Prowess database by CMIE.

III. Results and Discussion

a) TATA Motors Growth: Resource Based View

This section includes the case analysis of the TM growth by internationalization. The first section of the case analysis includes the Tata Group responsiveness to the uncertain institutional environment. The second section of the case includes the catch up process of TM in the passenger car segment. The final section of the case analysis includes the impact of business group affiliation on the firm growth.

b) Dynamism of the Tata Group

India is having many business groups such as Wipro, Birla, Reliance, Tata and others as controlled by the family ownership. Tata is the largest and oldest business group in India with 30 companies along the 10 verticals (“Business Overview | Tata group,” n.d.). The restructuring of the group in 1990 opened the doors for many affiliated firm to grow internationally (“Business Overview | Tata group,” 1010). During the restructuring the group went through many cross-border acquisition and the divestment of the unprofitable businesses (annex, exhibit 1&2)” (“Business Overview | Tata group,” 2010). Ratan Tata become the fifth chairman of the group in the 1991. The leadership of Ratan Tata caused many changes in the organisational function of the group and a drastic change in the leadership style which enabled faster catch-up of TM’s (Bruche, 2010). The chairmanship of the Ratan Tata enabled a loosely bounded holding of the group on the independent organisational units. They allowed the autonomous unit run by the independent CEO’s with rich experience in the fields (Bruche, 2010). The emotional bond and the personal bonds of Ratan Tata created a shared culture in the group companies. The inter organizational shareholding and interlocking board of directors created a robust governance structure (Kakani & Joshi, 2008; Kumar, 2009). After the ten years of the Ratan Tata chairmanship the group was able to change the core central functions of the group companies, governance structure of the group companies and the structure of the top management team. This enabled the major expansion of the firm boundaries by internationalization (Khanna et al., 2003). In this scheme the group went through many cross-border acquisition and the divestment of the unprofitable businesses (annex, exhibit 1&2)” (“Business Overview | Tata group,” 2010). The significant cross-holding by the five major group companies including TM’s enabled the decentralized structure with strong central control at group level. Also the chairman of the Tata sons has shared responsibilities in the core companies of the Tata Group (Bruche, 2010). Another successful scheme launched by the Tata Group was ‘Tata Brand Equity and Business Promotion Agreement’ initiated in 1995 (Branzei, 2010; Khanna et al., 2003). In this scheme the group companies can use the brand name of the Tata Group.
for doing business but they have to pay 0.1% of their income before tax to the Tata Sons. Along this if the group companies want to use the group name on their product brands, they have to pay 0.25% of their net income before tax deduction (Bruche, 2010). TASS (Tata Administrative Services) was the earlier initiative in 1950’s was taken by the group for internal training and development of the future premium leaders for the group companies (Khanna et al., 2003; Wadia, J. 2007). Branzei (2010) has also detailed the CSR initiatives taken by the group companies from the early time.

The group was well established before the transformational changes of the leadership and group restructuring in 1990. The strategic routine of the Tata Group companies and their organisational practices before and after the group restructuring can be explained using the resource based view (RBV). RBV helps to understand the dynamic capabilities development by the companies during organisational transformation and high competitive environment. This is based on the creation of the group internal and external resource capabilities and integrating with the existing resource base in the dynamic environment (Eisenhardt & Martin, 2000; Teece, Pisano, & Shuen, 1997).

c) Resource Based View on Catch-up of Tata Motors in Passenger Cars

TM’s started as a domestic player in the passenger car segment. Later internationalization of the TM’s through sales and manufacturing across the borders. The internationalization helped in acquisition and accumulation of the knowledge as a learning process. We have discussed the process in the various phases. These phases are driven by the strategic intent of the TM’s leadership. This external evolutionary process of the growth is complemented with the internal capabilities of the firm.

d) Pre-entry capabilities development

TM’s developed enough internal capabilities to survive and compete before independently entering into the commercial vehicle (CV) manufacturing of passenger cars. TM’s is supported by the group companies in the process. Initially they started as a manufacturer of the steam rollers and locomotives. Later in 1954 they came into collaboration with Daimler Benz AG to start commercial vehicle manufacturing. The learning from the initial collaborations is used to develop the internal capabilities to start its own manufacturing of the CV. The low cost Indian market leadership is maintained by its internal effort of engineering and designing the various products combined with the technological learning from the external sources. The Indian CV market shrinkage in the 2000-2001 forced the firm to restructure and re-innovate the strategic layout for future challenges (India 8 Knowledge Wharton 2010, Kumar 2009). They established a R&D and engineering centre in Pune in 1996 (“Latest Innovation in Automobile Industry, New Generation Cars—Tata Motors,” 2019). This internal research and product development capabilities helped to improve the absorptive capacity of the firm. The increase in absorptive capacity helped to identify, acquire and integrate the external knowledge. This immediately helped in developing the platform for manufacturing and engineering of the internal design based CV’s (Bruche, 2010).

e) Product scope expansion: duplication and sequencing

Passengers car entry was based on the existing resource leveraging and extension of the light vehicles segment. The pick-up plate form helped to launch Sierra in 1991 and Estate in 1992. B. Bowonder, the management training training centre director at Tata Group said during the TM’s small car development assignment: “the learning needed for making a car essentially started with the pickup vehicle 207” (“Tata Motors,” 2019). The Indian passenger car segment was more foreseeable for the small cars in compare to their initial strategy of the large cars market( Becker-Ritterspach & Bruche, 2012). They made their first attempt to launch the small car in the India in 1994 as Indica. The Indica was in direct competition with the Maruti 800 of Suzuki, a Japanese car maker. The approach followed was to limit the boundaries of the firms. They believed to produce internally all the components of the car. The special product which are not manufactured inside the firm are outsourced by making joint ventures with the suppliers (Becker-Ritterspach & Becker-Ritterspach, 2009). Initially they focused on the reliable suppliers from India only. They formed long term contracts with suppliers for learning purpose of strategic alliances (Bowonder, 2004). The Indica project is perfect example of integration of external technology and knowledge resources from various stakeholders. (Bowonder 2004 Bruche 2010) have listed external alliance for resource acquisition as shown in Table 1.
TACO (Tata Automobile Components) was started in 1995 as a Tata Group affiliated firm to support the core companies for suppliers management. In the later period it helped TM’s to develop the project management capabilities and improving the management skills. The Concurrent Engineering capabilities developed by the R&D centre and manufacturing of tools at the same place in Pune (Bhowonder, 2004; Bruche, 2010).

The platform established by launching Indica helped to leverage the learning and launched Indigo in 2002 with following variants of the model ("Tata Motors launches the all-new Tata Indigo e-C5, the most fuel efficient sedan in the country," 2010). This sequence of the product development was an important resource for capabilities development (Helfat & Raubitschek, 2000; Kim, 1998). Further they formed alliance with the two international players in the market. RM’s formed a joint venture with Daimler Chrysler in 1995. The purpose of the joint venture was to establish a local assembly line for the E220 Mercedes. The alliance was later failed in 2001. They formed another alliance with Fiat in 2006. The purpose of the strategic alliance was manufacturing and distribution of the Fiat cars in the Indian market (Mitchell, J./Hohl, B. 2008). This alliance helped to develop the manufacturing and diesel engine capacities. Later in the decade after the success of Indica they were the third largest players in the Indian passenger market segment followed by Maruti Suzuki and Hyundai(currently they are the fourth largest) (www.ETAuto.com, 2019). They are able to establish the wide service provider and dealers network in the Indian market. They started export of the Indica in Malta, South Africa and other countries. The increased pressure by the multinational firms in the Indian market put an immense pressure on TM’s for product development and innovation.

f) Innovation and internationalization

The innovation of the low cost car started with the Tata Nano conception. Ratan Tata committed to launch a low cost car of one lac INR in the Geneva Auto show in 2003("Tata Motors displays Tata Nano EV at the 80th Geneva Motor Show," 2010). The car was proposed to steel the two wheeler market and proving affordable solution to travel with comfort. The lowest priced car in the market at that time was Maruti 800. In the leadership of the Girish Wagh (old engineer and head on development team) a team of young engineers was formed in 2005. Ratan Tata gave the broad parameters of low cost, minimum viable performance and meeting of regulatory norms for development of Tata Nano project to the team. Ravi Kant as the CEO of TM’s at the time monitored the project progress. The product development process started to make a car with combination of Indian traditional three-wheeler and Maruti 800 to achieve the low cost and performance at the same time. This process is called as reverse exploratory innovation (Lim, Han, & Ito, 2009; Palepu, Anand, & Tahilyani, 2011). They have involved various component suppliers and consultant for the success of the project. They invited various number of supplier for Tata Nano parts supply and finally selected only 100 for the platform development. TM secured the property right of own and suppliers. In the later stage they opted for international suppliers such as Denso, Bosch and others. Many of the international suppliers shifted their production facilities nearer to TM manufacturing plant to reduce cost of transaction. This process of involving with international service providers is called complementary upstream internationalisation (Bruche, 2010). The international R&D centre in UK is established in 2005 by TM’s. This centre is known as TMETC(Tata Motors European Technical Centre) under the affiliation of University of Warwick with the British motor industry centre (Agrawal S., 2007). The complementarity of the TMETC and Pune R&D centre in India enabled rapid product development. They also acquired INCAT, an engineering outsourcing firm integrated in India, Europe and North America. This was integrated with TM’s subsidiary called Tata Technologies. This enabled developing resource base in form of technology and R&D in the shorter duration. These subsidiaries were closely associated with Tata Nano development ("Agrawal, S. (2007)& Partners in Progress—Google Search," n.d.). TM’s and Tata Group companies get connected with various other firm during the Nano car project and learned from the external knowledge and also the most of the knowledge asset developed in the project remained with the suppliers of the major components (Bohr, B. 2010).

<table>
<thead>
<tr>
<th>Purpose</th>
<th>Alliance Partner</th>
</tr>
</thead>
<tbody>
<tr>
<td>Exterior and interior design</td>
<td>I.D.E.A., an Italian design consultancy</td>
</tr>
<tr>
<td>Development of power train design and gasoline engine</td>
<td>Le Moteur Moderne (LMM) of France designed by German HLS and manufactured by TML</td>
</tr>
<tr>
<td>Welding systems, process engineering</td>
<td>Nachi Fukikoshi, Japan</td>
</tr>
<tr>
<td>Design of robots</td>
<td>Ogihara from Japan</td>
</tr>
<tr>
<td>Skin panels die design</td>
<td>unused production line from Nissan, Australia</td>
</tr>
<tr>
<td>Production line</td>
<td>Cummins, US/India assisted TML to develop state-of-the-art organisational capabilities</td>
</tr>
<tr>
<td>Supplier qualification, testing and quality assurance</td>
<td></td>
</tr>
</tbody>
</table>
g) **Internationalization and diversifying scope of products**

The Tata Nano project was completed in early 2008. TM’s faced various problem in their Singur manufacturing plant which caused financial losses in the year. In spite of the fact, TM’s acquired JLR (Jaguar Land Rover) From Ford Motors. JLR acquisition was finalised in June 2008 with an total cost of 3 billion USD financed by short term loans. Bruche, (2010), has mentioned following transformational changes in TM’s due to JLR acquisition:

- a. The revenue of the TM’s doubled after the acquisition and the sales from passenger car segment increased significantly
- b. JLR acquisition provided a product expansion or related diversification in the premium car segment.
- c. Enable the outward internationalization in the passenger car market

**Table 2: JLR Acquisition Benefits to TATA Motors (Source: Bruche (2010))**

<table>
<thead>
<tr>
<th>Factors</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Internationalisation</td>
<td>Enabled operation in the Asia, Europe and North America region</td>
</tr>
<tr>
<td>Brand Value</td>
<td>JLR was an iconic brand</td>
</tr>
<tr>
<td>Product flow</td>
<td>The product development and innovation investment by Ford Motors in JLR realised in future</td>
</tr>
<tr>
<td>Fit</td>
<td>Synergies with the TM’s existing product development facilities</td>
</tr>
<tr>
<td>Scale</td>
<td>Outsourcing of parts for JLR from India at low cost can reduce the cost of manufacturing at high scale of production</td>
</tr>
<tr>
<td>Demand</td>
<td>Large market in emerging markets</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>Access to modern manufacturing plants</td>
</tr>
<tr>
<td>R&amp;D</td>
<td>Access to human resource skills and external knowledge resources</td>
</tr>
</tbody>
</table>

h) **Business Group Affiliation and Growth of Tata Motors: Resource Based Perspective**

AS discussed in the previous section the growth of TM’s is due to its internalization and expansion in the home market. The previous section has explicitly not explained the role of group affiliation in the growth of the firm. The supporting role of the group companies and also the parent company support for various acquisitions is very important in explaining the growth of TM’s. The following capabilities are developed due to the group affiliation:

i) **Dynamic capabilities**

In the 1980s the firms has grown in the CV manufacturing segment in the India. Later under the strategic intent of Rata Tata chairmanship the firm has taken the initiative to expand the product market as well as expanded the boundaries internationally. TM’s restructuring enabled the top management team changing and the process of developing their technical core as engineers become more strong. Ratan Tata’s transformational leadership provided the vision and strategic intent to the firm by aligning the TM’s strategy with the business group strategy (Kumar, 2009). The transfer of experienced human resource from the group companies increased the working efficiency of TM’s (India Knowledge Wharton 2010). The group affiliated changes and assisting asset enabled the dynamic capabilities development in the TM’s and infused the capabilities (Bruche, 2010).

j) **Execution capabilities**

The Tata Group affiliation helped TM’s to take riskier project and complete the rapid catch-up. Also the internalization and technology asset acquisition helped in creating internal capabilities of firm (Amsden & Hikino, 1994). Tata Group provided experience, knowledge and internal group capabilities for successful execution of the product development and launching projects. The internal group firm network simplified the process of handling the complex projects execution. For example, the group subsidiary Tata Consulting engineering limited serves the group companies at a discount with preference (Bruche, 2010). The experienced professional in the consulting firm enabled faster project execution with group responsibility. Other group company such as Tata Quality Management Services heled in executing the business models. The financial support is provided by Tata Financial Services.

k) **Leverage of underutilised resources**

Tata group has tradition of developing its internal pool of human resources. The brand of Tata also attract the top universities student pool for the job applications. The well designed training programmes and the fairly effective system of the promotions attract the top school. The liability of foreignness (Zaheer, 1995), is overcomed by transfer of the candidates with the multicultural international exposure for the foreign projects. The Tata Nano project was challenging because of requirement of the innovative and open minded pool of talent. To overcome the challenges, the company had two third of human resource pool from the...
lateral recruitment from the group companies and rest was young campus talent.

1) Business group reputation and brand value effect

The Tata group companies use the name of brand as an strategic asset. The corporate communication and personal relation by the parent firm helped to create the market power. For the group, the trust of the external stakeholders was very important. When TM’s faced the technical issue with the performance of the new product launch at various stages, the Tata brand was guarantee for fixing the bugs. The Tata brand also helped in the Tata Nano project to establish the relationship with the cross-border suppliers. TM’s alliance with Fiat was also enforced by the Tata group trust and the chairman’s personal relationships (Zaheer, 1995). The hurdle by local government is also resolve by the political contact of the parent firm.

m) Resource complementarity

Tata group is a conglomerate of various related and unrelated businesses. The internal network of the group, TACO (Tata Autocomp Systems) formed various joint ventures with the leading manufacturer in the various parts of India and established its manufacturing facilities in china and India. This played a huge role in the development of Nano by TM’s (Machinist, in 2009). The resource and knowledge held by the Tata group companies provided TM’s a bed for absorptive capacity for external knowledge integration.

Figure 1 shows a theoretical framework to explain the growth of emerging economies multinationals firms using resource based view. The initial phase of the growth is building the internal capabilities of the firms and also expanding in the existing product market. The later phase of internationalization started with innovation and after establishing footprints in the foreign market, the firm expand their product-market portfolio. Business group affiliation benefits are moderators in the growth of the firm.

![Figure 1: A Theoretical Framework: Growth of Tata Motors](image)

**IV. Conclusion**

Tata motors is an interesting case to explain the growth of the firm using the resource-based view. The theory helped to understand the growth pattern of the emerging market multinational firms. The historical perspective of business restructuring and leadership by Ratan Tata is important part of Tata motors growth (Crainer, 2010). The initial stage of the firm growth is to
development the internal resource capabilities and lather the firm expanded in the various product markets. The expansion of the firm boundaries helped to create a market power and expanding in to various market. The complementarity of the external and internal capabilities of the firm is a competitive advantage for the firm. The innovation plays a large role in the internationalization of the firms. The business group affiliation played a large role in the grown of TM's as an emerging market multinational firm. The business group affiliation provided the brand name, reputational advantage, complementary resources, developed project execution capabilities and improved the dynamic capabilities of the firms.

References Références Referencias


