Understanding Government- MNE Bargaining in Emerging Markets: a case study of the life insurance industry in India

A Triadic Perspective

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BRICS: Brazil, Russia, India, China and South Africa
CAQDAS: Computer-assisted qualitative data analysis software
CDBA: Costs of doing business abroad
CSAs: Country Specific Assets
Local MNEs: Emerging Market Multinational Enterprises
EMs: Emerging Markets
EU: European Union
FDI: Foreign Direct Investment
FERA: Foreign Exchange and Regulations Act
FII: Foreign Institutional Investors
FSAs: Firm Specific Assets
GATS: General Agreement on Trade in Services
GOI: Government of India
IB: International Business
IMF: International Monetary Fund
IP: Intellectual Property
IPE: International Political Economy
IPO: Initial Public Offering
IRDA: Insurance and Regulatory Development Authority
JVs: Joint Ventures
LCR: Local Content Requirements
LDCs: Less Developed Countries
LIC: Life Insurance Corporation of India
LOF: Liability of foreignness
LOO: Liability of outsidership
MNE: Multinational Enterprise
OBM: Obsolescing Bargaining Model
OBM: Original Brand Manufacturer
OEM: Original Equipment Manufacturer
OFDI: Outward FDI
OPEC: Organization of the Petroleum Exporting Countries
PACs: Political Actions Committees
PBM: Political Bargaining Model
RBI: Reserve Bank of India
SEBI: Securities and Exchange Board of India
TRIPS: Trade Related Aspects of Intellectual Property Rights
ULIPs: Unit Linked Insurance Products
WTO: World Trade Organization
Abstract

The University of Manchester
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Degree of Doctor of Philosophy – PhD

Understanding Government- MNE Bargaining in Emerging Markets: a case study of the life insurance industry in India
A Triadic Perspective

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The obsolescing bargaining model (OBM) is the cornerstone for studying host country-MNE relations. Recent research has extended the OBM to incorporate other institutional stakeholders who participate in the multi-level, multi-party iterative political bargaining over policy issues which characterises much of the bargaining now to reflect the widespread macroeconomic changes from globalization that impinge on the model.

Furthermore, the emergence of developing countries like India and China as high-growth end markets has conceivably changed the nature of bargaining therein. This study adopts a triadic perspective to bargaining in EMs. The conceptualization including local MNEs addresses the lack of understanding on bargaining in EMs by suitably incorporating the institutional context which frames the triadic interplay. It focuses on the role of co-opetition by local MNEs in affecting the balance of bargaining power between host governments and foreign MNEs. Co-opetition is a strategic response by multinationals where they simultaneously compete and cooperate for mutual gains. This research enables the study to empirically challenge the assertion that the propositions of the OBM have become too dated to explain current bargaining structures.

The extant literature provides the theoretical underpinnings for the development of a priori propositions which guide the empirical enquiry through a case study of the life insurance industry in India. Based on the unique insights offered through the single industry study, the analysis suggests that certain EM conditions now present the context for re-emergence of obsolescence for foreign MNEs. Furthermore, it is the evolution of the EMs’ own local MNEs who are deeply embedded in the local business culture-constituting their identity as strategic insiders, who shape the development of bargaining power. Local MNEs as strategic insiders affect the foreign MNEs’ long term business prospects in EMs based on their co-opetition through an issue-area approach. Local MNEs’ existing insidership becomes the reason for both - foreign MNEs’ collaboration with them and the perpetuation of their lack of strategic insidership. It is the basis for the uneven playing field and for the deterioration in their initial bargaining power. Thus, in line with the OBM, entry bargains themselves are seen to obsolesce following the ambivalence in bargaining objectives and the sequential behaviour that both the local MNEs and the host government adopt. Co-opetition emerges as the explanatory variable while discerning the nature of emergent bargaining between governments and foreign MNEs in EMs.

The application of a triadic, co-opetition perspective to bargaining is revealing and provides original insights. An extended framework and modified propositions are developed for future research. This study provides grounds for revisiting the OBM in the context of other similar markets and for guiding future MNE strategy in EMs.
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Dedication

To the spirit of perseverance
&
The men who made it possible
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Kalindi Maheshwari
Chapter 1: Introduction

This chapter introduces the study presented in this thesis by answering the basic what, why and how questions. The purpose of this study is elucidated through the motivation to conduct the research and the background presented in section 1.1. The research gap is rooted in the research context as outlined in 1.2. Section 1.3 summarises the research questions following which the research design as a case study guided by *a priori* propositions is outlined in 1.4. The empirical study is discussed in 1.5 including an overview of the findings and their implications. The contributions of the thesis are summarised in 1.6. Thereafter the structure of the thesis is presented in 1.7. Section 1.8 concludes with a chapter summary.

1.1 Motivation for the research

The study has its origins in some preliminary interviews that I carried out with academics and government officials in India to understand the government efforts being expended on foreign direct investment (FDI) promotion in developing countries like India. This line of research enquiry was based on the FDI attraction activities being carried out by host nations by offering financial incentives and their efforts at creating a ‘level playing field’ for foreign business in the local economy. It was the mention of this apparent ‘level playing field’ which set the course for deeper investigation into the extent to which FDI can result in foreign multinationals becoming isomorphic with the host economy and getting national treatment as is voiced in government propaganda and aspired through various international trade regulations. To this end, there were explicit suggestions that the motivations and the inclinations of local (domestic) capital (represented through the large corporate houses; emerging local MNEs) have a largely instrumental role to play. This seemed to suggest that FDI itself was contingent on the predilection of local MNEs to some extent.

This was a fascinating area to probe, to establish the potential role of local MNEs in allowing FDI and to determine the extent a level playing field within the business environment of host economies actually exists. Wide reading suggested that bargaining between foreign multinationals and host governments was a logical starting point.
Engagement with the literature suggested identification of this local capital as the emerging multinationals (local MNEs). Furthermore, an institutional perspective of bargaining necessitates that the role of local MNEs in bargaining is studied within their home markets- Emerging Markets (EMs). This reflected the emergence of a new identity for the former hunting grounds for foreign MNEs- developing countries as new emerging markets. Extensive reading suggested that a bargaining framework specific to EMs has not been clearly articulated. In the effort to develop a bargaining perspective of local MNEs, the co-opetition literature was discovered. This provided unique insight to understanding the strategic motivations of the local MNEs when considering their impact on bargaining outcomes for foreign MNEs. Whilst the decision to include the local MNEs as one of the many institutional stakeholders in their capacity as local business leaders was a considered one, the ability of the co-opetition perspective to leverage understanding regarding the ‘level playing field’ by providing the theoretical background was an incidental finding. This helped shape the eventual research. And thus began the effort to express the research problem and establish meaningful research questions that sought to evaluate the relative business prospects of MNEs and the local MNEs.

1.1.1 Background for the research

This research seeks to revitalise the discussion on bargaining captured through the obsolescing bargaining model (OBM) by reviewing current understanding on the topic. Bargaining is an integral part of international business (IB) as multinationals (MNEs) seek to continuously optimise their operations. Engagement with sovereign governments becomes a necessary condition to structure the favourable development of their business prospects. Vernon’s Sovereignty at Bay (1971b) and the OBM developed therein has been long regarded as the seminal work on the subject of bargaining between foreign multinationals and host governments (typically developing countries) and has formed the basis of later research on the subject.

Since its development in the 1970’s though, much has changed in the macroeconomic environment for which the OBM was conceived. The focus of bargaining has evolved from case to case bargaining between host governments and multinationals to now focus on policy making through bargaining. This stems from the growing role of regional blocs like the European Union (EU) (Oxelheim & Ghauri, 2004) and the development
of supranational governance in response to globalization which has shifted the debate from discussions of national sovereignty to the regulation of markets (Buckley, 2009; Buckley & Ghauri, 2004b). But this shift is not fully realised as Grosse and Behrman (1992) astutely point out. ‘Governments are not going to let the market make major economic decisions or let business alone set the rules of market behaviour. And if they did, the result would not be free markets for no business in the world likes competition for itself or prefers to operate in a classical free market’ (.96).

In the last decade there has been considerable progress within the bargaining literature which reflects these developments in the macroeconomic environment. Ramamurti (2001) developed a two tier bargaining model to explicitly consider the role of state-state negotiations and the instrumental role of supranational organizations and bilateral agreements in encroaching upon and partly replacing the traditional bargaining between MNEs and host governments. Eden et al (2004) model bargaining through their political bargaining model (PBM) which considers bargaining to have evolved to now resemble iterative political bargains negotiated between MNEs and governments over a wide variety of government policies at the industry level. Such revisions and the extensions proposed to accommodate the role of other institutional stakeholders (Doh & Teegen, 2002; Eden & Molot, 2002; Nebus & Rufin, 2010) have redefined the focus of bargaining studies to aptly reflect changing structures, actors and issues within bargaining. This literature serves as the building block for a bargaining framework developed in this study specific to EMs.

However, whilst a juxtaposition of the international political economy (IPE) and the IB literature is able to give due recognition to the active role played by host governments, only the co-opetition literature and the explicit consideration of co-opetition strategies practiced by multinationals, is able to elaborate on how local businesses react in the face of heightened foreign competition by potential allies and its impact on the bargaining equation in EMs.

1.2 A research gap rooted in the research context

Recent research has considered the development of bargaining to now resemble multi-party negotiations over policy issues at the industry level. The role of many institutional
stakeholders like NGOs, home governments and late mover MNEs has been actively pursued amongst others and their impact on bargaining has been considered and explored. The role of local private capital has only been alluded to in the literature as one of the many interest groups/stakeholders within the institutional environment in the host economy. And herein lies the key gap. So far bargaining studies have not yet given explicit consideration to their immediate impact on bargaining. Developing a role for local capital (as local MNEs) in their engagement with foreign capital (as FDI) in their home markets allows us to establish understanding on the level playing field available to foreign multinationals post national treatment. Therefore, whilst there are many possible conceptualisations of bargaining within an extended framework, I have chosen to address the initial motivation for my research and determine the impact of local MNEs (as representative of the local firm) on the bargaining between (relatively) mature, foreign multinationals (foreign MNEs) and host governments in EMs. This consideration of local MNEs within their home market makes them domestic stakeholders in the bargaining process, a necessary condition within the conceptualisation developed in this thesis. This required the development of a bargaining framework specific to EMs which is the other research gap identified in the literature.

1.2.1 The key actors within the research context

In this research I relate to diverse studies and develop a rich perspective which brings together comprehension that challenges and amalgamates understanding on the key bargaining actors as has been discussed here. The application of the co-opetition literature to further understanding on bargaining outcomes is one such instance of bringing together various research streams in the quest to answer the research question.

The EM government: EMs like China and India are no longer waiting for foreign multinational firms to enter (Schuster, 2006). Their economic size and growth rate has bolstered a large middle class with growing purchasing power which is reflected in the bargaining by their governments. Within the particular bargaining context of EMs, I therefore explore the strategic role that the government plays vis a vis business in policy development wherein the research distinguishes between foreign business embodied in the foreign MNE and domestic businesses represented by the local MNEs. Such a differentiation is required since foreign business and domestic business within a host
economy have varying strategic interests and relationships with other stakeholders which needs to be reconsidered when reviewing the ‘level playing field’ especially within the focus on policy development as the bargaining outcome. The co-opetition perspective highlights this difference in the local positioning of the multinationals in EMs.

The foreign MNE: EMs have become critical for the foreign MNEs, for defining their future success representing strategic assets in the form of new, unexplored burgeoning end markets with significant growth prospects (Arnold & Quelch, 1998; Rugraff & Hansen, 2011). This shows a marked changed versus earlier decades where foreign MNEs were known to ignore developing countries as potential markets because of their limited market environment and respond to *ad hoc* policy changes with capital flight

This focus on end markets dictates a long term orientation for foreign MNEs when they enter EMs and suggests their involvement in industry policy outside of FDI issues. Foreign MNEs now have a vested interest in firmly implanting themselves in EMs by being closely associated with the development of recently opened industries to maximise their future returns by partaking in the industry policy development. Consequently, this market seeking FDI carries an inherent capacity to become competitive against the local businesses given the superior resources which foreign MNEs possess, especially if positioned within a favourable regulatory environment.

The local MNEs: EMs and particularly the BRICs are known for being the home-base of dominant business groups and conglomerates that are or will soon emerge as MNEs themselves. It is the presence of such (potential) local MNEs within their home markets that makes the local marketplace highly competitive and dynamic. Therefore it is of interest to find out how the stand of these local MNEs within their home base affects the balance of bargaining power between the foreign MNEs and the government in the development of industry policy over FDI issues. Local MNEs as local stakeholders are of particular interest beyond their identity as dominant domestic businesses because of their strategic pursuits. Local MNEs symbiotically engage with their home governments and are also known for their strategic involvement with other foreign MNEs in joint

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1 This was highlighted in the exit of Coca Cola and IBM from India in 1977 after the government of India intended for them to sell 60% of their stake to an Indian company by forming a JV under the Foreign Exchange Regulations Act (FERA) (Grieco, 1982; Negandhi & Palia, 1988).
ventures (JVs) to acquire superior resources from foreign MNEs which underlines their need for collaboration in the global environment. Home markets however are the lynchpin of their global success and remain their key market wherein they practice co-opetition- thus they simultaneously cooperate and compete with their alliance partners to develop their own strategic resources. Therefore competition in EMs from foreign MNEs would be of strategic significance to the local MNEs’ own future growth prospects as well. As mentioned above, no business likes competition for itself. The arrival of foreign MNEs in EMs which they are now targeting for end products makes them potential competitors for local MNEs. This invites the real possibility that local MNEs might either create entry barriers to protect their own markets or become collaborative if they seek to benefit from foreign MNE superior assets and resources. This ambiguity regarding their possible impact stems from their strategy of co-opetition. This focus on co-opetition defines the scope of the study to restrict domestic stakeholder interests to the level of the local MNE since only they amongst local firms carry the ability to effectively compete against the superior firm specific assets (FSAs) of the foreign MNE.

The above captures the unique essence of EMs which therefore requires a dedicated bargaining framework to capture the impact of its institutional environment and its particular characteristics including the emergence of local MNEs. The development of the specific research questions below has been the outcome of a long journey of piecing together the literature referenced above. The initial motivation to understand the ability of FDI to become isomorphic with the local economy and enjoy a level playing field did not at the onset suggest the use of bargaining frameworks nor the use of the co-opetition literature. Local capital was not immediately identified with local MNEs. The focus on industry policy was not perceived to be as instrumental. Only by iterating between the various emergent themes over a period of time which saw growing convergence was I able to finally pin down the research objective and express it as such.

1.3 The research questions

As discussed above, whilst local MNEs are known to act in collaboration with foreign MNEs they also leverage considerable political resources in their own home markets in their capacity as dominant domestic business groups which they can leverage to address
their own narrow ends. Multinationals are political actors who often recourse to non-market strategies acting individually and through collaborations to build a competitive political advantage (Boddewyn, 1988; Yoffie, 1988).

Thus the research question is framed as

**How does the emergence and development of co-opetition between foreign and local MNEs affect the foreign MNEs' bargaining power with the host governments and their long term business prospects in EMs?**

Since all enterprises are involved in power relationships with rival firms, bargaining theory includes MNE/ government negotiations and the potential response of other MNEs or even domestic enterprises who are among the many actors that are relevant to policy making and constitute a particularly significant interest group (Grosse & Behrman, 1992). By advocating extension of bargaining frameworks to acknowledge the multi-party nature of bargaining and accommodate the role of other players, bargaining frameworks are now being considered as a triad. Within this triad, governments are a critical player and are crucial by affecting company strategies since they set the rules of the game. With advances in bargaining theory to now recognise policy development as a key bargaining outcome, the emphasis of this research is in developing the role of local MNEs in the erstwhile dyadic bargaining which has now evolved to include industry wide policy issues and is modelled as ‘triadic interplays’. Thus the empirical study will study policy developments within the domestic industry-FDI space to assuage the lack of understanding regarding the role of local MNEs in affecting the balance of bargaining power and outcomes between foreign MNEs and the government with reference to industry policy, given the co-opetition that multinationals practice. In order to explore the above question, I will subsequently seek to find out what is the direction of the influence that local MNEs have in their capacity as the local business group and as potential JV partners for foreign multinationals. This will be operationalized by studying the process of sector specific policy development (through a case study of the life insurance industry in India) and how it has now evolved through ‘triadic interplays’ including the active influence of both types of multinationals.

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2 The terms multinational enterprise (MNE) and multinational corporation (MNC) are used interchangeably while being replaced by the new term transnational corporation (TNC) as noted by Boddewyn et al. (1986).
1.3.1 Key definitions

The multinational firm is defined as a multinational enterprise (MNE) when it controls and manages production establishments - plants - located in at least two countries. While the ownership of assets through FDI was the crucial aspect in the earlier definitions of the MNE, modifications had to be proposed to encompass the changing nature of global business by the 1980s (Dunning, 1999). Boddewyn et al. (1986; 46) in their exploration of new MNE definitions noted that while FDI had remained one of the driving economic forces of the 21st century, its growing proportion in services made the United Nations amend the definition of the MNE from the 1973 version referring to the control over assets in two or more countries to the 1984 definition which catered to services MNEs as well by providing for their specific characteristics such as the inseparability between production and consumption, the significant need for local adaptation as well as the important role of quality, which makes FDI in services unique in treatment (Boddewyn et al., 1986; Dunning, 1989). It is the relaxation of the two key notions of control and ownership through equity which render the required definitional flexibility to incorporate service MNEs (Boddewyn et al., 1986; Dunning, 1999). The foreign MNE characterises the typical multinational referred in this definition.

Bargaining simply refers to the negotiations which are carried out to reach an agreement between two or more people or groups regarding what each will do for the other. Within bargaining theory, bargaining is a more complex term used within the construct of bargaining power which dictates the outcomes of the negotiations based on an interaction of sources and constraints to the development of such power, in light of the specific bargaining objectives to help appreciate the outcome and success of bargaining. A thorough examination of bargaining has been carried out in Chapter 2.

The study focuses on EMs rather than the more ubiquitous term emerging economy since the focus is on the market potential of the emerging economies and the research problem has been conceptualised for a scenario where the host economy is not just

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3 "an enterprise (a) comprising entities in two or more countries, regardless of the legal form and fields of activity of those entities, (b) which operates under a system of decision-making permitting coherent policies and a common strategy through one or more decision-making centres, (c) in which the entities are so linked, by ownership or otherwise, that one or more of them may be able to exercise a significant influence over the activities of the others, and, in particular, to share knowledge, resources and responsibilities with others" [1984, p. 2].
performing well along growth indicators, but is also attracting foreign MNEs’ focussed attention for market seeking FDI because of their high latent growth potential as end markets. With rising incomes, these economies move through the ‘sweet spot’ of growth for different kinds of products as local spending patterns change (Wilson & Purushotaman, 2006). This implies a shift in demand for foreign MNEs’ and requires them to rework their business strategies by adapting pricing and distribution mechanisms to suit local conditions. To reap the economic promise of EMs however, is a challenge for foreign MNEs hailing from developed markets who fail to fully comprehend and appreciate the distinct nature of EMs and the transformation that it requires on their part to successfully operate in them (Merchant, 2006). Their complacency in judging them by their previous international experience in setting up ventures abroad continues to be the key stumbling block for them. It is also in this context of unfamiliarity with EMs that in the event of foreign MNEs forming JVs with local players, their configuration might be judged as less than optimal (Merchant, 2006).

The term EMs was conceptualised 30 years ago by the World Bank economist Antoine van Agtmael, to replace the term less developed countries (LDCs) which had negative connotations (Economist, 2011). While the term is now used interchangeably with emerging economy, the business phenomenon which the terminology captures is not really constrained by economic strength alone. As Bremmer (2005; 52) highlights in his discussion of political risk in these high growth markets, ‘EMs may be defined as a state in which politics matter atleast as much as economics’ does. This emphasis on the political environment of these markets underlines yet again the appropriateness of bargaining as an apt tool to study IB therein.

Thus while EM is a replacement for emerging economy, it goes a step further to stress on the market potential and the political risk environment of these economies which are important contextual factors pertinent to the research framework. While these economies have enormous economic potential and are now increasingly attracting international investors, local investors have already been active in their internal markets as in Malaysia and Thailand where home-grown companies are becoming larger and more export-competitive while market regulation becomes more sophisticated (Agtmael, 2012). Within the use of the term EM herein, the stress is on population, growth, long term economic potential (as end markets) and the presence of home-
grown business groups as key aspects of their identity. The presence of these home-grown companies, especially those which have established an international identity through their growing multinational operations termed as local MNEs herein, are of particular interest within this research framework. In the context of EMs, the local MNE is a critical stakeholder. As industry leaders, local MNEs by being the local business group carry considerable influence over sector specific policy development as well as political clout and are considered to be strategic insiders given their existing networks and legitimacy. EMs and local MNEs are further discussed in length in Chapter 2 and 3.

1.4 The research design

After thorough deliberation (discussed extensively in Chapter 7) the research question and practical considerations necessitated the methodological choices which led to the current research design for this study. The research design is based on a case study which firsts builds a robust conceptual framework and then explores it further through empirical data. The theoretical constructs are embedded in diverse literature streams and brings together bargaining theory, research on EMs from an institutional perspective and studies on the characteristics and strategies of local MNEs like the co-opetition literature. These help understand the strategic disposition of the triadic players to bargaining on industry policy development. The extrapolation of co-opetition strategies practiced by local MNEs to the bargaining framework yields a co-opetition pendulum which considers various bargaining outcomes based on the degree of competition or collaboration foreign MNEs solicit from the local MNEs. This is reflected in the development of the conceptual framework and a priori propositions that are rooted in the understanding gleaned from the literature. They sum up the extant understanding which was used to guide and be challenged by the empirical study which was conducted thereafter.

The empirical data collection was based at the industry level for the life insurance industry in India. An intensive case study of a single industry was chosen by having due regard for the suitability, context, accessibility, scope of coverage and the depth required by the exploratory nature of the research questions. The conceptualization builds on the premise of a big EM with economic and market power. India is a favourable choice because of my familiarity with it as my home country but more so
because of the lack of empirical research on bargaining which still noticeably lags behind China. As two of the leading Asian EMs, they are the focus of foreign MNE bargaining for market access. These markets are very challenging both with respect to the institutional and policy environment and are home to the leading ‘local MNEs’.

The life insurance industry in India was chosen as representative of a recently liberalised and rapidly growing sector involving significant policy debates. The rationale to focus on the life insurance industry while facilitated by access was fortuitous. It presents an industry context which has been the focus of domestic and international efforts to structure FDI policy. As a salient industry, it occupies strategic positioning in the economy and the governments’ economic plans. It has a unique structural composition with only 24 players within the industry including the state owned company (the national monopoly pre liberalization) and 22 of these companies are JVs with a foreign insurer. This allowed for an in-depth study through elite interviews with various stakeholders across JVs presenting a wholesome perspective over the triadic engagement over policy from the lenses of the three players.

Through extensive fieldwork, I explored themes informed by the interplay of the etic and emic issues to gain understanding on how the industry-FDI policy evolves. Using CAQDAS- Nvivo, to analyse the interview data, the details of which are discussed in Chapter 7, I traced the development of the findings through the initial precoding, topic coding and iterative progressive focussing within analytical coding. The initial findings are presented through a narrative structured broadly on the framework offered by the OBM broken down into objectives, engagement and bargaining outcomes. Finally, repeated iterations of the findings with the a priori propositions yielded a synthesis allowing modification of afore developed propositions that can extend understanding and suggest the scope for future research to further consolidate the contributions of this study.

1.5  The empirical study- a case study of the life insurance industry in India

Based on the literature, the focus was on understanding bargaining with the government where the stand of the local MNE mediates the bargaining outcomes in favour of or against the foreign MNEs. The overriding objective of the empirical data collection was
to discern the triadic engagement over industry policy development in the EM context. By focusing on the single industry context offered by the life insurance industry and the JVs between the foreign MNEs and the local MNEs, the semi structured interviews were able to shed light on the complex motivations and conditioning factors that shape the co-opetition strategies of the local MNEs and therefore affect the bargaining interactions and outcomes between foreign MNEs and the host government.

Interviews were conducted across a range of individuals who represented diverse stakeholder perspectives including government functionaries, independent consultants and both foreign and domestic promoters across a number of JVs in the industry. This allowed for a study of stakeholder influences on the macro variable of policy development by considering the rich interview data. From a wide base, the interview guide narrowed the scope to follow the developments in two key policy issues (raising the FDI equity limit and the Initial Public Offering (IPO) of life insurance companies) due to their complex engagement with each other and the triadic actors. The impact of the dynamic interaction of the various triadic players in these policy developments was then explored over time. This highlighted the consideration of the dynamism in the bargaining objectives by studying the changes in the collaboration – competition equation for the local MNE over time and the conditioning factors which therefore shape bargaining outcomes over industry policy.

The industry structure as JVs was instrumental in understanding the engagement of the co-opetition and strategic insider strategy followed by the local MNEs and foreign MNEs respectively. Whilst both these strategies have been studied in the literature, the JV structure in the industry presented an unanticipated and unique opportunity to gauge their engagement. This was not premeditated and only subsequent analysis presented revealing insights that carry managerial implications. Moreover, a historical perspective informed by the retrospective accounts of the interviewees was instructive to observe a gradual transition within the JV relationship where the local MNE strategy shifted from a predominance of cooperation to competition within the co-opetition with foreign MNEs. It is recommended in the literature that foreign MNEs become a strategic insider in EMs. However the data suggests that co-opetition with local MNEs- the incumbent insiders has strategic implications which have been analytically gauged to indicate revival of obsolescence in the foreign MNEs’ bargaining position.
Thus in the context of bargaining, this study presents original insights bringing the focus back to the OBM as a classical paradigm for understanding triadic bargaining including local MNEs now over industry policy through a co-opetition perspective. This study therefore presents a stimulus to reconsider the relevance of the OBM for EMs, especially in its ability to guide foreign MNE strategy for long term market presence in EMs.

1.6 Contributions of the thesis

This thesis is an early effort at establishing understanding regarding bargaining in the specific context of EMs. Though based on a single case study, the findings suggest important implications for foreign MNE operations in EMs that meet certain structural and institutional conditions from the triadic perspective of bargaining.

The persistence of bargaining despite liberalization stems from the recent transition in government attitudes which seek a convergence of FDI policy with domestic industry policy. Much of the bargaining is now over conditioning a favourable business environment extending over industry wide policy issues. Entry bargains for increasing market access are still negotiated albeit within triadic interplays including a range of possible stakeholders and therefore stand to potentially obsolesce as well as as the study shows did obsolesce within the life insurance industry.

The findings suggest that foreign MNEs are partnering with local MNEs in their effort to become a strategic insider in EMs to address their long term interests as has been advocated in the literature (Buckley & Ghauri, 2004a; Luo, 2007b). Local MNEs practice co-opetition and are incumbent insiders. The interplay in the foreign MNEs’ collaboration with local MNEs’ is distinguished on the basis of the strategic groups of local MNEs that are present and operate through an issue area approach to co-opetition informed by their bargaining objectives. Bargaining objectives are however found to be sequential and conditioned by their JV agreement and market imperatives. The industry study shows that the JV structure has facilitated resource transfers that lead to the subsequent competition by local MNEs by supplementing their superior insidership capabilities.
The data and the historical perspective that it adopts was insightful as it was able to demonstrate the sequential nature of bargaining by local MNEs and the host government. This dynamism in bargaining objectives which shape bargaining outcomes is key to understanding the re-emergence of obsolescence. Furthermore, the findings were enlightening in elucidating aspects such as the strategic importance of regulatory delays as an important facet of the strategic insidernesship of strategic groups of local MNEs. Such developments indicate that foreign MNEs stand to face obsolescence within their market operations in EMs. As long as foreign MNEs seek to compete against incumbent insider MNEs and suffer from a political liability of foreignness that perpetuates their lack of engagement with the institutional market environment they would continue to face an uneven playing field in EMs despite national treatment. Cooperation with local MNEs only seems to yield short term positive results for foreign MNEs which recede as they lose their bargaining power embedded in their FSAs through knowledge transfers within JVs and spillovers in the host economy. Indeed, co-opetition with foreign MNEs is rooted within the JV, which becomes the fulcrum for the resource transfers. The quality and nature of the local MNEs’ insidernesship defines the development of the competition-collaboration equilibrium once they gain the requisite FSAs. Foreign MNEs adopted two distinct strategic paths for forging their JV operations. The empirical study was able to demonstrate the shortcoming of either strategy within their competition with local MNEs. However this also offers ground for future research to further understand the long term implications of these strategies and their potential fallout which are imperceptible as yet.

This study suggests that the OBM needs to be revisited in the context of other industries and other EMs through future research and be potentially revitalised to guide foreign MNE expectations and strategies in EMs. Given due modifications to account for institutional differences, the portrayal of bargaining as triadic interplays including the co-opetition perspective could find application in developed country markets as well.

1.7 Structure of the thesis

This thesis has been divided into three parts. Chapter 1 is the introduction. Part I (Ch.2-5) consists of the literature review section and sets up the conceptual framework for the research. Chapter 2 is an in-depth discussion of the extant bargaining literature
including a critical review of the key propositions of the OBM. Chapter 3 focuses on the triad in EMs including their host governments, the foreign and the local MNEs. Chapter 4 discusses MNE strategies in EMs like leveraging their structural power in international policy, co-opetition and becoming a strategic insider in EMs. Chapter 5 brings together the conceptual framework for bargaining which is based on the exploration of the literature referred and sets the frame for the empirical data study in the next part through the formation of a priori propositions.

Part II comprises the empirical background in chapter 6 and methodology in chapter 7. This is followed by Part III which is the empirical analysis, findings and discussion section. Chapter 8 discusses the initial findings of the study while chapter 9 encapsulates the research study through a discussion of the findings in light of the conceptualisation of the research problem. Chapter 10 concludes with an overview of the contributions of the study and its limitations by suggesting avenues for future research.

1.8 Chapter summary

This chapter has introduced the objectives of this research which is focussed on extending understanding on bargaining between foreign multinationals and host governments in EMs given the widespread changes in the macroeconomic environment for FDI and its current market seeking focus within EMs. Bargaining theory based on the OBM provides the backdrop for conducting this study and provides robust theoretical underpinnings with its emphasis on the strategic and active role of governments. Context is a critical aspect of any research, most so in an exploratory case study which seeks to build understanding. The bargaining relationship is explored in the very specific context of EMs. An appreciation of the institutional environment within EMs is relevant because it helps elucidate not only the role of the host governments with particular reference to EM government but also their efforts in creating a ‘level playing field’ for FDI and thus the involvement of stakeholders like local MNEs who practice co-opetition and occupy an influential role in the bargaining process therein. This has also motivated this study.
Through a conceptual framework developed on the basis of the literature and an industry level case study on the life insurance industry in India, propositions are developed which provide revealing insights with respect to bargaining over industry policy in India including the strategic role of strategic groups of local MNEs. Most importantly, the findings support revisiting the OBM for possible revival to guide foreign MNE strategies in EMs through their classic propositions.
Part I: Literature review and research framework

Part I of this thesis through Chapters 2-4 presents a literature review of the relevant inter-disciplinary literature that has been drawn to set up the foundations of a triadic conceptualization of bargaining in EMs resulting in the conceptual framework and *a priori* propositions in Chapter 5 which were consequently used to guide the empirical case study as part of the research design for this thesis.

Chapter 2 introduces the literature on bargaining including the OBM which is the cornerstone of this research. Recent revisions to the model are critically discussed and its classic propositions are revisited in the context of the triadic conceptualization-the EMs, which present a unique environment for foreign multinationals both from a market and institutional perspective. Chapter 3 introduces the triad- the three focal players within EMs who are the focus of the research. Besides the government and the foreign MNE, EM MNEs are included as representative of the dominant domestic business groups. They are a ubiquitous and an institutionally imperative feature of EMs. They are introduced alongside their strategy of co-opetition wherein they form strategic alliances with mature multinationals as detailed in Chapter 4. Furthermore, the chapter reviews current multinational practices like the leverage of foreign MNEs in international policy formation and questions their structural capacity for the same in the context of domestic policy formation in EMs. The emergent focus of MNEs on end markets in EMs requires a reconsideration of their existing strategies and strengths for doing long term business and invites their orientation to become a strategic insider therein.

Chapter 5 brings together the discussion on bargaining from Chapter 2 by reviewing the bargaining relationship between host governments, foreign MNEs and local MNEs in the context of EMs. This appraisal of bargaining is discussed through the co-opetition pendulum. It considers the co-opetition relationship between local MNEs and foreign MNEs which bears on the balance of bargaining between foreign MNEs and host governments over industry specific FDI policy. Based on the literature, a conceptual framework is developed and *a priori* propositions are offered which guide the empirical data collection through the development of the case study of the life insurance industry in India presented in the subsequent part.
Chapter 2: A Review of the government- MNE relationship through the bargaining lenses- the OBM and its critiques

This chapter introduces a re-conceptualization of bargaining in EMs based on the OBM. As the governing paradigm for understanding MNE-host government relationships with its framework based on objectives for bargaining and sources of and constraints to bargaining power, it has attained the status of the traditional bargaining power model (2.1). This model was however conceived in the 1970s which presented a perceivably different environment for bargaining. Recent efforts have focussed on revising the OBM to retain its essential framework in the reconstruction of bargaining frameworks which are more suited to explain the current bargaining relationships and structures (2.2). This study challenges some aspects of the extant revisions which have deemed the OBM obsolete in part (2.2.1), while acknowledging the explanatory power of some other developments therein. This aids our effort to contextualise a bargaining framework for EMs which includes local MNEs (2.3). This is based on an understanding of the specific environmental context of and the challenge that EMs present (2.3.1) including many possible institutional stakeholders who impinge on the dyadic relationship between the host government and foreign MNEs. By focussing on the triadic bargaining relationship involving local MNEs, the study adopts the co-opetition perspective to bargaining which is explored in subsequent chapters. 2.4 concludes with a chapter summary.

IB has become increasingly complex with emergent supranational governance structures supplanting existing government-MNE interactions; yet multinationals continue to interface with various sovereign governments under the aegis of their own home government (Boddewyn & Brewer, 1994) in new evolving areas. The government’s jurisdiction over their national territories for market entry and access gives them control; their intervention might distort the free play of market forces following the neoclassical paradigms (Buckley & Ghauri, 2004a; Grosse & Behrman, 1992) but are closely related to MNE strategy. Thus from the MNEs’ perspective governments are an active economic actor influencing the competitive advantage that MNEs enjoy and shape their market-business environment by enacting business policy
and regulations. An interdisciplinary approach referring to IPE reinforces the dominant role of governments as the central actor controlling key resources like land and labour and acknowledges the impact of government actions on MNE strategy and the MNEs’ own political role (Boddewyn, 1988; Boddewyn & Brewer, 1994). This view rejects the notion of government policies as an exogenous given and raises the question of them being modified- it accepts that there are not just ‘market opportunities’ but also ‘political opportunities’. Furthermore, a juxtaposition of the IPE and the IB view posits the firm (Eden, 1991b; Strange, 1994)- here the MNE, as the actor that is counterpoint to the state and symbolises the inherent structural tension between the objectives of the state versus those of the market (Eden, 1991a:197).

The Sovereignty at Bay theory offers the basis on which to understand and assess the relationship between MNEs and host governments and has been the accepted paradigm in IPE (Kobrin, 1987). It was advanced by Vernon, (1971b) in his work titled ‘Sovereignty at Bay’: the spread of US enterprises. The key concern within the relationship between host governments and foreign MNEs is the issue of multiple jurisdictions. Thus while host governments seek to gain maximum advantages from FDI, their demands call for localization (and sometimes restriction) of MNE strategies in order to adapt to the national environment. This raises questions regarding the multinationality of the MNE since centralised control, the flexibility of exit and existence in multiple jurisdictions is the key to their survival and the essence of their definition. MNEs therefore become conduits through which nations exert their influence in other sovereignties beyond their territorial limits through diffused and complex ways. This might only be implicitly discerned through the effects that national demands concerning increased exports, increased employment and reduced imports have on other distant economies through the MNEs’ global production network (Vernon, 1971b, 1981, 1991). This then becomes the basis of the sovereignty at bay model which raises concerns regarding national sovereignty of host governments (in the context of LDCs) in their interaction with foreign multinationals.

The OBM among other key concepts within Vernon’s treatise has stood out for its explanatory powers which explains one of the possible outcomes for bargaining between foreign MNEs and the host governments of the (then; 1970s) LDCs. The OBM was most relevant for explaining the shifts in bargaining power within extractive
industries, as borne out through the experience between the US oil majors and the OPEC (Organization of the Petroleum Exporting Countries) governments - a shortage of supply as well as the reduction in the marketing capabilities of US majors as sole distributors led to a rebalancing of bargaining power in favour of OPEC governments. The basis for this model was the reduced dependence on the marketing capabilities of the foreign MNEs as well as the shifts in demand and supply for some of the basic raw materials including oil. The OBM was further ratified by the spate of expropriations of MNEs assets which marked the period of the 1970s (Kobrin, 1984; Minor, 1994).

2.1 Understanding the OBM (traditional bargaining power model)

The traditional bargaining power framework (Vernon, 1971b) explains the development of host country- MNE relations over time as a function of the goals, resources and constraints of each party (Eden, 1991a; Eden et al., 2004). Its enduring contribution lies in the usually extensive analysis of particular industries, impact on global MNE investment strategies and implications for the states’ development policies that studies based on it contain making them some of the best analysis for MNE- state relations.

The basic assumptions of the OBM are that 1) each party possesses assets that are valuable to the other; 2) each party has the potential to withhold these assets, thus giving it potential bargaining power with regard to the other (through economic or political coercion which is exogenous to the transaction); 3) each party is constrained in its exercise of this power; 4) the party with the larger actual bargaining power gains a larger share of the benefits; and 5) bargaining between them is a positive sum game, so that both parties can win in absolute terms, but only one can win in relative terms (Eden, 1991a; 201; Kobrin, 1987).

The classic argument of the OBM is that MNE- host government relations are dynamic and evolve over time. Whilst it is a model to study the dynamics of bargaining power between the MNE and the host government, the OBM proposes that the bargaining power of the host government is weakest prior to the MNEs’ entry (Kobrin, 1987; Vernon, 1971b). The model was developed to address the investment that was taking place in the LDCs (Eden et al., 2004) which were high risk environments as well as new locations for FDI. Thus the countries were competing amongst themselves to attract FDI
and had to make considerable effort to successfully bring MNEs to their shores. The multinational on its part derived significant bargaining power from its ability to choose amongst the various locations even as the states indulged in a ‘race to the bottom’ to offer more incentives to attract FDI, making it a zero sum game within a region (Wells, Allen, Morisset, & Pirnia, 2001; Wint & Williams, 2002). Thus, once the investment was made and was relatively immobile due to the nature of ‘sunk costs’, the balance of bargaining power shifted to the host governments. With greater familiarity with the host environment, the MNE committed more and more resources which were thereafter used by the governments as hostages (Eden, 1991a). Concurrently, there was also a demonstration effect as more MNEs become available to invest in the country following the first few MNEs’ successful foray in a new environment. With FDI spillovers in the local economy, the dependence of the government on FDI for capital, technology and access to markets reduces. This makes the government more likely to renegotiate the bargain to capture more of the benefits (Vernon, 1971b).

The propositions from the bargaining school of thought can thus be summarised as 1) the terms for the operation of a MNE in a host country as well as the distribution of benefits (bargaining outcomes) stem from the balance of bargaining power between the company and the country. 2) In early interactions, the negotiations and outcomes favour the MNE with its access to scarce assets like capital, technology, managerial expertise and marketing access. The balance of power is with the MNE since it controls assets which are more important than the nation’s access to markets and resources and 3) the host country eventually gains bargaining power by gaining access to the resources, which were the sources of the MNEs’ bargaining power. With the enhancement of its bargaining power the host country renegotiates the distribution of benefits in its favour. This signals the gradual deterioration in the MNEs bargaining power as time erodes its initial advantages and the host country moves up the learning curve (Grieco, 1982; Moran, 1977; Vernon, 1971b).

Bargaining is thus based on the causal relationship between each actor’s resources (the basis of their bargaining power) and their constraints on the one hand and the bargaining outcomes on the other. It was based on the premise that there was an inherent asymmetry between MNE and host country goals and yet the overlap between them ensured that it was not a zero sum game with the possibility of shared gains (Kobrin,
1987). Thus bargaining power can change significantly over a period of time due to reappraisals in the sources of bargaining power and the constraints that bargaining parties face and lend the dynamism to the model (Vernon, 1971b).

### 2.1.1 Objectives from bargaining

To the extent that both the MNEs and host governments have salient goals that they wish to achieve through bargaining and perceive them to be at the expense of the other party, the bargaining negotiations are more difficult (Grosse & Behrman, 1992). With greater cooperation between host governments and MNEs and growing collaboration in the achievement of bargaining objectives (Dunning, 1991; Eden et al., 2004), the conflictual nature of bargaining has now diminished. However conflict in objectives cannot really be eliminated since the state essentially seeks to improve national welfare while the MNE wishes to increase its profitability. Thus while the two parties might work towards common goals, the scope for bargaining for both remains and is reflected in the bargaining outcomes, the success of which is measured in light of the objectives of the negotiations.

MNE objectives need to be analysed based on their motives for undertaking FDI which shapes their strategic positioning, sources and constraints for bargaining power. The traditional motives of FDI are resource seeking, market seeking, efficiency seeking and strategic asset seeking (Dunning, 1993). As the OBM and subsequent case studies reveal, resource seeking FDI, especially that which is undertaken for natural resources has an inherent structural obsolescence which manufacturing industries within which FDI is typically efficiency seeking does not necessarily suffer from (Kobrin, 1987). *Similarly, within market seeking FDI, the location bound assets of the host nation which usually constrain its available options versus the flexibility which is inherent to most MNE investments becomes a source of its bargaining strength.*

Host country objectives can differ significantly, depending on the economic development of each host economy, its institutional environment and its strategic agenda (Eden et al., 2004). In case of EMs like China and India, their economic maturity is quite visible to the extent that they are now recognised as economic and political superpowers and significant growth markets. With the rise of their own local firms and growing domestic capabilities, bargaining objectives of such big EMs are
likely to be different. This is a result of the spillovers from development that have occurred till now, which continue to change (and reduce) the resource dependence of the government and shape their future bargaining objectives and their relative market size. Host country objectives get defined by the relative importance of the FDI project to their economies compared to the size of the economy. The larger the country, the smaller is its perceived importance for FDI especially if it has potential market power which attracts more MNEs. However, greater socio-economic commitments could influence its ability to engage all its sources of bargaining power. Thus its relative stake compared to the MNE for FDI is likely to differ impacting its bargaining objectives (Eden et al., 2004) and how much importance the government attaches to it in terms of its own resource commitments to bargaining.

2.1.2 Sources of bargaining power

There is a vast array of scholarly work that has based itself on the bargaining power model and has either sought to add to the existing understanding by further elaborating on the sources of bargaining power, their relationship with bargaining outcomes or have provided a rich critique of the same by presenting an alternative perspective like one based on the resource based view of the firm (Moon & Lado, 2000). This line of research effort is of significance since a study of the antecedents of bargaining power not only helps understand the various bargaining outcomes- ownership, control and the degree of government intervention (Poynter, 1982; Poynter, 1985) in firm activities, but also the strategic outcome for the firms’ business strategy. Table 6 (Appendix 1) is a summary of the most commonly cited sources of bargaining power including the size of the subsidiary, parent ownership stakes in the subsidiary, R&D/technological intensities and its political behaviour (Bradley, 1977; Fagre & Wells, 1982; Kim, 1988; Lecraw, 1984; Poynter, 1982; Poynter, 1985) over which there has been a consensus amongst the various authors though their studies have not always been in agreement regarding the impact that they have on bargaining power. Understanding the sources of bargaining power is useful to understand how MNEs can prevent the erosion of their bargaining power which stems from resources which can be absorbed or replicated by the host country firms and government agencies- only those assets that are hard to imitate are the sources of sustainable bargaining power over time.
Host government bargaining power has been less explored in the IB literature due to its focus on the activities of the MNE. However the significant sources of bargaining power for the host government are attributed to their control over scarce resources which give it the location based advantages and their control over access to internal markets. The more attractive the host countries’ internal market and to the extent that the FDI is geared towards serving the host country market (market seeking FDI) rather than for export markets (wherein the MNE controls the distribution access) the more the government is reluctant to trade and controls the market by setting up both tariff and non tariff barriers; it is more likely to forego the immediate gains provided by FDI and use its significant non replicable bargaining power to get better bargains- like appropriating a larger share of MNE profits in the host country and bargaining access to markets for a larger share of equity for its host country nationals (Encarnation & Wells, 1985; Fagre & Wells, 1982; Lecraw, 1984). To the extent that the resources are unique, they strengthen bargaining power especially if countries which do have substitutable resources within a region show solidarity.

Furthermore, fragmentation between MNEs wishing to invest (Streeten, 1976), projects requiring large capital investment which once ‘sunk’ are relatively immobile (Moran, 1977; Streeten, 1976), investments which do not require high end technology and can be sourced from multiple sources (Fagre & Wells, 1982; Grieco, 1982) reducing the nations’ reliance on MNEs, the production of generic goods which do not require the marketing expertise or R&D by the MNE (Encarnacion & Vachani, 1985; Fagre & Wells, 1982) and investment which is actively sought by the MNE itself with competition amongst themselves (Grieco, 1982; Streeten, 1976) also contribute to raising the bargaining power of the host country. Finally, if the government is the principal financier for the project, principal consumer, distributor or supplier of inputs, or principal regulator, it will have greater relative bargaining power (Encarnacion & Wells, 1985) (similar to the position of the MNE with enhanced bargaining power because of captive supply of capital, marketing or distribution channels).

2.1.3 Constraints on bargaining power

There are two primary constraints that can prevent the realisation of bargaining power for the actors. The first stems from political compulsions which restrict the ability of host countries (and MNEs) to exploit the advantages that come from their relative
bargaining power through control over resources. Even though both the host government and the MNE are political organizations, the constraint is much more severe in case of governments which face pressures from societal groups and government agencies and have to handle the domestic political process (Encarnation & Wells, 1985). The MNE too though might be afflicted with intra-firm conflicts over bargaining objectives. However it is still deemed more likely to develop coherent bargaining objectives than the government (Kobrin, 1987).

The second set of constraints come from the structural characteristics of the MNE or the host country where their interdependence on the larger systems like the global economy or the relationship with other sub units compromises their autonomy and can restrict the implementation of their resource based bargaining power (Kobrin, 1987).

2.1.4 Bargaining outcomes

According to the various studies on the OBM (Fagre & Wells, 1982; Kim, 1988; Kobrin, 1987; Lecraw, 1984; Moran, 1985; Poynter, 1982; Vernon, 1971b) the framework predicts the relative bargaining power between the MNE and the host government through outcomes that are either reflected in the subsidiarie’s ownership level or the extent of government intervention in the MNE’s operations as the most common objective measures of bargaining outcomes. While the concept of bargaining outcome has been defined quite broadly and operationalized through multidimensional ways (Moon & Lado, 2000), there remains agreement that no single measure of bargaining outcome seems to capture all the terms in the bargaining relationship (Fagre & Wells, 1982). Thus MNEs with greater bargaining power either have higher ownership levels if desired or are more likely to obtain more favourable terms in negotiating with host governments and thus less likely to face the sting of host government intervention.

There is an acknowledgement that relative bargaining power does change over time and either party can initiate negotiations again to bring about a commensurate reflection in their equity ownership levels. However, since the government has sovereignty, by setting up the mandatory minimum levels of equity participation by local firms, it might actually transcend the bargaining outcomes from the interaction of the relative bargaining powers. The government’s position is in part informed by national
compulsions like balance of payment pressures and its political philosophy (Torre, 1981) wherein it might be trying to promote import substitution or export promotion strategies to build self reliance in particular industries, particularly because of their high ‘salience’. Furthermore, before the outcome of the negotiations based on bargaining power is evaluated it is the resolution of the internal conflicts which plague the formation of the strategy for negotiation, especially for national governments who face a multitude of conflicting interests that have to be considered (Kobrin, 1987; Torre, 1981). Such government agendas can extraneously influence (or override) the outcomes which are purely a result of relative bargaining power, especially for industries which are ‘salient’ for the country’s development goals since they attract special government attention and the use of special policy tools and organizational arrangements (Encarnation & Wells, 1985). The government remains the ultimate arbiter for regulating the conditions under which FDI takes place and often changes in policy are driven by an interaction among political and economic factors (Doh & Ramamurti, 2003).

That said, even the concept of the host nation cannot be perceived as a monolithic entity as it is composed of different groups each with its own special interests (Encarnation & Wells, 1985; Lecraw, 1984; Torre, 1981). In countries where FDI has a significant economic role, it is the attainment of these special interests that frequently necessitates the interference of the government in the operations of foreign subsidiaries (Vernon, 1971b). Such groups can either act through the government or in a minority of cases intervene directly. Of course, the ‘interest group’ can be the government itself (Poynter, 1982) who is also a strategic player and might not be acting only in national interest since it has to consider the political costs of its policy actions which might alienate domestic constituents (Encarnation & Wells, 1985).

This in fact goes on to illustrate the contextual positioning of bargaining and how even though the OBM posits it as a dyadic negotiation, in the real context, there are many overlying and underlying influences which should be explicitly considered to make the predictive powers of a bargaining model as concise as possible. As Poynter (1982) notes in his study, one of his basic propositions is that *host government intervention is influenced strongly by various domestic groups, including amongst others, political party members and local businessmen who have their own vested interests in the extent*
of intervention (as a bargaining outcome). Thus the intervention would result in some political or economic benefits accruing to the faction which was promoting the action. This is an implicit acknowledgement of the context of bargaining and while the focal actors continue to be the foreign incoming MNE and the host government, their relative bargaining power is inherently influenced by many other institutional stakeholders who should be potentially considered in their own right as well by extending the bargaining framework to incorporate them and study their explicit impact on relative bargaining power.

2.2 Updating the OBM

The longevity of the OBM lies in its simple premise, its inherent dynamism based on a model of well defined antecedents and outcome constructs, its testability (which has spawned a large number of empirical studies) and it being sufficiently abstract to enable analysis in different contexts (Nebus & Rufin, 2010). Despite growing conjectures regarding its limited applicability due to widespread changes in the macroeconomic context, its resilience has also been acknowledged by the same set of critics (Eden et al., 2004; Ramamurti, 2001). Eden et al. (2004) base their political bargaining model (PBM) on the OBM by making a few modifications to revitalize it to suit current changes in the bargaining context. Similarly, Ramamurti (2001) only proposes his two tier bargaining model to address the transitionary phase of MNE-host government relations wherein powerful international actors, institutions and agreements have systematically strengthened the MNEs’ bargaining power in developing nations. However he too considers it premature to discard the OBM and accommodates it as the tier II bargaining in his revised model.

Yet despite acknowledgement of its theoretical contributions, the OBM has now been deemed sufficiently insufficient to explain current bargaining negotiations due to contextual changes in the conduct of IB and developments in the MNE-government relationship. Critiques of the OBM have proposed to revitalize it by proposing some basic modifications to the existing framework. According to Eden et al. (2004), the foundational premise of the OBM regarding negotiation over entry conditions and the outcome suggesting obsolescence of entry conditions has limited application now. MNEs are found to retain greater bargaining power, especially in high technology (or
where technological change is frequent) industries. Along with the simultaneous decrease in the asymmetry between MNE and host government goals (Dunning, 1991; Dunning, 1998; Eden et al., 2004; Luo & Tung, 2007) this indicates that the OBM is inadequate to extend understanding for bargaining which is conducted within the cooperative relations which now exist between MNEs and host governments wherein FDI is actively courted and a ‘red carpet treatment’ has replaced the earlier red tapism.

Post liberalization, the FDI policy explicitly lays down the scope for FDI activities and thus there is seldom negotiation over entry conditions per se with individual MNEs. By retaining their bargaining advantages MNEs are also able to prevent opportunistic behaviour on part of host governments. Thus entry bargains seldom obsolesce (Eden et al., 2004).

The modelling of the OBM as the PBM is conducive to the current bargaining environment since the MNE-state relations are seen as iterative political bargains negotiated between MNEs and governments over a wide variety of government policies at the industry level. This incorporates Vachani’s (1995) views suggesting that bargaining outcomes should be differentiated on the basis of static bargaining success which is the outcome of a particular negotiation and dynamic bargaining success which is the long term trend in outcomes over several negotiations. The iterative bargaining observation allows the PBM (as does the OBM) to account for the static bargaining success MNEs might experience at the time of entry negotiations as well as factor the long term wherein MNEs may end up facing dynamic bargaining failure if the government eventually renegotiates and gains more favourable outcomes or pressures MNEs to share equity with local partners or does not maintain its initial promises. This differentiation is all the more pertinent for volatile institutional environments like EMs wherein political risk and uncertainty changes government objectives from FDI and where the MNEs are now going in with a long term market orientation.

A political bargaining perspective unlike the OBM is also suited to deal with uncertainty of the political environment, especially the impact of host country politics (Kobrin, 1979; Kobrin, 1987). Such a contextual appreciation including the impact of institutions and their role in building legitimacy and responding to change raises its efficacy since bargaining is inherently a political process within which the policy making apparatus allocates the costs and rewards among various interest groups (Henisz
& Zelner, 2005). Such an explicit recognition of the inherent dynamism within the bargaining relationship (and not just outcomes) also helps consider the impact of behavioural factors like the possibility that MNEs may initially yield to the demands of a host government only to cultivate a long term relationship (Moon & Lado, 2000).

The PBM indicates a de-emphasis of bargaining over entry conditions. This is perceived to be in line with the shift towards the long term market orientation of the foreign MNEs entering EMs, which are leading end markets among developing countries. MNEs now do not focus solely on increasing their ownership shares in the national subsidiary but also try and influence public policy and sector specific regulations as they search for new bargains to enhance their competitive position through structuring the operational business environment. This is required since democratic host governments take into account the interests of multiple stakeholders (Bennett & Sharpe, 1979; Eden et al., 2004) and their commitments to international and supranational agreements (Ramamurti, 2001) which suggests that MNEs need to actively influence the development of public policy (Eden et al., 2004; Safarian, 1993) since both domestic and international constraints would shape the outcome of the industry specific FDI policy now.

In the same vein, Ramamurti (2001) argues that commitments arising from international agreements do affect industry policy by constraining governments’ policy alternatives. These observations are based on the development of supranational organizations that are slowly gaining traction as global governance forums that mediate in the interests of international trade and are active in policy formation. Their unparallel grasp over international policy formation conclusively suggests that bargaining between the MNEs and the host government can no longer be conceived on a one to one basis. He therefore introduces a second tier of bargaining (tier I bargaining) through which MNE’s try and influence their dyadic interaction with host governments through bilateral and multilateral forums including their home governments. Such home government support is aligned to the mercantilist interpretation (Gilpin, 1975) wherein governments of both home and host countries try to blend the behaviour of inward and outward investors to their domestic purpose; the outcome is that MNE’s are led to develop a political strategy of their own through which they can ‘take advantage of the quid-pro-quo obtainable from serving as an agent of home and/or host governments (Boddewyn, 1988; 345).
Thus within the bargaining framework, Ramamurti perceives the impact of tier I bargaining to supersede the micro level bargaining (the tier II bargaining; bargaining according to the OBM) which is conducted between MNEs and host governments since bilateral and supranational agreements have far reaching implications for national sovereignty especially in trade related negotiations.
In the current liberalised environment most countries have sought to increase their attractiveness to foreign investment by joining trade facilitation organizations like the World Trade Organization (WTO) which mediate on issues which impact at the global level. Critics have emphasized how such supranational agreements which are led by the powerful mature MNEs from western developed economies have structured terms of trade to their advantage, wresting regulatory control from national developing country governments thus restraining their ability to manage MNE investment in their local...
economies (Chang, 2002; Wade, 2003). The ability of foreign MNEs to use these international regulations and bilateral agreements to their advantage construes a significant source of bargaining power for them which has not been incorporated in the traditional bargaining model. Consequently the observation that bargaining has now developed as state-state negotiations (tier I bargaining) which set the larger macroeconomic framework within which industry specific micro policy and regulations are debated (tier II bargaining; the traditional bargaining model) also changes the context within which OBM now needs to be re-positioned as has been attempted by Ramamurti.

2.2.1 Assessing the revisions to the OBM

True-the objectives from bargaining have been redefined in recent times with growing compatibility between MNE and host country objectives. Growing cooperation between MNEs and governments (Dunning, 1991; Eden et al., 2004; Luo, 2001) and FDI attraction measures pursued by developing countries indicate that bargaining over entry conditions has lost the keen edge it carried in the 1970s post the widespread liberalization carried out by most countries (Eden et al., 2004). However, this study contends that in so far as market seeking FDI in EMs is concerned, entry conditions regarding access are still bargained over and potentially these bargains can obsolesce as evidence from other contexts would suggest (Gould & Winters, 2007; Jakobsen, 2006; Wint, 2005). EMs like India and China continue to impose high local content requirements (LCRs) despite being signatories to the WTO. Case in point, the local LCRs of 70% on wind power plants came into force in 2001 in China with the objective of protecting the emerging national renewable energy industry (Lewis &

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4 Conditions regarding domestic content requirements are not only imposed by developing countries and EMs but also by developed countries as was recently highlighted through the dispute regarding renewable energy surrounding Canada and the EU and Japanese interests which was mediated by the WTO.

5 Whilst such LCRs seem to apparently violate the WTO agreement, in the instance of India’s solar power mission, the Government of India (GOI) continues to maintain that its LCR clause is primarily aimed at promoting domestic manufacturing and is fully consistent with India's existing obligations under WTO agreements. Such claims can be validated through the complexities and interpretation of these agreements. India argues that since the mission is essentially procurement of solar power by the government through a state-owned entity, there is no violation of WTO obligations as India is not a signatory to the Government Procurement Agreement of the WTO and therefore exempted from the procurement procedures of this agreement. Likewise, the policy of 30% LCR in retail trade is also given a similar response by the GOI, where it claims that retail trading is classified as a service, which is covered by another agreement, the General Agreement on Trade in Services (GATS) of the WTO. According to their official position, since India has not undertaken any commitments in retail services under the GATS framework, the LCR clause does not place India in breach of any obligations under the WTO (Ilge & Singh, 2013).
Wiser, 2007; Schroeder, 2009). Similarly, the Chinese auto parts industry too required foreign investors to achieve a relatively high level of domestic content within a short period of time (typically 70 percent within 3 years) before the WTO rules kicked in—however this strategy ensured the development of superior domestic capabilities which meant that foreign investors were unlikely to switch to imports once they were not obliged to source locally (Rodrik, 2006). Loopholes such as procurement tenders with LCRs are not really disciplined under WTO law; the corresponding Government Procurement Agreement has little force and is rarely ever applied (Moerenhout, 2013). Thus arguments such as non commitment to certain provisions under evolving regimes like the GATS, LCR agreements through government procurement and dispute mechanisms of the WTO that are invoked only after prolonged bilateral consultations and take years to resolve mean that governments are able to continue with current policies for a measurable period of time. In the duration, they are able to harness them to maximum advantage as seen in case of China. Through such policies, governments continue to affect the modes of entry and methods of operation through direct and indirect means (Osland & Björkman, 1998). As Bartlett and Seleny (1998) point out, supranational governance has indeed strengthened the hand of the multinationals—however, whilst it has guaranteed them entry, it has also reduced the concessions multinationals can extract from national governments who are obliged to follow non discriminatory behaviour but are keen to promote domestic industry development which fast matches international technological standards. As the example of the automobiles industry in Hungary is witness, while the gains to the EU multinationals from entry were squared against being unable to extract favourable treatment, non EU multinationals like Japanese companies were instead made to follow more stringent local content sourcing requirements (Bartlett & Seleny, 1998). Thus the blanket assumption that there is little bargaining post entry due to supranational agreements is questionable in light of these examples from both emerging and transition markets.

Such a scenario is even likelier for EMs wherein a predominant share of FDI now includes services, the very sector where WTO agreements are still in a state of flux and have been unable to develop the same authoritative position till date as for intellectual
property (IP) rights for example due to ongoing negotiations. Services represent the fastest growing sector of the global economy and account for two thirds of global output, one third of global employment and nearly 20% of global trade. Whilst a number of countries were sceptical and even opposed to include services into the multilateral trading system under the belief that such an agreement could undermine governments’ ability to pursue national policy objectives and constrain their regulatory powers, the GATS came into force in January 1995 and has become a subject of multilateral negotiations since 2000. However the emergence of EM governments who have greater voice within the latest round of WTO negotiations- the Doha round, is reflected in it being semi officially also known as the Doha Development Agenda to highlight a fundamental objective- to improve the trading prospects of developing countries. This along with the growing market orientation of foreign MNEs within the sector (which makes them rely on domestic policy actions of host governments since domestic regulations are the most significant means of exercising influence or control over services trade) requires that MNEs’ should not assume unrestricted market access. Clauses like the most favoured nation (MFN) clause only indicate that if a country allows foreign competition in a sector, equal opportunities in that sector should be given to service providers from all other WTO members. However, the country need not have made any specific commitment to provide foreign companies access to its markets under the WTO yet (World Trade Organization, 2013).

While EM governments have liberalised FDI policies, they are doing so in a staggered manner and only incrementally opening up the nascent industries which they perceive to be ready for global competition (Arnold & Quelch, 1998). This is particularly true when considering that the bargaining mechanisms that the government adopts is dependent on the ‘salience’ of the industry as perceived by the government (Encarnation & Wells, 1985). The same is reflected in their specific commitments to provide access to their markets, including opening markets in which specific sectors and how open those markets will be — are the outcome of negotiations including indications of where

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6 The Uruguay Round was only the beginning. GATS require more negotiations which began in early 2000 and are now part of the Doha Development Agenda. The goal is to take the liberalization process further by increasing the level of commitments in schedules.
countries are temporarily not applying the MFN principle of non-discrimination\(^7\) (World Trade Organization, 2013).

Thus revisions to the OBM which question its continued relevance to explain bargaining outcomes given the non expectation of ‘obsolescence’ now within the larger cooperative liberalized macroeconomic environment have based their observations purely on two factors- the attitudinal change that has occurred and the growing convergence in treatment of MNEs through supranational governance. They have ignored the transactional aspect evident in each bargaining relationship. Thus their criticisms have ignored the potential for bargaining outcomes to continue to obsolesce as a matter of transactional detail. According to Wint (2005), governments are now more likely to renegotiate bargains to seek alignment with national policy goals and to address transactions gone awry. However these renegotiations are not rooted in the foreign identity of the multinational but form a cognitive aspect of the government’s emergent agenda.

This observation bolsters our argument and conceptualization of a strategic EM government (as detailed in 3.2). The EM government has a multilateral agenda and has shifted to a policy of operational interference, which affords it the political space to align its international commitments and domestic policy towards the attainment of specific socio-economic outcomes. The convergence of FDI policy with domestic policy and national treatment to foreign interests support the above proposition that bargains are just as likely to obsolesce now as earlier- however the basis for the obsolescence might have become narrower and is now no longer identified with the foreign identity of the multinational. An empirical study based on a triadic conceptualization of bargaining in EMs involving local MNEs would thus partly address the above concerns since the co-opetition perspective allows for the formation of a domestic-foreign MNE alliance based on common strategic issues that are just as

\(^7\) For example, if a government commits itself to allow foreign banks to operate in its domestic market, that is a market-access commitment. And if the government limits the number of licences it will issue, then that is a market-access limitation. If it also says foreign banks are only allowed one branch while domestic banks are allowed numerous branches, that is an exception to the national treatment principle. GATS’ approach to making commitments means that members are not obliged to do so for the whole universe of services since governments may not want to make a commitment on the level of foreign competition in a given sector because it considers the sector to be a core governmental function.
likely to win government support as the next- local MNEs only alliance, given sufficient bargaining power and overlap with the governments’ bargaining objectives.

2.3   Extending the bargaining framework: Including local MNEs in EMs

Bargaining is no longer conducted dyadically between a MNE and the host government but incorporates levels and degrees of influence of a range of other players (like home governments, NGOs and supranational organizations) and many players of the same type (Doh & Ramamurti, 2003; Nebus & Rufin, 2010) making it a ‘layered’ process as there are different relationships and interdependencies among the stakeholders (Moon & Lado, 2000; 112). With the possible bargaining forums in which negotiations take place having multiplied accordingly, research is now required on these emergent systems in changed environments with an explicit focus on the activities of other actors within extant bargaining models who impact on bargaining outcomes but whose influence has only been implicitly acknowledged (Doh & Ramamurti, 2003; Doh & Teegen, 2002; Nebus & Rufin, 2010; Ramamurti, 2001; Teegen, Doh, & Vachani, 2004).

This effort at understanding the current bargaining structures in EMs in particular is staunchly based on the revisions to the OBM. However, even this literature has now become dated. Recent developments like the emergence of EMs as end markets and the rise of local MNEs are both seen as game-changers which have changed the bargaining dynamics for foreign MNEs seeking to establish themselves in local markets in these countries. Thus this study conceptualises a triadic bargaining framework including the impact of local MNEs to better understand emergent bargaining structures.

2.3.1 Why EMs?

Whilst there is no commonly accepted definition of the term EMs, it has recently emerged as the unanimous choice to describe a subset of countries (previously identified as LDCs) whose ‘emergent’ potential is manifest through their attractive GDP growth rates. The relabeling thus explicitly recognises these countries as new markets, deemphasizing the earlier focus on them as simply sources of cheap labour and raw materials (Arnold & Quelch, 1998; emphasis in original). Whilst three of the big EMs (India, China and Vietnam) fall in the low income category (Czinkota & Ronkainen, 2005) fast rising disposable incomes accompanying their early economic development
has made them an identifiable target market for foreign MNEs (Arnold & Quelch, 1998; Schuster, 2006). This indicates promising future growth potential where economic liberalization and an openness to foreign investment (Khanna & Palepu, 2010) has seen growing competition among leading flagship multinationals (Rugman & D'Cruz, 1997), seeking to grow in these markets to offset saturation in mature western economies.

In the context of the bargaining paradigm, this latent market potential and its subsequent dispersed impact has conceivably upset the balance of bargaining power between host governments and foreign MNEs. According to the discourse in ‘Sovereignty at Bay’ the source of the foreign MNEs bargaining power lies in “the basic asymmetry between multinational enterprises and national governments [that is, the capacity of the enterprises to shift some of their activities from one location to another, as compared with the commitment of the government to a fixed piece of national turf] ...” (Vernon, 1971a; 1981; 517). Within EMs, it is this basic asymmetry which has been redefined. EMs have become the ‘new major battlefields’ for foreign MNEs in which they compete amongst themselves and local incumbents for superior returns arising from rapid economic growth and related market opportunities (Luo, 2002). For the EM government, this jurisdiction over their national boundary has become the new source of bargaining strength versus foreign MNEs while increasing competition amongst - and reducing flexibility of exit for foreign MNEs has challenged their existing superior bargaining position. Concurrently, institutional complexity of EMs where foreign MNEs lack market knowledge contingent to their market seeking FDI further tests their existing understanding of the local economy where their experience has been historically limited to their interaction with suppliers and produces rather than end market consumers- making them rethink assumptions about consumer needs, disposable income and marketplace, which is challenging (Schuster, 2006).

EMs are unique institutional environments which require adaptation of conventional bargaining models before they can be applied to them to understand their specific bargaining structures and processes. In addition, their institutional stakeholders also impact on the bargaining equation between host governments and foreign MNEs due to the very nature of the institutional environment which makes their influence more explicit. Whilst there are many possible stakeholders who bear on the bargaining relationship, within an extended bargaining framework for EMs, this study will
incorporate the possible mediatory influence of local MNEs. This research therefore proposes a triadic conceptualization for EMs which includes local MNEs and complements research on the complex network of “triangular diplomacy” (state-state, firm-firm, and state-firm) whose dynamics are not well explained by conventional theories of FDI (Bartlett & Seleny, 1998; 323). Other triadic conceptualisations are certainly possible and perhaps equally important – for example a triadic context involving foreign MNEs and both home and host country governments (Stopford, Strange, & Henley, 1991), first mover versus later mover firms (Eden & Molot, 2002) or one involving NGOs (Nebus & Rufin, 2010). However, given the recent interest within the IB field on local MNEs (Ramamurti & Singh, 2009), it is useful to explore how their interactions with host country governments and foreign MNEs entering EM economies could influence the bargaining outcome between host governments and foreign MNEs. This gains pertinence as Bennet & Sharpe (1979) have previously in their discussion of agenda setting for bargaining raised the interesting issue as a critique of the traditional bargaining power model of how certain key actors might be excluded from bargaining to prevent their concerns from being raised within the negotiations.

2.4 Chapter summary

The applicability of the OBM as a framework for understanding government-MNE relations has been universally acknowledged. Yet its key contributions regarding negotiations over entry conditions and their possible obsolescence have been increasingly questioned in recent revisions. A reference to the context of EMs suggests that such rejections of the OBM are based on some blanket assumptions regarding the applicability of supranational agreements and general attitudinal changes and have overlooked their relatively weaker application when explaining the extant bargaining in EMs. It is therefore conceived that bargaining within EMs for end markets is possibly different than in other developing countries. This research suggests including the local MNE as a third focal actor who is contingent to the balance of bargaining power between host governments and foreign MNEs as one of many institutional stakeholders who bear on the bargaining equation between host governments and foreign MNEs. This triadic conceptualization is based on the embeddedness of local MNEs, their relationship with both their home governments and foreign MNEs and their co-opetition strategy which can tilt the balance of bargaining power for foreign MNEs.
Chapter 3: The Triad in Emerging Markets - foreign MNEs, the host government & local MNEs

This chapter provides the foundation for the conceptualization of bargaining involving three focal actors within the EM context who are the subject of this research. This will aid revisiting the bargaining framework by conditioning it to the EM context (3.1). Section 3.2 elaborates on the nature of the first player- the EM government. Their key distinguishing features include the new found bargaining power of their markets, which sets them apart from a developing country government and requires an adapted bargaining framework. EM governments operate along a ‘strategic agenda’ (3.2.1) which allows them to seemingly manipulate the often conflicting demands of supranational governance and domestic policy constraints. This has been facilitated through an attitudinal shift which now focuses on operational and transactional issues (3.2.2) as the new focus for bargaining. This is in line with recent revisions like the PBM which stipulate that bargaining is now conducted iteratively over industry wide policy issues. The next section (3.3) then discusses the foreign flagship MNEs and their market orientation regarding EMs which puts into question their existing supplier relationships and forces them to be more collaborative with local partners in a highly unfamiliar and competitive market environment. Local MNEs who are a different breed of multinationals from their more mature counterparts- the foreign MNEs, are exploratively discussed in 3.4. Notably, it is their tendency for co-opetition with foreign MNEs that is contingent to this conceptualization of bargaining for EMs since they are perceived to have a mediatory influence on the balance of bargaining power between foreign MNEs and host governments. 3.5 concludes with a chapter summary.

3.1 Understanding EMs- the context

EMs carry unprecedented growth potential for MNEs because of their socio- economic profile. EMs China and India together account for more than half of the world population. Growing access to communication facilities has created brand awareness and fuelled demand for foreign MNE products in their traditional market segments (niche and middle class) whilst presenting challenging opportunities in the huge bottom
of the pyramid market, the largest and the fastest growing segment of the world’s population (London & Hart, 2004). For the product offerings of most foreign MNEs, the existing per capita consumption is so low in undeveloped markets and the population so high and predominantly young, that the rewards far outweigh the risks. Coca Cola had predicted that its $2 billion investment in India, China and Indonesia (together accounting for nearly half the world population) can produce sales that double every 3 years for the indefinite future compared to the 4.2% annual growth rate in the USA for the past decade (Clifford, Harris, Roberts, & Kripalani, 1996).

The global financial crisis of 2007-08 further underlined the vulnerability of the foreign MNEs and their growing reliance on EMs. The resilience of EMs in adverse economic times was demonstrated when these economies continued to maintain healthy growth while developed countries battled recession (Swiss Re, 2011a). The crisis accelerated the shift of economic power to the newly industrialised and emerging economies of Asia in particular, which recovered swiftly and their currencies strengthened. The GDP of emerging Asia increased from 10% in 2000 to 18% by 2010 of the global GDP while EM GDP accounted for 35% of the world GDP in 2010, up from 21% in early 2000. During this same period, the real GDP per capita of the BRIC economies rose sharply from 30% in Brazil to a whopping 150% in China (Swiss Re, 2011b).

However, the rapid pace of economic reforms which have made EMs attractive have also made them high risk environments. Their legacy of political and economic instability and a propensity for unpredictable and frequent changes in business regulations adds additional uncertainty regarding future course of policy changes contributing to the overall lack of regulatory discipline (Doh & Teegen, 2003). EMs are further distinguished through the lack of facilitating institutions like poorly developed distribution systems leading to “institutional voids” which are the prime source of operational challenges in EMs (Khanna & Palepu, 2010). Such market environment is in stark contrast to foreign MNEs’ home markets, making any marketing foray in EMs an intimidating experience (Arnold & Quelch, 1998; Khanna, Palepu, & Sinha, 2005).

Another distinctive characteristic which requires reinvention of the traditional MNE strategies is the widespread prevalence of opaque power and loyalty structures within complex networks of local business and political players. Thus the business practice of
wielding political influence in the western world indicating strategic importance to holding an insider position in policy networks as well and industry coalitions applies in EMs too, with even greater benefits- since government and regulatory bodies are far more influential in EMs than in developed country market systems.

3.2 Host governments of EMs

As a fundamental player within the bargaining framework the host government adopts a domestic policy position vis a vis FDI and represents national interests in bilateral agreements and international trade forums for the protection of its stakeholder and socio-economic interests. Notably, the enhanced bargaining power of these EM governments derives from the size and potential of their economies (Cooper & Fues, 2008) as well as the growing market orientation of the foreign MNEs. This makes these governments far more powerful negotiators now versus their much smaller counterparts through amplifying their voice and outreach.

While the general perception regarding developing countries can be summed as follows, EM economies need deeper analysis before they are dismissed on the same basis. According to Braithwaite and Drahos (2000) the extent to which states have become rule-takers rather than rule-makers concludes that the principle of liberalization has won out decisively and left governments with only fragmented policy making powers in limited areas. Nation states’ permeable policy making has now been infiltrated by transnational networks of foreign MNEs (Held & McGrew, 2007) and the rise of supranational organizations which exercise political autonomy. These new sites of international law making are perceived to be the preserve of the transnational capitalist class (Sklair, 1997; Sklair, 2001) embodied and empowered through the activities of the multinational. It is this discourse which emboldens the debate about ‘kicking away the ladder’ which has led to a shift in global governance structures in favour of the foreign MNEs (Chang, 2002; Levy & Prakash, 2003; Rodrik, 2001; Sell, 2003; Wade, 2003). Development economics has been critical of the impact of such liberalization measures on developing economies. Foreign MNEs have been treated with disdain for their role in structuring the rules of the game to their advantage in so far as they are found to have a significant impact on the development of LDCs calling in question their ethical responsibility towards inclusive development of local stakeholders (Meyer, 2004).
However the growing importance of EMs and thus the significant enhancement of their global profile suggests that the EM governments are not as constrained in their policy options by bilateral trade and international trade agreements as extant literature has contended (Chang, 2002; Ramamurti, 2001; Wade, 2003); arguably they have been able to use the timing of these agreements (partly through the judicious timing of opening up of their markets) to serve their own ends, including leveraging their own significant bargaining power that lucrative and growing markets carry (Dreher, Nunnenkamp, & Vatlamannati, 2013). Their growing political confidence arising from their economic prosperity gives them the ability to set the vision for a global rebalancing which lowers global imbalances and mitigates their impact (Park, 2011). A spirit of co-operation unites these emergent powers to bring about a commensurate change which reflects their growing economic weight and allays their key development concerns against the order dominated by the industrialised nations. This ability and prowess of EM governments has been remarkably underplayed in the literature, in part due to their relatively recent recognition.

Whilst EMs is a loose term indicating latent market growth potential as the common characteristic, it has been used more narrowly to further consolidate the notion of the BRICS within global governance for example. These countries have little in common in their development strategies except their common rejection of the policy prescriptions of the west— the ‘Washington Consensus’ in particular and their ability to float despite following a mixed economy strategy contrary to standard ‘Washington Consensus’ prescriptions (Fourcade, 2013). What binds these EMs together has been their ability to break free from the bonds of conditional lending and firmly establish themselves at the fore of the emergent global economy through harnessing the forces of globalisation to strengthen their international standing in multilateral institutions like the WTO (Harris, 2005). Through the formation of the G-20\(^8\) they have attempted to build a bulwark against western imperialism and protect their national strategies for development. This coalition of mutual interest has strengthened their policy approach towards foreign MNEs now seeking to enter EMs.

\(^8\) The group of 20 developing countries led by Brazil, India and South Africa was formed to challenge trade issues at the 2003 Cancun ministerial meeting of the WTO (Cooper, 2008).
Like all governments, EM governments too operate and negotiate along the lines of a strategic agenda which reflects their larger socio-political and macroeconomic concerns within the domestic and global contours of policymaking. Whilst it is not easy to generalise for them as a group since they retain their distinctive institutional features and differ significantly regarding their choice of development strategy, some strategic features of their FDI strategy which have added political coherence to the concept of BRICS and Mexico (BRICSAM), do facilitate conceptual elucidation of the EM governments’ ‘strategic agenda’.

EM governments represented at the fore by countries like BRICSAM are leading the restructuring of global governance structures which has accommodated these emergent economic and political forces within world policymaking through recognition of a G20 in place of the passé or as Fourcade (2013; 262) put it simply ‘wrong’ G5 or G7. EMs can no longer be shunned as the periphery and have clearly enthused economic and political imagination to move from the western stronghold over global policymaking. These countries have distinguished themselves from other developing countries by remaining marginal to the likes of the Washington Consensus influence and not falling prey to the ‘helping hand’ of the International Monetary Fund (IMF) which included intrusive and potentially detrimental influence over domestic policy (Fourcade, 2013). Like in case of India, they have the potential to impose their ‘homegrown conditionality’ (Chaudhry, Kelkar, & Yadav, 2004; Mukherji, 2013) to international loans. By taking ownership of the domestic reform programme, domestic policymakers are able to initiate the reform agenda before the onset of the crisis and align it to suit the demands of internal democratic institutions and external constraints. This is conducted in a manner which allows them to impose their own terms on external funding as well as not deviate from their internal policy planning (like the five year plans instituted in India and China). This was visible in both the 1981 loan package by the IMF and the 1991 economic reforms in India. Related evidence from China, Mexico and Brazil also suggest similar manipulation of the liberalization process to serve domestic agendas (Doh & Ramamurti, 2003; Fu & Mou, 2010; Lovelock & Ure, 1998; Mueller & Lovelock, 2000). Within this process EMs also opportunistically enhance their global image by signalling conformity with global regulatory practices and increasing deregulation whilst using the opportunity to win over dominant domestic electoral
coalitions by pleading external dependence (Mukherji, 2013). Such a political double game has become a hallmark of strategic governance for EMs.

A gradual move towards market liberalization which facilitates such practices allow EM governments to mediate the timing between external pressures and internal demands in a manner which allows them to remain in control of their domestic policymaking. Contrary to the perception that external western and supranational pressure has been a driver for liberalization in EMs, Mukherji (2013) clearly discusses the case of India wherein the stimuli towards deregulation came from endogenous ideological and policy changes which diffused within the system over time rather than resulting only through exogenous shocks.

Thus the EM government needs to be distinguished from its developing country counterparts in its ability to push through its multi-polar strategic agenda within bargaining over FDI policy by leveraging its emergent market potential at a suitable pace. In a narrow sense, the ‘Beijing Consensus’ has come to indicate a development strategy which is built around the ‘process’ of gradual liberalization and a belief that the gradualist approach to economic reform adopted in China is superior to ‘shock therapy’ approach that has been followed in some other countries in transition (Bird, Mandilaras, & Popper, 2012). This provides a contrasting approach followed by some EMs versus the Washington Consensus and is another binding factor which pulls them together.

3.2.1 Fulfilling multiple agendas

In light of existing empirical evidence it is therefore questionable how much EM governments have been constrained in their actions versus how well they have been able to manipulate the timing of their accession to supranational governance forums to serve their overall strategic agenda. Whilst it can be conceded that international pressure was a motivation to adhere to the requirements of trade agreements such as the WTO, this was done largely to facilitate their own growing competitiveness. Countries like India and China have been known to bide their time in opening their economies before they judge their domestic industries capable of surviving in the face of global competition. Industry specific examples demonstrate how strategically the EM host government has served its manifold interests, notably domestic industry reforms and their further development (Bhattasali, Li, & Martin, 2004; Mattoo & Stern, 2003).
To illustrate the point above, foreign pharmaceutical multinationals had long been plagued with the refusal of governments like India to adopt a patent regime which protects their R&D interests. By allowing process patents, domestic firms were able to “reverse engineer” patented drugs and produce them at much reduced costs (Chittoor, Sarkar, Ray, & Aulakh, 2009). This was promoted by their home government, given the low income levels of majority of their population. However only in 1995 did the GOI finally agree to adopt the international patent regime to be implemented by 2005, after a transition period of 10 years. While this was hailed as an overall victory for foreign MNE rights, the higher political capacity of the local pharmaceutical manufacturers in India allowed them to negotiate with their home government to exploit the flexibilities of the TRIPS which led to atleast more lenient outcomes on the pharmaceutical patents (Eren-Vural, 2006) and ultimately informed the GOI negotiation with the WTO.

Adoption of multilateral agreements leads to upheavals in the local economy- true. However as with the new pharmaceutical patents regime, they are implemented in part to address larger macroeconomic concerns of the government (like the periodic balance of payment crisis which have haunted India and been the precursors of a potential move towards liberalization) and also use the opportunity to spur domestic industry towards increasing efficiency and improving competitiveness. As Mukherji (2013) documents in his analysis of economic change in India, exogenous shocks were used as opportunities to convince dominant domestic coalitions of the virtues of a regime change if the government itself was convinced of the same. The domestic firms used the exogenous shock of economic liberalization and the implementation of a new regulatory regime to transform themselves into internationalizing firms- local MNEs, where the access to international technological and financial resources helped complement their existing capabilities to affect their product market internationalization (Chittoor et al., 2009).

The EM government was therefore able to address internal economic challenges, signal regulatory reforms and improve domestic efficiency and competiveness through conceding to multilateral agreements. They were able to do so by getting the ‘timing right’ and thus even though it was a major victory for foreign MNEs, it was greatly tempered by the evolving agenda of the host EM government as well as the ultimate focus on their growing markets, which by opening up, the government was able to enhance its own bargaining power. Whilst the same has been true for many other
industries as well, like the services sector, which under GATS provides legally enforceable rights to trade in a wide range of services along with their progressive liberalization, EM governments have been historically reluctant to implement such agreements at face value because many of the domestic sectors have always enjoyed heavy protection (Chadha, 2003). By judging the timing for conceding to such agreements, EM governments have been able to leverage their higher bargaining power (informed by their bargaining with their domestic stakeholders) and gain concessions for domestic industry protection and subsequent development as well as ensure that they are in a position to withstand foreign competition to their best possible capacity.

EM governments have also undergone an attitudinal change in their relationship with foreign MNEs. This shift in the MNE-host government relationship from adversarial to cooperative has been well documented (Dunning, 1991; Luo, 2001; Stopford, 1994) and has led to revisions in bargaining models to address this transformation (Eden et al., 2004). However as Wint (2005) concludes, the OBM has been dismissed on the basis of this attitudinal shift in MNE-government relationships whereas he observes that Vernon (1971b) had perceptively focussed on transactional factors as the lead cause for the obsolescence. That the OBM was developed in an era of hostile attitudes and sweeping expropriations only added credibility to its application but is not its basis. The relationship between governments and MNEs is largely transactional rather than attitudinal now. This has led the government to focus on transactional issues now which pertain to the national policy space without distinguishing between foreign and domestic investors (Wint, 2005). Thus foreign investment issues which are centred on ownership and control are less likely to be the renegotiation focus for governments but are likely affected, when the government adjusts policies to address structural and transactional issues which it sees pertinent to national interests.

This transformation in cooperative attitudes and focus on transactional issues has been facilitated through the EM governments’ policy of operational intervention (Luo, 2007b) which has replaced their earlier focus on restricting market entry. This has been a strategic move which is well aligned in manifold ways. It conforms to the new structures for global governance, their domestic policy for ensuring domestic development and the EMs’ own growing competitiveness indicating a desire towards liberalization so that they too can partake the gains from globalization.
3.2.2 EM governments-from regulating market entry to operational intervention

EM governments have liberalised their FDI policies for greater integration with the global economy and to address supranational concerns and compliance. However this transition is also in line with the governments own growing comfort in dealing with foreign multinationals and the development of their own home-grown brand of local MNEs. Whereas earlier governments stringently controlled the entry-gates to key industries and carefully directed the flow of FDI, they are now in the process of setting up a probusiness environment (Arnold & Quelch, 1998) with emphasis on easing foreign investment conditions to provide national treatment to FDI (Rugman & Verbeke, 1998).

This is however only a superficial change wherein a critical distinction needs to be made between ‘entry’ and ‘access’. While MNEs are now allowed entry and are permitted to operate in many new industries under relatively relaxed rules regarding entry modes outlined through an FDI policy, the degree of access is still stipulated by the government. EM governments impose severe conditions which range from restricting the levels of equity ownership, dictating entry modes which often require domestic partners (through JVs for example) to only allowing regional licences for operations and LCRs.

EM governments have shifted from a policy of restricting entry to operational interference (Luo, 2007b). This is appropriate as it is aligns well with their move to bring about the convergence of FDI policies with domestic policies. It indicates the government’s attempt at establishing a ‘level playing field’ for both foreign and domestic investors to be perceived positively by the international community. However, it would seem that such a move also allows greater flexibility in management of the domestic policies by host governments at the industry level by offsetting policy constraints arising from international agreements regarding market entry. This convergence also reduces the scope of foreign MNEs acting through multilateral agreements since the issues arising from the business environment of the firm in the conduct of its operations are now under the purview of domestic industry policy which as yet, remains off limits to international agreements, which only guarantee entry.
3.3 Foreign MNEs - the flagship multinational

The foreign- ‘flagship’ multinational is central to the current discussion since it has assumed the responsibility of leading the re-structuring of the global economy based on its strategic needs. It is actively leading bargaining whereby industry policy is the outcome variable. Key considerations which are contextual to revisiting a conceptualization of bargaining in EMs is their pre-existing influence over structuring international trade regulations (which inhibits the policy outreach of national governments and facilitates the MNEs inherent global flexibility through protection of their capitalist interests) and the foreign MNEs growing involvement in policy development. The ‘insider’ perspective highlights the value of being a strategic insider in EMs for the foreign MNE and the institutional challenges therein that inhibits the successful leverage of their existing global positioning.

Flagship MNE refers to the leading multinationals that are at the helm of their strategic cluster and lead business policy (Rugman & D'Cruz, 1997; Rugman & D'Cruz, 2000). A key notion in the concept of the flagship firm is the political leverage that comes to it as a function of its position in its business network. This power to ‘internalize through other means’ is usually only available to the most powerful players - the flagship MNEs and stems from their control over productive resources and organizational capabilities (Yamin, 2011) within the economy. This power is further buttressed with respect to host governments who are now regarded as erstwhile powerful players and have had to - in varying degrees and for a variety of reasons- vacate some of their responsibilities with respect to their domestic economies in the international realm (Perrow, 2009).

3.3.1 Leveraging structural power in EMs?

MNEs are now involved in the establishment of international standards and regulations. Such approaches increase the costs borne by the host country if it is intended that unfriendly policies will be implemented as they usually are by transnational alliances. Flagship MNEs have been active in building industry coalitions across the USA, Europe and Japan (tripartite coalition) to agree on minimum standards for worldwide industry regulations where they first bargain among themselves and then lobby their governments to fight for those standards in multilateral trade talks (Ramamurti, 2004). With the evidence from Washington and Brussels suggesting that there is an expansion
of issue-specific lobbying and establishment of complex ad hoc political alliances between business interests (Coen, 1999), the value of being a strategic insider is driven home. For even though the membership of such alliances is flexible and varies over issues and time, it has allowed for the development of business coalitions which facilitate ‘insider’ status at EU institutions’ policy forums for example (Coen, 1999).

The instance of pharmaceutical MNEs regarding the production of generics or of Monsanto promoting genetically modified crops in Latin America are examples of MNE influence in international policy making (Rizopoulos & Sergakis, 2010;254). This is supported by the convergence hypothesis which claims that the enhanced mobility of MNEs in the world economy which confers structural power upon them, has resulted in a process of convergence of national policy regimes upon MNE policy preferences (Walter, 1998). Their enhanced capital mobility constitutes a structural constraint upon national economic policy. According to this hypothesis, policies at odds with preferences of MNEs are undermined by the actuality or threat of exit indicating the gross mobility of capital in determining the extent of regulatory arbitrage. This translates as the ‘power of transnational capital’ which allows them to advocate policies in line with their business preferences (Crotty, Epstein, & Kelly, 1998; Walter, 1998).

Since globalization increasingly entails a zone in which there is ‘governance without government’ (Whitley, 2003) and a predominance of private over public regulation (Mayer & Gereffi, 2010), it inevitably sharpens the political dimension of MNEs (Yamin, 2011). Foreign MNEs continue to be actively engaged in shaping the institutional environment that is necessary for the exercise of freedom to ‘mix and match’ locations and controls mechanisms as they see fit (Buckley, 2010). They utilise their economic and ‘discursive’ powers to shape, inter-alia, WTO agreements (TRIMS, TRIPS and GATS) that create and sustain significant asymmetries in terms of the gains between multinational and other stakeholders, notably developing country governments (Rodrik, 2001; Sell, 2003; Wade, 2003). However, their ability to do so successfully in EMs which they now seek as end markets and where they lack their ‘insider status’ in domestic policy formation needs to be revisited.

WTO agreements were structured to facilitate trade and investment conditions inherent to the global value chain production system favoured by foreign MNEs. Foreign
multinationals use flexibility of exit to constantly upgrade their production efficiency and sift locations to ensure that they are operating in optimum locations (Buckley, 2009; Buckley & Ghauri, 2004b). This ‘footloose’ tendency of FDI (Blomstrom & Kokko, 2003) was particularly visible in recent years leading to shallow forms of investment in LDCs (Lall, 2003), which led to few spillovers for the host economy and largely served the interests of the multinationals for value production. However these strategies have limited impact in EMs being pursued for their markets.

The most stringent argument in support of this emanates from the status shift in the perception of EMs from being a predominantly low cost production hub to a strategically significant consumer market as well. With growing focus on end markets within EMs, foreign MNEs face a certain ‘inflexibility of exit’ which is uncharacteristic of their typical investment in developing countries. The impact on the bargaining power of foreign MNEs is that they find themselves on the back foot now since their recursive market seeking focus on these economies leaves them little recourse to exit these markets completely for the long term. With saturated demand in home markets and low rates of growth, foreign MNEs are forced to consider the untapped market potential of EMs (Arnold & Quelch, 1998; London & Hart, 2004; Prahalad & Lieberthal, 2003).

The global economic crisis highlighted that global growth is dependent on major EMs like China and India continuing to grow at a significant rate (Accenture, 2012; KPMG, 2011). In order to deliver growth and shareholder returns, foreign MNEs need to get a foot in the door in EMs. The ‘asset specificity’ which was typically associated with sunk investments in infrastructure projects (Doh & Ramamurti, 2003) has now been replaced with the foreign MNEs’ ‘sunk interests’ in EMs that require product adaptation and long term market strategies, including retraining focus to become a strategic insider (Luo, 2007b). This inhibits foreign MNEs’ viable exit and holds them captive to their long term market interests because they now need to rethink all aspects of their business models (Prahalad & Lieberthal, 2003) to fit the demands of these markets and consumer needs. In this regard, they find themselves with limited support from the WTO agreements which have not yet extended their full scope to address market seeking FDI issues especially with respect to services FDI. To counter this, foreign MNEs try to gain more bargaining power through the negotiations of supranational agreements as well as through the state – state diplomatic channels to lobby their position rather than directly
trying to bargain with the host government (Chen, 2004; Ramamurti, 2004; Stopford et al., 1991), with whom they as yet lack organizational credibility and sufficient institutional interlocks. MNEs prefer regulatory authority shift from national governments to supranational institutions because as part of the MNE agenda, the supranational agencies facilitate the lowering of regulatory standards across jurisdictions (Levy & Prakash, 2003). Institutions like the WTO are indirectly trying to affect domestic policy issues by surreptitiously bringing them within the range of trade agreements under the guise of trade issues but domestic policy issues, contextual to framing a conducive business environment continue to largely remain the domain of the host government (Chang, 2002; Wade, 2003).

Organizational credibility based on legitimacy and trustworthiness (Hadjikhani, Lee, & Ghauri, 2008) is an important building block for creating local political advantage. Since foreign MNEs are generally at a competitive disadvantage regards organizational credibility compared to local firms, accumulated credibility in the host country (as in the case of the local MNE) becomes a strategic asset (Luo, 2001; 407). A structure for developing political skills which help build political advantage thus becomes essential for MNEs acting in various foreign markets (Hadjikhani, 2000) including informal or social approaches such as network-based, personalized exchanges with political institutions. In environments which are characterized by formal institutional constraints like weak laws and regulations like EMs, ‘informal channels such as those embodied in interpersonal ties may play a more important role in facilitating economic exchanges’ (Luo, 2001; 407). Local MNEs therefore become conduits for processing such relationships and network ties and act as reservoirs of institution-based resources for foreign MNEs. Cultivating cooperative ties with regulatory bodies involves both cognitive and social domains of embeddedness (Uzzi, 1996) and requires both individual and institutional interlocks (Burt, 1997). Since MNEs actively interfere in the creation of the institutional environment (Baysinger, 1984) within their strategy of not operating within the ‘rules of the game’ but rather changing these rules when appropriate through influencing and orienting state/government action (Boddewyn, 1994), institutional understanding and social embeddedness become critical assets which impact on their ability to leverage their political behaviour.
Transnational networks (like guanxi) which give foreign MNEs access to local elites thus help in bridging this knowledge gap and bringing them closer to potential political allies. Strategic alliances with local firms in particular local MNEs can help foreign MNEs address the challenges of operating in EMs. Such alliances help in establishing legitimacy within the local institutional environment as well as credibility with political actors and other stakeholder groups (Doh & Ramamurti, 2003). Yet, foreign MNEs need to be aware of the potential risks of such alliance building as stakeholder interests of the local MNE may be aligned with the host government or the foreign MNE or may be a combination of both or neither (Doh & Ramamurti, 2003).

3.3.2 MNE involvement in policy making

‘Public policy is “no longer a spectator sport” for the business community’
Murray Weidenbaum, 1980 in (Preston, 1986; 261)

Dye (1972) defined policy most appropriately as ‘an equilibrium between group interests’; ‘reflection of the preferences of an elite’ and ‘set of games between interdependent decision makers’ (Safarian, 1993; 12). Negotiations in the real world though are likely to be conducted between multiple MNEs, domestic firms (most prominently local MNEs as strategic leaders of their business networks) and the government over a particular policy issue where firm alliances and industry coalitions are used to integrate and leverage MNE ability to press for favourable policy changes (Keillor, Boller, & Ferrell, 1997).

It is argued that MNEs’ influence on political decision-making depends on their insertion into policy networks which defines the institutional framework and the interaction patterns of business/government relations in different issue-areas (Dahan, Doh, & Guay, 2006). Policy networks are self-organizing forms that coordinate a growing number of public decision makers and private interest groups for the purpose of formulating and implementing public policies - are increasingly formed and accessed by MNEs. MNE assets carry considerable weight (Yamin, 2011) that enables them to influence the political decision-making process and the resulting resource allocation, shaping the rules of the game and whenever possible, make political priorities match their own objectives. Their far reaching influence can be studied through their participation in transnational policy planning groups which are able to bring together
corporate elites, that are united in the interests of global capital (Carroll & Carson, 2003). Such groups are active in building consensus among the global corporate elite and in educating public and states about the virtues of one or another variant of the neoliberal paradigm. Through policy networks, the firm’s political strategies are implemented in a framework of structured interactions with governments, which allow for the interplay of different interest groups in public decision making and action. By conceptually stressing the exchange process between organizations (Pfeffer & Salancik, 1978) and the complexity of ties binding major stakeholders (firms, bureaucrats and politicians) by resource interdependencies (Rizopoulos & Sergakis, 2010:251), policy networks provide rich ground to understand the interactions between foreign MNEs and institutional stakeholders in EMs over policy formation. With respect to bargaining such ties then allow for the ‘triadic interplay’ between foreign MNEs, local MNEs and the host government over industry policy as explored in this research.

Policy planning groups are an example of strategic networks that are composed of inter-organizational ties that are enduring, of strategic significance and include strategic alliances, JVs, long-term buyer-supplier partnerships and a host of similar ties (Gulati, Nohria, & Zaheer, 2000b). Brewer (1992b) extends the issue – area approach (Brewer, 1992a) based on categorization of a group of issues that share one or more traits to transorganizational strategic networks including the government to draw attention to their complex relationships which includes both conflicting and convergent interests. Participants to such strategic networks constantly change and are both partners and adversaries that cut across organizational boundaries and build together based on mutual interest on an issue- area which ‘evoke different sets of motives and behaviours on part of different actors within the political system’ (Potter, 1980; 406). Such strategic networks focus on the cooperative interests that may bind parts of the government (home and host), local and foreign firms and unites them based on mutual gains through collaboration rather than focussing on the conflict lines that might arise between them on other issues. Thus actors across organizational forms can form a strategic group within such a strategic network and be pitted against their counterparts from the government, local and foreign firms who have divergent interests on the issue under contemplation. However these network linkages can also bind them in complex relationships that are simultaneously competitive and cooperative (Gulati et al., 2000b), as explored within the co-opetition perspective discussed later. Interactions between the
triadic players thus take place at the issue level (Brewer, 1992a) and the attractiveness of political markets depends on various policy issues while a firm’s participation in the public policy process is more or less successful according to the saliency of the issue (Rizopoulos & Sergakis, 2010).

3.4 Local MNEs in EMs- formation of a bargaining triad

Local MNEs from EMs are distinguishable from their western mature counterparts in some common features that they share amongst themselves despite their heterogeneity within the group (Ramamurti, 2009). Two notable characteristics have been their relatively late globalization wherein they have ventured abroad not so much to exploit their FSAs as much as to reduce their competitive disadvantages (Child & Rodrigues, 2005; Luo & Tung, 2007; Mathews, 2006) and their struggle to retain their home market share, the basis of their competitive advantage which they have to zealously guard from the surging foreign MNE interest in their home base.

The country specific advantages (CSAs) that accrue to them are rooted in EM’s socio-economic profile. They leverage assets abroad that are associated with natural resources (as in the case of Russia and Brazil), high population growth rates leading to big markets and cheap labour (like in China and India) and their ability to cultivate network linkages and relationships for conducting business, characteristic of their home markets (Ramamurti, 2009).

The remarkable size of the home market of two of the biggest EMs (China and India) renders a critical competitive advantage to local multinationals from such populous countries. Their inherent understanding of the local market leading to innovations for the bottom of the pyramid segments that were historically neglected by foreign MNEs (London & Hart, 2004; Ramamurti, 2009) has been a source of competitive advantage. Additionally, their ability to innovate for and circumvent ‘institutional voids’ (Khanna & Palepu, 2006) to create competitive advantages that they can exploit aboard and in their own home markets has been their greatest strength (Chittoor et al., 2009; Ramamurti, 2009) against the foreign MNEs’ liability of foreignness in EMs (Hymer, 1976; Kostova & Zaheer, 1999).
The ability of local MNEs to develop whilst defending their home turf from foreign competition further underlies their sustainable competitive advantage and tenacity (Khanna & Palepu, 2010). Their late comer status has translated into an added advantage. Their strategy of accelerated internationalization based on linkage, leverage and learning is eminently suited to the character of emergent the global economy which is being driven by ‘the worldwide web of inter firm connections’. The promise of their emergence is being shaped and facilitated by the conditions of the global economy (Mathews, 2006; 9; Mathews, 2002).

3.4.1 The role of local MNEs in bargaining in EMs

The decision of which key stakeholders to consider is largely conceptual and depends on the context (of the country, industry, issue) in question. Even within dyadic bargaining, the impact of other stakeholders is considered by default since they influence the potential bargaining power of the focal actors who are enmeshed in a complex web of relationships through their indirect association in bargaining (Bennett & Sharpe, 1979). A triadic perspective to bargaining is therefore an explicit effort to accommodate more players within a single bargaining model (Nebus & Rufin, 2010) along the lines of ‘network theory in international business which considers the diversity and embeddedness of “non-market” actors and expands the dyadic dimension in the interaction between political and business actors’ (Hadjikhani, 2000; 95; Ring, Lenway, & Govekar, 1990) as ‘firms do not simply respond to each stakeholder individually; rather, they respond, to the interaction of multiple influences from the entire stakeholder set’ (Rowley, 1997;890).

Recent revisions to the OBM have greater appreciation of the impact of institutional changes and provide an explicit link between bargaining and policy development, wherein the focus has shifted from market entry to iterative political bargains negotiated between MNEs and governments over a wide variety of government policies at the industry level (Eden et al., 2004; Eden & Molot, 1993). Yet, their models have failed to draw attention to the role of the local domestic firm as an active participant in these political bargains. The domestic firm in its identity as the emergent local MNE, is a focal player in bargaining, especially in the institutional environment of the EM. The role of this elemental actor, the local MNE who is an integral part of the bargaining equation especially with respect to incoming FDI has been mostly ignored till now.
barring passing references as an interest group (Eden et al., 2004; Henisz & Zelner, 2005; Nebus & Rufin, 2010).

It would be thus misleading to consider that the key players in the bargaining in EMs are only host governments and foreign MNEs. As research on leading EMs like China and India has suggested, local MNEs need to be considered as key bargaining partners because of their hold over domestic industry and their political influence with governments. Their strategic positioning in the host economy distinguishes local MNEs from other interest groups and makes them an important stakeholder in the bargaining process. Such domestic firms have significant social embeddedness which gives them legitimacy and goodwill that endows them with political clout/ influence in the host economy.

The level of political influence enjoyed by a firm can be interpreted as the extent to which the intrinsic characteristics of a firm allow it to wield political power over public officials with the goal of having an impact on the formation of the rules of the game (Desbordes & Vauday, 2007). This influence is often a legacy of the past inherited by large incumbent firms with existing ties to the state (Hellman, Jones, & Kaufmann, 2003) that stem from their scale and scope of productive activities in the economy. Besides, the common perception till now has been to pit the host country as a whole against the combined power of the foreign MNEs and international financial organizations that support them. However, this overlooks the common strategic interests that local MNEs may share with the foreign MNEs (within the co-opetition perspective) that drive bargaining outcomes as well.

This is illustrated by the industry-specific analyses from China showing that bargaining is not structured as only a dyadic dialogue. Foreign and local MNEs often come together in JVs to collectively bargain with the government (Lovelock & Ure, 1998). Social capabilities and network ties which bind local firms may be used to strengthen the position of local firms against incoming MNEs as defender firms, or if local MNEs perceive an overlap of mutual interest with incoming MNEs (through common capital interest as suggested by Hymer (1976)) wherein the multinational becomes the focal point of such common interests (Yamin, 1991) become instrumental in uniting industry sub groups- strategic groups, based on an issue area approach strengthening the
bargaining power of MNEs against governments. This perspective can be supported from the institutional view-point as well, when considering the capabilities of domestic firms for ‘strategic disruption’ by setting up entry barriers (Averyt & Ramagopal, 1999) through exerting their nonmarket and politico-institutional pressures (e.g. anti-dumping measures) (Peng, Wang, & Jiang, 2008). On the other hand, the transactions cost theory too puts forth the supporting argument that political hazards that foreign MNEs face while entering new markets is a motivating factor for them to partner with local MNEs as a safeguard since they have a comparative advantage in interacting with the host government. However, it needs to be tempered against the potential threat of contractual hazards posed by the local JV partner (Henisz, 2000).

Furthermore, as Levy, Keohane, and Haas (1993) argue, the most influential variable accounting for international policy change is the degree of domestic pressure on governments of large industrial democracies. This suggests that domestic industry represented through the voice of the dominant business groups and trade associations are an influential and crucial stakeholder to consider. The suggestion that international politics and domestic politics are increasingly entwined, as are FDI and domestic policies (Lovelock & Ure, 1998; Mueller & Lovelock, 2000; Nebus & Rufin, 2010; Safarian, 1993) de facto suggests the involvement of domestic industry groups as a direct stakeholder, who always make their government accountable for international and public commitments (Haas et al., 1993). Domestic constraints on policymakers depend on the aggregation of interests as well as their relative political influence. Therefore, policy constraints stem not just from an understanding of national costs and benefits but also through their relative impact on existing coalitions (Mueller & Lovelock, 2000). Thus the bargaining between EM governments and foreign MNEs cannot be treated as a wholly separate process from any bargaining between the government and ‘their own’ MNEs. This research pushes forth for a more inclusive framework which allows a study of the network of other players by studying the impact of the local MNE on the interactions between the foreign MNE and host governments within a triadic frame. These linkages demonstrate that the local MNE is an undeniable partner in the bargaining between foreign MNEs and the host government. The bargaining with domestic actors and foreign MNEs is inevitably interlinked and indicates a transformation of a dyadic framework into a triadic one. This implies that not only are domestic firms politically active even on FDI policies but their potential in interacting...
with the host government is explicitly recognised by the foreign multinationals who try and solicit their political support as JV partners lest the domestic firms use their influence against the multinationals’ interest, which is equally likely. Domestic firms in this regard are part of the bargaining equation in their own right as part of the host business environment with an interest in industry policy development and also as potential JV partners, given the EM governments’ preference for equity sharing (Blodgett, 1991; Lecraw, 1984). Additionally, the global emergence of local MNEs not only justifies their inclusion in an extended bargaining framework; their embeddedness in the local environment including political and institutional networks suggests a potentially significant advantage in shaping industry policies in EMs.

3.4.2 Institutional embeddedness of local MNEs

Local MNEs are able to access local resources because of their embeddedness in the local economy (Ramamurti, 2009). Their superior understanding of the labour market (as in India) and preferential access to capital through government support (as in China) sets them apart from a foreign MNE in EMs. Thus CSAs that accrue to the local firms should not be understood as locational advantages also available to foreign MNEs since the foreign firm might not be able to access them at will and will require FSAs that reduce their liability of foreignness and ‘liability of outsidership’ (Johanson & Vahlne, 2009) before they can successfully exploit a country’s CSAs. Within home markets, the local MNEs’ local knowledge and social networks form a significant competitive advantage versus new foreign entrants and their social embeddedness (reflected through their legitimacy and branding in the local economy) is often used to facilitate FDI through collaborations but can also be used to create entry barriers to protect domestic markets (Khanna & Palepu, 2010).

3.4.2.1 Relationship with foreign MNEs

Local firms in EMs have a complex relationship with incoming multinationals. Many local MNEs have grown through their historic partnerships and collaborations with foreign MNEs by forming JVs or acting as their production sub-contractors. Such cooperative associations facilitated the development of their early capabilities, especially through the transfer of technology and management techniques. It was on this basis that local MNEs could further explore international opportunities of moving up the value chain by using their experience of dealing with foreign MNEs as well as
leveraging their existing links and networks (Luo & Tung, 2007; Mathews, 2006). However the emergent market potential of their home markets has also awakened the need for them protect their incumbent market positions and cautiously approach new strategic alliances.

For the local MNE, as for foreign MNEs, the option of collaboration versus competition needs to be approached from a strategic choice perspective (Child & Rodrigues, 2005). While on the one hand, collaboration for both encourages joint rewards from a resource dependency view (Pfeffer, 1981; Pfeffer & Salancik, 1978), the future long term potential of their own home markets is not lost on the local MNEs either. They remain firmly entrenched in their home base for their continued production optimization on a global scale as well as fiercely protective of their core market at home.

Thus, foreign MNEs seeking to establish themselves in EMs approach local MNEs for local market knowledge and have to contemplate sharing their technology, capital and other key resources often as a government stipulation (Child & Rodrigues, 2005; Khanna & Palepu, 2010). But for the local MNE, the collaboration is also a choice regarding sharing future market share, wherein it can even use its embeddedness to set up entry and regulatory barriers that discourage further competition (Khanna & Palepu, 2010; Oster, 1982) since their resource dependence might be relatively short lived; technological change, development of capital markets and local talent development can significantly reduce the local MNEs’ dependence on foreign MNEs and fulfil their own requirements locally.

Both multinationals have a diverse but often complementary set of objectives. The local MNEs’ position regarding the bargaining between foreign MNEs and the government regarding incoming FDI cannot be taken for granted. While there is ground to believe that many local MNEs will welcome the entry of FDI, others might be strategically inclined to create entry barriers to protect their competitive advantage. Hence the local political influence which local MNEs have and their ingrained legitimacy is an important factor that should be considered in tandem with their strategic intent. This will affect their influence and impact on the government- foreign MNE bargaining on two levels- firstly, their domestic position with the home government, host to FDI and
secondly via the foreign MNE, a potential strategic partner, if it fulfils some of the local MNEs’ vested requirements.

3.4.2.2 Relationship with EM governments

The facilitating role of national governments where pre-globalization most developing countries (like India, Indonesia) followed a closed door or import substitution policy for their own national development (Encarnation & Wells, 1985; Ramamurti, 2009) has been a critical feature that has contributed to the successful rise of local MNEs. Such protectionist measures which were geared towards encouraging domestic capabilities to become ‘self reliant’ led to the formation of domestic MNEs that were encouraged in part in recognition of large home market requirements. On the other hand, large scale outward FDI (OFDI) by local MNEs has been demonstrably encouraged and stimulated by their home governments as well who encourage local enterprises to go global (World Investment Report, 2008). An analysis of the Chinese case demonstrates how such OFDI promotion policies set by the government are economically imperative and institutionally complementary to offset the comparative disadvantages of local MNEs in global competition (Luo, Xue, & Han, 2010). With growing interdependence, governments promote OFDI especially since it leads to the local firm forging global strategic alliances which improves its technological, managerial and organizational skills. When such skills are transferred back to the home economy and spilled to the local firms, firm level capabilities are strengthened and thus national competitiveness is fortified (Luo et al., 2010).

Therefore, just as the government seeks to fulfil its economic and social agenda by leveraging local MNEs, there are many advantages for the local MNE too, for allying with the host government. By providing financial leverage through fiscal incentives, reducing political risk and improving investment prospects abroad through enacting bilateral and multilateral treaties and double taxation avoidance agreements, the EM government provides critical institutional support to local MNEs (Luo et al., 2010). Political economists have long argued that the interaction between businesses and governments is a complex, dynamic, and interdependent process in which governments create the rules by which MNEs must abide while firms make efforts to shape government policies (Boddewyn, 1988). Since EMs are more intensively engaged in global competition, enterprises in these economies become increasingly important to
governments wherein local MNEs have a heightened role in accommodating their governments’ social and economic concerns, such as steering economic growth, enhancing national competitiveness etc (Luo, 2001; Ramamurti, 2001). Such a symbiotic relationship between the domestic industry and the government reduces both their long term dependence on foreign capabilities and strengthens their network ties.

3.5 Chapter Summary

This chapter has made a concerted effort to conceptualise the strategic motivations of the three triadic actors within bargaining in EMs. The EM government has adopted a strategic agenda wherein it plays a political double game, manipulating the timing of and alignment between supranational pressures and demands and internal constraints with skilful adeptness. The foreign MNE is confronted with unique challenges in new end markets that the EMs present which question their entrenched flexibility and ability to structure the rules of the game. The local MNE too adopts a co-opetition strategy with foreign MNEs within its key home market, the basis of its global success and critical for its survival. It is able to effectively collaborate with foreign MNEs, given its incumbent insider status in the host economy. Yet, this position is also the basis of its competitive advantage over foreign MNEs. Its strategic orientation towards FDI is thus effectively able to tilt the balance of bargaining power for foreign MNEs.
Chapter 4: Multinational strategies in EMs- a co-opetition perspective

This chapter aids in assessing MNE strategies with a focus on EMs. They are revisited to appraise their application to EMs wherein foreign MNEs are now increasingly adopting a market seeking focus for end markets. The foreign MNEs’ definitive ability to structure the rules of global governance is questioned within the context of its market oriented operations in EMs. However, their growing involvement in local markets has seen them cooperating with local stakeholders including local MNEs as well. The local MNEs’ strategy of co-opetition wherein they compete but also ally with foreign MNEs is able to partly offset the structural loss of foreign MNEs bargaining power in EMs. The concept of co-opetition is elaborated in 4.1 including the co-opetition between local and foreign MNEs in EMs. Foreign MNEs liability of foreignness which has been the kingpin of the internationalization process is further exacerbated within EMs now that they are seeking markets (4.2). Foreign MNEs have to successfully engineer a transition from their mere foreign investor attitude to becoming a more embedded involved ‘strategic insider’ (4.2.2). With the transition to relationship based business structures which are institutionally characteristic of EMs, foreign MNEs are operationally far more disoriented in EMs now than they would have been with their growing comfort in dealing with global value chains, many of which are also located in EMs and have allowed them to forge relationships with producers and suppliers. 4.3 concludes with the chapter summary.

4.1 Co-opetition

‘Business is cooperation when it comes to creating a pie and competition when it comes to dividing it up’ (Brandenburger & Nalebuff, 1996; 4)

Co-opetition, a portmanteau of two words competition and cooperation was first used by Ray Noorda as cited in Brandenburger & Nalebuff, 1996 (; 4), to suggest that ‘you have to compete and cooperate at the same time’. It captures the inherent dynamism that exists in such relationships between players that practice a co-opetition strategy. Brandenburger & Nalebuff model business as a game, but one which doesn’t dictate only win-lose outcomes in business. One’s success does not necessarily mean the failure
of other’s- there can be multiple winners. The notion of business as a game requires some context which is provided in this section to gain a better understanding of the nature of co-opetition itself. The demands of business success dictate that business be able to modify the very game it is rooted in. It carries within itself the capacity to change the rules, the players and even the boundaries of the game. Co-opetition is a tool that helps in defining the new rules of the game as well as creating the conditions to change the game itself (Brandenburger & Nalebuff, 1996).

Brandenburger & Nalebuff theorise regarding the use of co-opetition as a core business strategy emphasizing the dearth of appreciation for the complementarity aspect in any business relationship. Thus while the word competitor exists to define the elements of a competitive relationship, there is no similar word to define the elements of complementarity and cooperation that are often shared amongst businesses. They suggest the word ‘complementor’ to fill this void (1996; 15). The definition of a business entity as a competitor or a complementor depends on the role or function that is being gauged. For example, as airlines American Airlines and Delta are competitors, vying for passengers, landing slots and gates. However in the context of their relationship with Boeing or Airbus, they are potential complementors since they have common interests which they can leverage to their advantage against the aircraft manufacturer. Both players fulfil both roles simultaneously. To view them as either or would be misleading or at least detrimental to the possibility of increasing the value of the total gains.

The resource dependency perspective further guides understanding on co-opetition by noting that an organization is able to manipulate the allocation of critical resources actively through strategies designed to gain control over the organization’s exchange partners. Organizations do not control all of the factors important to their success at any time and must interact with powerful external actors in order to access resources needed for survival (Pfeffer & Salancik, 1978). The existence of co-opetition is therefore not

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9 A player is defined as your complementor if your customers value your product more when they have the other player’s product than when they have your product alone (Brandenburger & Nalebuff, 1996; 16).
10 The perspective is based on the notion of exchange of key deficient resources between firms through strategic alliances that alleviates their dependence on external resources and helps them develop their own capabilities through resource transfers within alliances.
limited to any time or space. It is common to perceive the competitor aspect in any business and ignore the potential for complementarity. Thus while the potential for both cooperation and competition exists in business relationships at all possible times, one or the other tendency might be perceived more stringent or become more attractive, depending on the market environment which provides the context for business strategy and action.

Within this research the co-opetition strategy is used to explain the emergent bargaining between triadic actors in the context of the life insurance industry in India. It is this particular tendency of co-opetition which is unpredictable that is explored first conceptually in Chapter 5 and thereafter again in the analysis in Part III. The use of co-opetition as an instrument to leverage business potential makes shrewd business sense in the course of business as has been demonstrated through a number of real life examples by Brandenburger & Nalebuff (1996) in their exhaustive book on Co-opetition.

However it is the extrapolation of the use of co-opetition strategies from their use purely in the business operations to the domain of strategic bargaining between foreign MNEs and local MNEs within their JVs as well as with the host government based on their relative strategic insidership that is central to understanding the ‘triadic interplay’ over industry policy explored within this study.

This growing tendency to explore complementarity and seek collaboration and cooperation with erstwhile rivals has been noted in extant literature especially with the formation of industry coalitions for lobbying over policy outcomes given that organizational success is also about the ability to appropriately manage important

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11 An illustration will help. In the early 1980’s when videocassette recorders had just stormed the markets, movie studios were convinced that people might not view a movie in the theatres if they knew that they could possibly buy a cassette or rent in the future. While video rentals would add to their revenue stream they were convinced that there was a significantly larger trade-off with reduced business from the theatre ticket sales. Therefore, they priced their movies high enough that only a few cassettes could be purchased by the rental stores. The studio’s concern over cannibalization was not unfounded. There was an effect. Yet, there was a much more important complementarity effect that they ignored. If a movie did well enough in the theatres, people were keen on renting or buying it later. Once the studios got wise to this potential, they readjusted the prices of their videos for sale and saw a rise in the combined sales (Brandenburger & Nalebuff, 1996). On the other hand, network television worked in collaboration with cable television using it to extend their outreach in areas with poor reception. However, eventually cable companies drew their own programme guide with more alternatives to the network programmes. This attracted even customers with good reception to sign up for cable television. Thus for the network shows, the early collaboration soon turned into an anathema and became more of a competitive threat rather than an added complementary advantage (Brandenburger & Nalebuff, 1996).
external contingencies, governments being one of the critical external agencies that MNEs need to effectively manage. It is suggested by Baron (1995) that distinctive abilities to interact with governments might be an organizational competency if they aid the firm’s competitive efforts in a special way. Since subsidiaries that operate in emerging and developing economies have large operations and make valuable additions to their local economies, they are clearly the targets of host governments (Blumentritt & Nigh, 2002). On the other hand, as domestic incumbents and strong business groups, local MNEs are also effectively poised to affect government stand on FDI policy. Therefore, a co-opetition perspective is an able tool to appreciate the impact of such MNE behaviour on the balance of bargaining power over FDI- industry issues.

4.1.1 Co-opetition between local and foreign MNEs

EM firms which have grown through the transfer of technology and management best practices from foreign firms that sub contract production to them or by acting as original equipment manufacturers (OEM) for them have benefitted from their partnership which has in part facilitated their internationalization. Such firms now seek to move up the value chain by undertaking overseas operations to further their initial competitive advantage by undertaking aggressive acquisitions in western markets by acquiring brands and resources which they previously lacked (Child & Rodrigues, 2005). These EM firms have established themselves as local MNEs by carrying out up market FDI in search of assets and technologies and downmarket FDI in search of new markets (Child & Rodrigues, 2005; Ramamurti, 2009). For such local MNEs, internationalization has been a strategic response to leverage their institutional understanding of EM environments. They are using their superior understanding of such markets to compete with foreign MNEs as well as collaborate with them (based on mutual resource dependence), to further strengthen their existing resource capabilities. By addressing their external resource dependence, local MNEs are also able to compete more effectively against foreign MNEs, from whom they seek such capabilities. This is the basis for their co-opetition strategy.

Local MNEs are different from foreign MNEs in some key fundamentals which also influences their bargaining power. Whilst for foreign MNEs’ internationalization is the end through which they exploit and leverage their superior capabilities, searching continuously for new end markets to do so, local MNEs find themselves located within
prime end markets. Internationalization for them is only a means to gain competencies that allows them to better compete with foreign MNEs. The local MNEs’ success is still inherently linked to their success at home, which remains not just their production base but also their key market (Luo & Tung, 2007); internationalization is therefore only of tangential interest.

Both local firms and local MNEs have a history of strategic alliances with foreign MNEs which has also contributed to their capability development. However, only local MNEs have the ability to effectively compete with foreign MNEs, both in their home markets and increasingly internationally as well. Local MNEs set themselves apart from local firms through their relatively superior resources, embedded market position and their structural organization as business groups which places them at the helm of their business networks. This, and their size and scale in the local economy imbue them with superior political resources which further add to their existing insider status and endow them with the ability to effectively compete with foreign MNEs.

The organization of agglomeration of firms within a business group helps EM firms face or bypass institutional voids like market failure and high transaction costs with greater ease and ability (Khanna & Rivkin, 2001). Business group firms are legally independent, often diversified across a range of industries and tied together in varying extent by formal (through equity ties, common board members and brand names) and informal links (like family management control). Such a collective orientation allows business group firms to share talent, capital, reputation and expertise across their various lines of business and reduce the costs of institutional voids in their home markets (Khanna & Palepu, 1997, 1999, 2010). In this sense, business groups are a strategic response to institutional constraints within EMs and it is these features of business groups that also extend in many ways to form their essential characteristics as local MNEs.

A study of business groups in EMs helps appreciate how they have circumvented the institutional voids of their home market and emerged stronger especially in the face of foreign competition, where their claim to local credibility and legitimacy has been the fountainhead of their strength. The group structure allows the leverage of a corporate brand name that stands for trust, quality and transparency and is shared across business
lines (Khanna & Palepu, 1997, 1999, 2010). This signals optimization of marketing capabilities along with cross marketing through common brands by promoting the group identity. The successful establishment of the group brand and its isomorphism with trust, quality and reliability helps in establishing goodwill with customers, suppliers, financiers and institutions. Within EMs where resources are scant and competition strong, such diversified business groups become formidable competitors through their successful management of the institutional environment as well as establishment of a brand identity. Their deep social embeddedness in the local economy forges business networks and strong political support as well as helps in the creation of an internal pool of capital, talent and risk management. Because of their superior capabilities in conducting business within EMs in full recognition of and reconciliation with the environmental constraints, business groups are often the JV partners of choice for foreign MNEs.

Local MNEs have challenged foreign MNEs by also successfully venturing abroad in developed markets like the U.K. The impact of companies like China’s Haier and Lenovo group, India’s TATA and Infosys and Mexico’s Cemex is clearly visible in IB. Thus the local MNEs’ ability and affinity for co-opetition (Brandenburger & Nalebuff, 1996) with foreign MNEs is its definitive feature that puts it at the forefront amongst local institutional stakeholders in the discussion regarding bargaining between foreign MNEs and host governments in EMs.

4.1.2 Co-opetition with respect to FDI

Local MNEs are known to lobby their governments towards further liberalization that reduces restrictions on foreign capital, where a move away from the status quo is beneficial to them either by facilitating access to key resources (through collaborations with foreign MNEs) that eventually reduces their resource dependence and facilitates their further development or by increasing market access through OFDI. But there are an equal number of examples to also demonstrate that local MNEs are likely to seek restriction of FDI inflows through setting up entry barriers if they perceive threats to their incumbency.

Given the political resources that local MNEs enjoy and their dominant industry position, they are capable of using their influence over industry regulations and policy
to their advantage (as well as the advantage of foreign MNEs if they belong to the same strategic group) through the creation/reduction of entry barriers. Such an orientation which is based on co-opetition behaviour can be further understood through the following discussion. It is argued that groups within an industry often recognise and promote regulations which are perceived to be to their comparative advantage. Such regulatory barriers may be used by firms as competitive weapons against other industry sub groups- strategic groups (Oster, 1982).

The concept of strategic groups is based on the presence of groups within an industry with differing interests, as well as on the power of these groups to participate actively in the process by which entry barriers are created which increase the relative rate of return to their peculiar characteristics and differentially damage its rivals. In essence they are an example of an industry coalition on an issue-area. Such strategic use of entry barriers can be applied in industries where there are some actual or potential barriers to entry and barriers to mobility within the industry (Oster, 1982). Firms can also attack competitors by shaping government rules in order to misalign competitors’ transactions and governance structures wherein entry is not thwarted but competitors are forced to turn to second best alternatives by enforcing unfavourable regulations like LCRs and regional agreements (Averyt & Ramagopal, 1999).

The orientation of the various strategic groups within the domestic industry, their effective organization as a united industry coalition versus fragmented industry groups and the mutuality of their strategic interests with foreign MNEs are important considerations which affect the balance of bargaining power between foreign MNEs and host governments. Thus the position of the local MNE becomes contingent to the eventual interests of FDI through its ability to add to its bargaining power or hack at it by forming a strong opposition to its interest within their bargaining with host governments.

4.2 Doing business in EMs

The cost of doing business abroad (CDBA) include both economic and social costs (Hymer, 1976). Whilst economic costs are the explicit aspect of doing business and are easier to anticipate, the social costs of compliance and understanding the nature of the
markets (Eden & Miller, 2004; Zaheer, 2002) impart the liability of foreignness (LOF) (Kostova & Zaheer, 1999; Zaheer, 1995; Zaheer & Mosakowski, 1998) to foreign multinationals. Social costs arise from the unfamiliarity, relational, and discriminatory hazards that foreign firms face over and above those faced by local firms in the host country (Eden & Miller, 2004; Zaheer, 2002). In addition to LOF, a further liability of outsidership (Johanson & Vahlne, 2009) with respect to business networks has also been further identified.

Within EMs, foreign multinationals suffer from a greater lack of market knowledge and understanding of the ground realities which becomes an operational hurdle for them as they are only now emerging as potential markets. The foreign MNEs’ existing experience with such economies within their global production activities gives them little support in reaching out to potential consumers. In this respect, multinationals often seek collaborations and alliances with local partners to offset the gaps in knowledge from their LOF. With growing competition in EMs from their global counterparts as well as local MNEs, the ability to successfully implant themselves in the institutional environment and become socially embedded in the network of ties is key to becoming a ‘strategic insider’ (Luo, 2007b). It requires foreign MNEs to make fundamental changes in their business strategies and operational policies beyond basic considerations of their foreign investment, in order to cope with the changes in overall market conditions and long term regulatory treatment in the business environment. And it is this ability which sets the local MNEs and veteran foreign MNEs who have existing operations in these markets for many years now apart from recently incoming foreign multinationals.

4.2.1 Liability of foreignness to strategic insidership

The disadvantages contributing to the LOF can stem from many sources as outlined by Zaheer (1995). Most particularly, ‘the firm-specific costs based on a particular company's unfamiliarity with host environment and the lack of roots in a local environment and costs resulting from the host country environment’ are recognised as being particularly addressed through developing strategic insidership. LOF is more acute for market seeking, horizontal MNEs (Caves, 1982) who compete on a local-to-local basis (Bartlett & Ghoshal, 1989) than the vertically integrated multinational which operates around a global value chain. This suggests that with the focus on market seeking FDI in EMs, foreign MNEs are saddled with greater LOF. It is also with respect
to end markets that companies need to build trust, credibility and legitimacy with a wider audience which requires more effort than developing supplier relations. It has been argued that MNEs are rewarded for isomorphism with the local environment through enhanced capabilities and resources while a failure to conform adversely affects their legitimacy (Kostova & Zaheer, 1999). Foreign MNEs have to explicitly adopt measures to establish legitimacy compared to the local firm which is more entrenched and well recognised—therefore foreign MNEs suffer from a competitive disadvantage in building reputation and goodwill.

With the business environment being increasingly viewed as a web of relationships, a network, outsidership in relation to the relevant network more than psychic distance has been identified as the new root of uncertainty for them – a liability of outsidership (LOO) (Johanson & Vahlne, 2009). Networks help in trust-building and knowledge creation since they often contribute significantly to addressing gaps in market knowledge, political knowledge and insight on how to conduct business, especially in EMs which are both psychologically and institutionally different from the foreign multinationals’ home markets. Network studies have highlighted the importance of networks in foreign markets outside the firm’s own business network in the context of its successful internationalization. It requires that foreign firms be well established in one or more networks. ‘Anything that happens, happens within the context of a relationship, and a firm that is well established in a relevant network or networks is an ‘‘insider’’’ (Johanson & Vahlne, 2009). It has also been argued that even though insidership is not sufficient to ensure success, it is a necessary condition for business development. Conceivably, the foreignness of a multinational in EMs makes the access to relevant networks more difficult at the start and thus they also suffer from a LOO in addition to the existing LOF. Thus foreign market entry is also a decision regarding the position-building process in a foreign market network due to the complexities associated with learning particularly about business and market knowledge (Axelsson & Johanson, 1992).

Emergent research proposes that foreign multinationals design their business strategy and determine their entry mode based on the resources required to create competitive advantages directly influenced by institutions (Ingram & Siverman, 2002; Meyer, Estrin, Bhaumik, & Peng, 2009). Within this view, institutions -the rules of the game
are considered as explicitly affecting the firm strategy including entry mode (Peng, 2003; Wright, Filatotchev, Hoskisson, & Peng, 2005) and based on the resource based view implicitly dictating the local resources that foreign multinationals would need to operate effectively. Such institutional differences are most severe in EMs (Khanna et al., 2005; Meyer & Peng, 2005). Thus, JVs provide a means to access resources held by local firms including resources such as networks that may help to counteract idiosyncrasies of a weak institutional context (Delios & Beamish, 1999) and facilitate the integration of the foreign multinational to becoming a strategic insider. JVs are often also required due to legal restrictions limiting equity ownership (Delios & Beamish, 1999) and are part of the host governments’ own strategic expectations regarding industry and national development (Lecraw, 1984; Luo, 2007b). In either case, through government regulations as well as foreign MNE expectations, local business groups and the local MNE become depositories of knowledge. Historically, many examples exist of US MNEs seeking suitable JV partners in developing economies so that they could access key resources and networks which were out of bounds for them due to their foreign origins. These local partners contributed managerial, marketing and financial capabilities but more critically provided contacts and access to governments and financial institutions through their local embeddedness (Dymsza, 1984).

MNEs benefit when the government sees them as insiders and their rivals’ as outsiders. Insiders are also known to consciously engage in lobbying for policies that are favourable to them at the expense of outsiders as well as accentuating the insider-outsider distinction in the eyes of the government and the general public (Eden & Molot, 1993). There is empirical evidence on how for example Finnish firms both competed and cooperated with rivals to gain favourable political outcomes (Skippari & Pajunen, 2010). This represents the move towards collaborations (beyond competition) and thus co-opetition - the simultaneous existence of both cooperative and competitive behaviour. The key element of this new kind of relation is that whereas earlier MNEs were bargaining against one another, within the changed regulatory framework which is characterized by high competition, MNEs now seek to collaborate to create ‘win- win’ situations where they can share the gains. MNEs are collaborating with government as well as their local and foreign rivals. Since such joint efforts benefit all firms in the same sector, strategic insiders seek to transform their local competitors into alliance partners. Thus while they can still compete in certain product or geographic domains,
they form alliances in other specific areas to reduce competition and benefit from network linkages and stronger political leverage (London & Hart, 2004; Luo, 2004; Luo, 2007a).

Bargaining though inevitably remains, since it is impossible to avoid some clash of interest between differing economic goals and in case of the government, social goals as well. As incumbent strategic insiders local MNEs carry that particular knowledge of the markets which enables them to become formidable competitors for foreign MNEs in their home markets but also present opportunities to them for accessing institutionally embedded resources through a collaborative approach by becoming gateways to EMs.

4.2.2 Foreign MNEs as strategic insiders in EMs

The concept of strategic insider has been developed by Luo (2007b) based on the foreign MNE experience in China. According to Luo (2007b) incoming MNEs responding to the growing market potential in China have to bring about a strategic shift in their orientation for EMs, responding to the changing competitive and regulatory parameters which have modified the business environment. The detailed stimuli emanating from various quarters for foreign MNEs have been captured in the below framework. Within the context of the framework in this study, the specific resource constraints that are relevant to address strategic insidership requirements are discussed below since they dictate the scope for co-opetition between MNEs and within their co-opetition behaviour, the development of the competition/collaboration equation.

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12 An extrapolation of the China specific theories to other institutional contexts which broadly share similar characteristics does not imply that China is representative of all EMs but allows for opportunities to understand indicative trends that help develop contextually relevant theories that update existing understanding to make it more updated and complete.
The resource dependency perspective suggests that foreign MNEs possess clear advantages in technological and managerial capabilities. However, the EM environment challenges them through its poor supporting infrastructure, fragmented distribution channels, and underdeveloped logistics systems which constrain the exploitation of their FSAs and make it difficult to access potential customers. Such limitations are more when foreign MNEs seek to expand beyond their niche customer base and follow mass market strategies aimed at the rising middle class. These potential customers are not only less accessible logistically, but their brand perception and recognition is also
different versus the upmarket consumers. Building a competitive advantage now requires dedicated effort beyond product attributes relying considerably on brand management. While global brands might be desirable, local brands often have social capital — a legacy of organizational credibility, social accommodation, interpersonal relationships and goodwill which is difficult to match at the onset. The second set of constraints to becoming an insider stem from the regulatory environment. Deregulation, membership of EMs to the WTO and structural transformation due to liberalization has conveyed a sense of positivity to foreign MNEs. However, following the example of the Chinese governments’ preference for operational intervention and convergence with domestic policies, it can be presumed that MNEs are yet to understand the full impact of these policies which now affect them at the operational level and through various other modes (Luo, 2007b).

The strategy of becoming a strategic insider requires a recognition of firms as local players by the public, market leaders by consumers and long-term contributors by the government (Luo, 2007b). In this regard, veteran MNEs are at par with local MNEs being now perceived as strategic insiders given their successful effort at establishing a local identity. Scale of operations in the economy is instrumental in establishing credibility with the authorities as well as cross pollinating branding and marketing efforts. As a strategic response, strategic insidership reduces LOF as well as facilitates the implantation of a foreign MNE within the institutional environment such that they are able to play their part within the restructuring through influencing industrial standards and policies. Gaining the position of a strategic insider is politically motivated (Luo, 2007b). To this end they can cultivate strategic alliances with local insiders which allow them to leverage the political resources of their alliance partner or are also likely to join national industry associations. By being perceived as insiders and part of the policy–making process in trade policy negotiations, MNEs can influence policy outcomes in ways that are beneficial to them and potentially harmful to others (Eden & Molot, 1993).

Local MNEs however develop their capabilities in the face of these institutional constraints and in fact are able to internationalise to other similar institutional environments to exploit their superior understanding of such market environments (Yaprak & Karademir, 2011). Chinese competitors for example are leaner, more
flexible, cheaper and overall more suited to dealing with the above handicaps with a better local understanding and network ties essential for conducting business in China (Williamson & Zeng, 2004). Such social capital is not sufficient for ensuring success but does provide institutional support and lowers transactions costs that forms a significant competitive advantage (Park & Luo, 2001).

Thus within the extant competitive environment, the critical resources required to become a strategic insider translate into holding brand and distribution capabilities as well as human and social capital. Luo (2007b) suggests that MNEs wishing to become a strategic insider must work with local stakeholders which increases their dependence on local resources and resource holders. The resource dependence theory deems this is necessary for firm growth (Pfeffer & Salancik, 1978).

4.3 Chapter summary

EMs challenge conventional understanding of MNEs’ and their existing leverage over extant policy formation. Within their evolving market seeking focus now, supranational governance forums provide little recourse for foreign MNEs since they still approach international regulations through a production oriented lens aimed at protecting property rights rather than facilitating unconditional market access. Whilst involvement in and interaction with local MNEs through transnational policy networks has been able to open a channel for presenting their ‘voice’ in domestic industry policy, their relative position as ‘outsiders’ is difficult to address within a short time frame. This is their relative disadvantage against local MNEs wherein they are used to being the ‘insiders’ in international policy formation. Co-opetition based strategic alliances with local MNEs help foreign MNEs in building their position as strategic insiders especially with respect to influencing the development of industry policy and the business environment. Yet there are manifold hazards not least losing their superior FSAs to their alliance partners through adopting this approach.
Chapter 5: Pulling it all together: Local MNEs and the co-opetition pendulum effect on bargaining in EMs

The previous chapters have built the foundation for a conceptualisation of bargaining in EMs within a triadic framework to understand extant bargaining between foreign MNEs and host governments including the influence of local MNEs. The conceptualization as outlined in this chapter adopts a co-opetition perspective and extends the dyadic framework to include the local MNEs as one of key the institutional stakeholders in EMs (5.1). This is one of many possible conceptualizations involving a third actor within a global economy now enmeshed in a tissue of networks and characterised by complex inter-firm linkages (Duysters, Jacob, Lemmens, & Jintian, 2009; Mathews, 2006). This inter alia affects the bargaining process also as has been explored in section 5.2 through the co-opetition pendulum. Earlier chapters have provided the theoretical underpinnings embedding the position of the local MNEs’ interaction with both the foreign MNE and the host government in the bargaining process. Through competition (5.2.2) or in cooperation (5.2.3) with foreign MNEs, local MNEs are well positioned to mediate bargaining outcomes between foreign MNEs and the host (their home) governments given their network linkages with both players. Given the research gap with respect to their impact on bargaining and the absence of a bargaining framework contextual to EMs, this study offers a tentative step in that direction by developing a priori propositions that will guide the empirical case study on the life insurance industry in India. Whilst conditions within EMs cannot be generalised upon, the conceptual framework developed here is thought to be suitable for EMs that meets certain structural and institutional conditions as has been discussed in section 5.3 which needs to be tested through further research in other markets. 5.4 concludes with the chapter summary.

5.1 A triadic framework for bargaining in EMs

Extant frameworks regarding industry liberalization developed in the West suffer from a lack of understanding of the policy process in EMs (Lovelock & Ure, 1998) as indicated through results when applied to China. As Lampton, (1992) observed, there is insufficient appreciation of the role of bargaining in the domestic Chinese policy making process despite acknowledgement of the same for the Chinese interactions with foreigners. Therefore, there remains disconnect between the domestic and the foreign
bargaining frameworks and no work has been done to integrate the two despite bargains on one level affecting policy on the other. In the context of China’s political system, there are both foreign and domestic influences on MNE- government bargaining and foreign MNEs strategically try and influence laws for foreign business in their interests (Chen, 2004). Thus while government- MNE relations have become more cooperative, divergent pressures on the relationship stem from the distributional aspect of the policy making process which tries to make allocations among various interest groups. This requires that governments have to take into account the interests of other stakeholders and commitments (international, bilateral and regional accords) and so in effect foreign MNEs are required to bargain for favourable public policies (Eden et al., 2004; Henisz & Zelner, 2005). They also have to consider the impact of the local MNEs’ own cooperation with the foreign MNE. In either case, foreign MNEs would be either bargaining together with local MNEs with the host government if they conform to the same strategic group on the issue-area at hand or would be trying to counter their political influence, social capital and insidership with their home governments which might work against them because of the local MNEs’ ability for setting up entry barriers.

Therefore it is conceived that industry FDI policy is mediated by the strategic governance practiced by EM governments wherein tier II bargaining between multinationals and host governments is not shaped just by the tier I bargaining between states and through multilateral and bilateral agencies as proposed by Ramamurti. Domestic industry policy is also equally influenced by the tier II domestic bargaining between foreign MNEs and host governments informed by the co-opetition stand of the local MNEs.

This focus on a triadic bargaining framework for EMs including local MNEs is well rooted in the literature as set out in Chapter 2-4 and addresses recent concerns which call for increasing appreciation of the institutional ‘context’ as an analytical variable (Cheng, 2007; Child & Rodrigues, 2005; Meyer, 2006). A full appreciation of the embeddedness- the institutional context is of particular significance in EMs like China and India (Child & Rodrigues, 2005) where business is conducted within networks (Boisot & Child, 1996; Chen & Chen, 2004) and the government is an active player in business, through both its considerable ownership in public enterprises and its
sovereignty over regulations wherein it seeks to control MNEs (Dunning & Narula, 1996; Peng, 2000). A study based on EMs including local MNEs thus brings context more explicitly and comprehensively into mainstream IB studies (Ramamurti, 2009) which often ignore the social or political context that surrounds the firm by viewing it solely as an economic actor (Child & Rodrigues, 2005). By reinterpreting Meyer’s (2004) perspectives on EMs and turning it around as advocated by Ramamurti (2004) the effort is to understand the relationship between the EM context and its impact on foreign MNE behaviour through the adaptation of their business strategy for EMs, in particular the strategy for co-opetition.

The research question which seeks to understand the impact of co-opetition between foreign and local MNEs on the bargaining in EMs, hinges on understanding the specific characteristics of EMs which influence the bargaining power and outcomes between incoming foreign MNEs and host governments. It is the particular characteristics of EMs- their institutional environment and emergent position in the global economy, including their rise within the evolving frames of supranational governance that conceptually inspire the study to revisit bargaining in EMs. Predominantly, this first involves re- assessing the bargaining power of EM governments and the foreign MNEs and thereafter considering the impact of institutional stakeholders like the local MNE, who are indulging in co-opetition with foreign MNEs, on the balance of bargaining power.

Two key considerations which now shape this bargaining relationship in EMs is the upside of market power which EM governments are leveraging while for the foreign MNEs, their market seeking focus has led to the expression of their ‘sunk interests’. This transition in their respective bargaining powers is not too different from the situation addressed by the OBM- sunk capital formed the basis of the foreign MNEs’ ‘obsolescence’ earlier and one can find some resonance with their recursive market seeking interest in EMs within un-conducive business environments now where they are not ‘insiders’ and suffer from a LOF. The network based business structure only poses further operational challenges for them.

On the other hand the EM government which despite its control over market access is at first in a weaker position through the foreign MNEs’ control of strategic assets like
technology and knowledge is eventually able to address this dependence through the FDI spillover effects in the local economy which leads to local capability development. This reduces the relative degree of their reliance on FDI (versus the start of the project) and encourages them to revisit the bargaining promises and distribution of bargaining outcomes in favour of extracting more equity for local partners as well as retaining a larger share of profits in the host economy. This too is not unlike the period of the OBM as has been indicated for market seeking FDI (Encarnation & Wells, 1985; Fagre & Wells, 1982; Lecraw, 1984). This change in relative bargaining power is rooted in the discussion regarding sustainable sources of bargaining power and FSA’s which are hard to imitate. Between the government (which represents national interests embedded in the development of domestic industry through local enterprises) and the foreign MNE, both lack particular resources which call for co-operative behaviour between them. Foreign MNEs lack local legitimacy, access to networks and local market knowledge, all of which have been bundled together in the concept of a ‘strategic insider’. The government on the other hand seeks to gain technology, capital and knowledge for domestic industry development (like through resource transfers to the local MNE). Comparatively, such technology (if it does not change constantly) and knowledge do not construe non imitable, sustainable sources of bargaining power for the foreign MNE. However since becoming a strategic insider is a function of time, it does sustain as a source of bargaining power much longer for the local MNE, when they form alliances with foreign MNEs. Moreover, the revisions to the OBM which have been challenged in respect of EMs particularly with growing predominance of services FDI lend further credibility to this reappraisal of bargaining power between foreign MNEs and the host government. Therefore a triadic perspective which takes into account the impact of such a sustainable source of bargaining power centred in the local MNE, the growing bargaining power of EM governments and questions the sustainability of the foreign MNEs’ bargaining power is important since it indicates a possible re-balancing of bargaining power in either direction which affects the foreign MNEs’ long term business prospects in the EM.

The impact of the EM environment on bargaining is most explicitly perceived in that it provides the institutional background for bargaining. It is within EMs that both foreign and local MNEs are most hard pressed towards co-opetition. Foreign MNEs need to collaborate because of their lack of insiderness status. On the other hand, local MNEs
are superlatively positioned within their home markets to best leverage their institutional understanding. Cooperation with foreign MNEs helps them address their resource dependence, which inhibits their successful competition on grounds of managerial and technical capabilities.

**Figure 3: Reframing bargaining in EMs - A ‘triadic interplay’ over industry-FDI policy. A co-opetition perspective**

It is this triadic perspective particularly hinged on the MNEs’ co-opetition behaviour which invites the consideration of the emergence of local MNEs’ and their impact on the dyadic bargaining between foreign MNEs and host governments in EMs since the direction of their mediatory impact is indeterminate and informed by whether they choose to collaborate or compete with foreign MNEs on particular issue-areas within the larger bargaining set-up. Whilst the potential for FDI spillovers mentioned above and the desire of the government to renegotiate bargaining outcomes is partly informed by the governments own estimation of its resource dependence, its national compulsions like the balance of payment pressures and its political philosophy on FDI, within the co-opetition strategy pursued by the local MNE it is also affected by their co-opetition perspective since they represent a major conduit for FDI spillovers in the local economy.
and in that capacity have a symbiotic relationship with their home government. Examples of the Haier group from China and the Tata group from India are witness to the leverage that comes to conglomerates and business groups from EMs, who enjoy close ties with their home governments that leads to political support for internationalization and provide preferential financial support as well. This leverage is a function of their superior performance in their domestic markets built over past years (Duysters et al., 2009) which also endows them with organizational credibility, legitimacy and goodwill. While the government seeks to recapture a greater share of the profits within its national boundaries, for the local MNE such a renegotiation is also an indication of their growing ability and desire to compete with foreign MNEs- their alliance partners.

Therefore this conceptual framework for bargaining in EMs highlights a few facets of the institutional environment as they bear on the focal players. The EM government as has been discussed operates within a multi-polar strategic agenda which allows it to mediate between its domestic requirements and policy constraints as well as align itself favourably with supranational agreements by strategising their timing. Through initiating early discussions and setting out terms which conform to domestic policy and internal challenges, EM governments are able to cherry-pick between international and domestic requirements in a manner which is most suited for the achievement of their overall socio-economic agenda. Whilst the strategic aims of EM government cannot be generalised, some commonalities amongst them (a heterogeneous group primarily sharing latent market potential to be classified as EMs) include infant industry protection, domestic industry reforms and their ability to withstand international pressure to conform to the Washington Consensus and the likes. This is further reflected in their insistence to only slowly open up their domestic markets in sectors which they perceive ready to withstand foreign competition and protect domestic industry development through regulating the degree of market access. Therefore even with the WTO negotiations, EM governments have ensured that they signal their readiness to conform to international expectations through their openness to negotiations, but have not become signatories to all aspects of the agreements and have bargained for lenient transition periods in areas where they have become signatories. Their reluctance to adopt GATS in entirety and persistence with a policy of imposing LCRs is witness that their domestic ambitions are not subjugated to supranational governance.
This triadic framing highlights the development of collaborative relationships between the multinationals and the government (Dunning, 1991; Dunning, 1998) as well as between multinationals themselves characteristic of the market based capitalism-alliance capitalism, where collaboration is seen as a means to reducing endemic market failure (Dunning, 1995). Inclusion of the local MNE also addresses two prominent roles that the entity plays which have not received sufficient appreciation in the literature. The local MNE, as the strategic leader at the helm of its business network, a dominant business group of the domestic industry and by virtue of being conglomerate capital (Eren-Vural, 2006) not only carries political influence (Desbordes & Vauday, 2007) but is also empowered to bring about the requisite pressure on their home governments making them accountable for international policy change (Haas et al., 1993). Yet, they remain a powerful mechanism for the diffusion of global business regulations (Braithwaite & Drahos, 2000) and are often the local conduit for welcoming foreign MNEs, united in their global capital interests. This ambidexterity (Luo & Huaichuan, 2009) is a characteristic of the local MNE which underlines its co-opetition strategy. Thus local MNEs are fundamentally allied and aligned with both the EM government and foreign MNE interests in EMs in the pursuit of their own strategic agenda which is inherently embedded in their home market.

The development of the cooperative relations between foreign MNEs and host governments due to their recognition of greater resource complementarity impacts on the power of foreign MNEs to be able to tailor regulations that affect business conditions (Luo, 2001) since governments are now more open to consulting and taking into account their opinions. This view is countered in the traditional models of government policies towards MNE subsidiaries which assume that the government will continue to privilege domestic firms over foreign firms for electoral or nationalist reasons contributing to their political LOF (Desbordes & Vauday, 2007). Such literature is further informed through the national preferences model developed by Caves (1996) who proposes that a democratic government which has to consider getting re-elected may decide to redistribute income at the expense of foreigners by favouring the domestic firm. Governments are known to renegotiate terms of investment or the rules for foreign firms in favour of other groups like competitors and consumers that provide it with political support (Henisz & Zelner, 2004). The inherent power of voters in swaying political decisions regarding policy cannot be underestimated though. Local
industry alliances have been favourable for FDI in the past where strategic groups within the domestic industry were instrumental in lobbying for FDI. This needs to be considered in collusion with the section of industry-strategic group which seems to enjoy public support on a particular issue-area and the particular coalition of industry interests which shares their preference and their political capacity. Also since foreign MNEs retain national identities and first-movers appropriate significant profits, governments have incentives to influence the non-market environments, including the development of industrial policy which is in favour of their home-based local MNEs (Prakash, 2002). Thus it is proposed that

P1: The bargaining outcome between EM governments and foreign MNEs over industry FDI policy depends on the co-opetition strategy adopted by local MNEs

The impact of this co-opetition practiced by local MNEs comes to bear on the bargaining power of the foreign MNEs. If the local MNEs are collaborative and seek bargaining outcomes that are aligned with foreign MNEs, then their combined bargaining power is stronger in bargaining with host governments and could more likely lead to favourable outcomes. However if there is fragmentation between the group of local MNEs in their support for FDI or they are united in their opposition to the outcomes desired by foreign MNEs then the potential bargaining power of foreign MNEs is reduced and the likelihood of their achieving favourable outcomes goes down. Furthermore, in this respect the government is positioned as mediating between its international and domestic concerns where it uses its sovereignty and position as the ultimate arbitrator to cherry-pick between the bargaining alternatives that are presented through the various possible coalitions between foreign MNE and local MNE interests. This is demonstrated further in the next section through the literature and empirical studies.

To illustrate, research on China and India, particularly on the telecommunications industry policy has identified the role of domestic policy bargains that were instrumental in supporting a FDI restriction. Whilst the external pressures associated with WTO accession played an instrumental role in the liberalization of China’s telecommunications sector, domestic policy bargains were the cornerstone of the strategic decision making.
The state wants to maximise the relative market share of domestic firms versus MNEs in strategic industries. Such socialist states are basically protectionist in orientation and do not want to lose a significant share of a lucrative market to foreigners. They ensure that their policies do not harm the profitability and competitive strength of domestic firms and maintain the development of national champions who support the elevation of EMs in becoming a global economic power (Mueller & Lovelock, 2000). On the other hand in India, FDI within telecommunications had seen unfavourable conditions driven by a government preference of technology that favoured the dominance of large domestic investors who were not dependent on foreign capital. The industry was divided by their technological preferences which did not allow the formation of a united industry front. The incumbent state–industry strategic group alliance favoured technology which was being used by conglomerate capital who was operating independent of FDI and did not suffer from capital constraints in the sector; other strategic groups which were dependent on foreign capital and using competitive technology were being squeezed out of the promise of growing market segments within India. This restriction to the scope of FDI through equity limits was achieved not by a preference for entry barriers per se but was an outcome of the government preference for technology. In this instance, the transformation process within telecommunications which was now favourable to FDI interests was not brought on by external foreign pressures or a crisis of private investment, but was a function of the transition of the state–domestic industry alliance from the strategic group of conglomerate capital which had divergent interests from those of the smaller producers dependent on FDI to a state alliance which favoured alternative technology which induced efficiency and competition in the industry (Mukherji, 2008).

Thus the eventual industry restructuring in both cases of India and China discussed above were driven by largely domestic agendas and was only possible after domestic industry mandate (Fu & Mou, 2010; Mukherji, 2008). Whilst the state plays the decisive role in determining industry policy, foreign capital interests are largely dependent for representation on the domestic strategic group alliance that they find convergence with. Yet, even smaller domestic firms that are dependent on foreign MNEs for capital and technology wish to guard their market interest and welcome state intervention which protects them from unrestricted foreign competition since they have lower bargaining
power with MNEs due to their resource dependence and are therefore willing to share more control (Mueller & Lovelock, 2000). This in fact reiterates the likelihood of governments renegotiating bargains based on transactional details (but atleast not on the basis of a foreign prejudice) as has been discussed earlier. This introduces the co-opetition perspective which is then extrapolated to understand the impact on bargaining outcomes.

**Figure 4: Conceptualization of bargaining in EMs as a ‘triadic interplay’ with a co-opetition pendulum**

The internationalization strategies pursued by local MNEs’ is fraught with risk but likely to pay dividends in the long run as is borne witness by current trends. They are able to capitalize not just on emerging global market opportunities but also leverage their institutional understanding of their home markets in other similar markets to develop a strong base for their worldwide operations by forging resource–based strategic alliances. While these local MNEs are strong local firms and invariably the leading business groups, they are still technological novices compared to their global counterparts. Business groups are a unique institutional aspect of EMs and their internationalization is a strategic response to institutional changes (Chittoor et al., 2009). They remain highly dependent on foreign firms for capital and technology.
Technological advantages, managerial expertise and innovative capabilities form the critical gap between EM firms and foreign MNEs (Khanna & Palepu, 2010; Yan & Gray, 1994). Therefore, through OFDI and their strategy of forging global strategic alliances, local MNEs seek to improve their technological, organizational and managerial skills (Luo et al., 2010).

Local MNEs are more likely to be part of the global supply chain in partnership with foreign MNEs in order to acquire strategic resources like capital and technology and to develop superior capabilities. Being part of, or aspiring to become global capital, local MNEs are party to the interests of the transnational capital class in the process of which they not only overcome their institutional constraints but are also able to effectively benefit from them by using their local social embeddedness as a key strategic resource for conducting business in EMs. Thus such ‘prospector’ MNEs are characteristically on the lookout for new ways of developing competitive advantage and have a greater affinity with global capital – developing strategic alliances with other MNEs.

The particular stance with respect to foreign capital that local MNEs adopt seems to be dependent on their resource dependence on FDI (in terms of capital, knowledge, technology, other resource based FSAs) within that sector. Therefore it is proposed that

P2: Local MNEs’ strategy of co-opetition in EMs is rooted in their resource dependence on foreign MNEs

EMs present a challenging environment for foreign MNEs. Their lack of experience in emerging markets is demonstrated through the recommendation that they become a strategic insider following a strategic reorientation which is not constrained by financial opportunism but instead builds on localization and adaptation efforts to gain legitimacy and isomorphism with the local institutional environment. As discussed earlier, foreign MNEs have high resource dependence on local stakeholders to meet the distribution, marketing knowledge, social capital and other resourcing constraints that inhibit the application of their existing strategies in EMs. Their desire to become a strategic insider can be addressed by partaking the co-opetition strategies practiced by local MNEs (amongst other measures) as proposed by Luo (2007b). Additionally, the EM government’s desire to gain maximum spillovers in the local economy lead it to control
entry modes with a strong preference for JVs with local partners (Blodgett, 1991; Delios & Beamish, 1999). Strategic alliances between local MNEs and foreign MNEs from the foreign MNE perspective are therefore the norm in EMs due to a number of reasons ranging from regulatory stipulations to the internationalization perspective which advises increasing equity commitments for foreign MNEs based on incremental learning in unfamiliar institutional environments. However, given the latent market potential of EMs and their underpinning as the local MNEs’ basis of competitive advantage, local MNEs are unlikely to give away their competitive position in their home markets or ignore their future strategic positioning while collaborating with foreign MNEs. This leads to

P3: *The development of the competition–collaboration equation within the local MNEs’ co-opetition depends on the degree of their continued reliance on the foreign MNEs’ capabilities*

Such collaborations need not be limited to local MNEs and can extend to include other domestic firms as well. However, given that local MNEs are often the partners of choice and some of the first mover advantages for foreign MNEs stem from partnering with highly recommended domestic groups (Arnold & Quelch, 1998) by virtue of their superior capabilities, credibility and legitimacy, it is conceivable to assume that foreign MNEs seek out local MNEs in particular. Such collaborations are supported through the co-opetition strategies that are characteristically pursued by local MNEs within their strategic agenda to reduce their resource dependence with respect to FSAs. Collaboration though is practiced by other smaller local firms too. However, only local MNEs carry within them the ability to compete with foreign MNEs, which other local firms don’t have. Local MNEs are latecomer firms and use their capacity for linkage and leverage to gain FSAs to strengthen their competitive position through collaborations with foreign multinationals.

As mentioned earlier, even the transactions cost theory supports the use of strategic alliances to alleviate the LOF and build resources that allow foreign MNEs to become strategic insiders. Given the political hazards that foreign MNEs face while entering new markets, the social capital and relationship based network ties that local MNEs possess and are adept in the art of cultivating, is a keen motivating factor for foreign
MNEs to partner with them as a safeguard. Yet, this needs to be tempered against the potential threat of contractual hazards posed by the local JV partner (Henisz, 2000) who remain protective of their home and long term market prospects which are both embedded in EMs.

Following Caves (1996), the literature suggests that in the traditional models of government policies towards foreign subsidiaries, the foreign firms in most developing economies hold less political influence than an equivalent domestic firm. Since the degree of political influence depends on the intrinsic characteristics of a firm, the divergent political influence between a foreign and a domestic firm is likely to be caused by structural differences (Desbordes & Vauday, 2007). Given the structural composition of the local MNE and based on current understanding, it would then seem that local MNEs’ either indulge in creating entry barriers through the use of regulations or they collaborate with foreign MNEs and use their combined political resources to shape industry policy in their favour. Conflict of interest between institutions and business entities can create strong and resistant ‘firewalls’ to the implementation of new policies (Chang, Fang, & Yen, 2005; 119) which requires directed initiatives at neutralizing such powerful stakeholders who can block or delay reform (Yu, Berg, & Guo, 2004). Alternatively these same stakeholders, amongst which the focus is on local MNEs can also bridge between the government concerns and FDI interests in issue–areas where FDI serves their own interests by forming a powerful coalition with them. This is further strengthened by the foreign MNEs’ access to bilateral and supranational agreements and support for liberalization.

For the foreign MNE, co-opting domestic firms can lead to a positive impact not just in leveraging political power but also reducing the LOF and generating social capital since results of an econometric study conducted for 4,085 firms in 48 developing countries reveals that foreign and domestic firms seem to enjoy a similar degree of political influence and it is dual nationality firms- hybrid MNEs that are the most influential (Desbordes & Vauday, 2007). Therefore foreign MNEs would be all the more keen to access a local partner MNE.

Furthermore, the misconceptions found in the IB literature pit the host country against the foreign MNEs and the international organizations. However industry specific
analyses have found that Chinese and foreign JV representatives often work together to bargain with local authorities over the implementation of rules and regulations that can affect the JV from the outside. They also engage in bargaining among themselves about the rules within the JV itself. The domestic competitors bargain over financial resources, market share, technological advantage and overseas collaboration (Fu & Mou, 2010; Lovelock & Ure, 1998). Furthermore, collaboration at a regional level between local and foreign MNEs has been discussed through the local MNEs’ role in facilitating the foreign MNEs international expansion within similar institutional markets (Yaprak & Karademir, 2011). This aspect of collaboration between foreign and local firms introduces the scope for co-opetition by considering the position of the foreign MNE within the host economy and the local MNEs strong competitive position within its home and other similar institutional markets where it has superior understanding and is in a position to act as the facilitator for foreign MNEs. While foreign MNEs have developed collaborations at the supranational level amongst themselves, they now have to frequently align with local MNEs in EMs as well in their efforts to implant themselves in the institutional environment and lobby with the host government on domestic policy issues which remain outside the domain of the WTO regulations.

For some local MNEs though, industry conditions and impact of potential competition is likely to be an important factor besides the resource based view in deciding how they position themselves with respect to industry FDI. This makes them equally likely to either compete or collaborate with foreign rivals. Industry factors and market conditions play a major role in dictating their policy position with respect to FDI within an issue-area. Thus their strategy is industry-sector specific wherein their structural composition and resource capabilities and their internationalization strategy all work in conjunction to define how they might be positioned with regard to forming alliances with foreign MNEs as well as their stand on domestic industry policy especially with regards to regulations that propose to facilitate an increase in foreign ownership stakes since it suggests growing competition within their home market. The strategic use of regulations to favour their policy position is an option which can be very well manipulated by this class of MNEs as they tend to critically analyse their opportunities. Since regulations can be used to both- set up as well as reduce entry barriers for example, their strategic
manipulation has high implications for sector specific industry development and the bargaining power of the foreign MNEs.

5.2.1 Competition with foreign MNEs

Even though local MNEs have varying strategic interests for partnering with foreign MNEs which can range from requiring the input of foreign capital to transfer of strategic technologies, there remains a group of MNEs that only wish to minimize competition and hence are not in favour of FDI (Mueller & Lovelock, 2000) - the defensive local MNEs. Lack of external dependence leads them to build their arguments on the need for protecting domestic industry against an insurgence of “high quality, low priced foreign goods” which could result in the closure of a large number of domestic industries (Kochanek, 1996; 169). This argument is usually politically motivated and can invariably muster a political-industry strategic group coalition which supports it. Such local firms are likely to be self sufficient in terms of capital and non-ambitious in seeking new technological developments outside their geographical domain and beyond their existing capabilities. Thus their dependence on foreign capital or technology is negligible and does not compel them to forge alliances or JVs with foreign MNEs to leverage shared resources and capabilities. However, such local MNEs often occupy a dominant position in the local economy and are likely to enjoy strong government support as a home champion and also the loyalty of its customers- the most important vote-bank in any political bargaining; they may be state owned public enterprises in many cases. Thus their calls for protecting home capital interests are likely to strike a chord with the masses as well as potentially swing government action in their favour, thwarting the foreign MNE efforts to mould the sector-specific industry policy in its increasing favour.

5.2.2 Collaboration with foreign MNEs

The increased structural power of transnational capital embodied in MNEs is largely responsible for pushing for the global regulatory changes. Transnational capital was able to effectively transform and shape the political, economic and ideological landscape of the global political economy in the 1980s and 90s (Eren-Vural, 2006) through its power to constrain governments, trade unions and other social groups by its control over investment resources (Gill, 1990). Within the constraints of national
boundaries though, the contribution of the MNE in bringing out economic integration and greater policy convergence cannot be viewed in isolation and should be considered alongside the role played by the sub-national political coalitions that mediate between global and local interests (Phelps & Wood, 2006). It seems that the orchestration of globalization is facilitated in part by the sub-national territorial coalitions- with the local MNE- who have a concrete focus in mediating inward investment and help in bridging the gap between the needs of transnational capital and the local/regional interests (Sklair, 1997; emphasis added). Their significance stems from the structural nature of their political power (Peck, 1995) which allows them to engage in the process by which transnational interests are translated into the local arenas through regulatory arbitrage. It is this structural power of capital identified as conglomerate capital at the local level which gives it the ability to influence policy change even at the domestic level (Eren-Vural, 2006).

The case of the pharmaceutical industry with respect to both India and Turkey showcase the effective power of collaborations with local elites (Eren-Vural, 2006). Whilst the policy changes towards a new patent regime were brokered by the increased structural power of MNEs, the nature and scope of the policy outcomes were bound by the dynamics of the inter class (strategic groups) politics in both EMs. This domestic dynamic interplay was based on the political capacity of the local pharmaceutical capital to defend or develop their interests independently from those of the multinationals. This political capacity in turn determined the political alliances that were formed by the local capital interests. A stronger patent regime was in favour of the multinationals and against the immediate interests of local manufacturers in both Turkey and India. Exploitation of the flexibilities available under TRIPs was therefore a foreseeable consequence indicative of the political capacity of the local capital. In India, the local pharmaceutical capital interests formed a united coalition supporting the exploitation of flexibilities which was conditioned by their relative internal competence in the sector. Turkey on the other hand saw factions within the local capital which split their local alliance throughout the policy formation process leading to setbacks in the ability to exploit the flexibilities to the detriment of the smaller producers. Conglomerate capital in Turkey were identified as groups of capitalists who had vested interests in the liberalization process which allowed it to rearticulate and reconnect with the transnational circuits of capital (Eren-Vural, 2006). This split in local interests reduced
the political influence of the anti-patent coalition domestically and strengthened the hand of the MNEs with the capitalists driving the Turkish agenda for EU membership. It follows then

P4: A coalition of foreign and local MNEs strengthens the bargaining power of foreign MNEs by giving them a 'voice' in the domestic policy negotiation through local MNEs, leveraging and extending their global structural power within domestic boundaries

Strategic groups exist within any domestic industry and various sections can find common cause with the interest of the foreign MNEs. However it is the political incidence of such strategic groups within their domestic bargaining that dictates the scope for bargaining outcomes between their home EM governments and the foreign MNEs. As the above illustrations show, the domestic constraints on policymaking depend on not just the group calculations of interest but also on their political influence including existing coalitions (Mueller & Lovelock, 2000; Mukherji, 2008).

5.2.3 Political influence of local MNEs versus foreign MNEs in EMs

Co-opetition by MNEs is geared towards influencing the market environment favourably through controlling competitive forces, increasing competitive abilities and manipulating the regulatory environment through political resources. Since EMs have become extremely competitive because of the influx of foreign MNEs trying to wrangle market space from existing local MNEs who are not only socially embedded and operating from their home-base, but are often more cost effective as well, foreign firms are likely to attempt to shape host government policies in their favour as their profitability largely depends on the business environment in which they operate (Desbordes & Vauday, 2007). MNEs are no longer passive respondents to changes in industry policy but are active political participants in decision-making (Desbordes & Vauday, 2007). And while there is the real possibility that foreign investors influence the level of trade barriers through lobbying home governments and supranational institutions, the outcome of trade policies really depends on the extent of political influence enjoyed by a foreign firm compared to a domestic firm. Extant literature generally assumes that the foreign and domestic firms share the same level of political influence while concluding that foreign lobbying generally leads to lower tariffs.
However the specific outcomes differ for countries based on evidence from studies conducted for U.S.A and Mexico for example (Desbordes & Vauday, 2007).

The ability of the local firm to use its influence on the policy environment is borne out by Henisz & Williamson (1999) who extend analysis to consider the possibility that a private domestic counterparty could use its influence with the government to alter the policy environment so that it is able to shift rents from the foreign firm to the local partner. And while foreign MNEs are usually portrayed as favouring the supranational arenas because of the power of nationally organised groups that seek to counter their outreach over domestic politics, it is also known that local MNEs who are domestically-rooted could be in a better position to influence domestic regulators (Prakash, 2002).

According to the conceptual model developed by Desbordes & Vauday (2007) the political influence of the foreign firm compared to the domestic firm depends ceteris paribus on three factors - the host country belief regarding contributions to economic growth, political liability of foreignness and multinationality. Given the general trend for EM governments towards reducing resource dependence on foreign technology with development of domestic industry which enjoy lower external dependence, this line of argument is now much weaker for foreign MNEs seeking to operate in EMs. Furthermore the increase in bargaining power of the EM government due to the emergence of their markets and profile within supranational governance is increasingly being documented. China for example has been able to exercise virtually complete control over entry of foreign MNEs and has adopted a policy of limiting access for foreign firms and controlling the form that their involvement can take as the study of their automobile industry conclusively demonstrates (Liu & Dicken, 2006). Secondly, the political liability of foreignness does indicate discrimination against foreign firms due to the fragmented political system in unstable policy and high risk environments within EMs which often cater to vote banks and sectoral interest groups further empowering the domestic firms. Lastly, multinationality including the threat of exit which has served as the most enduring source of bargaining power for foreign MNEs is also severely reduced in case of market seeking FDI since as discussed, they now suffer from an asset specificity which is related to their strategic interest in these markets.
Based on the above, there is reason to believe that foreign MNEs have been steadily losing political influence and bargaining power in EMs compared to their historic experience in the same locations which were then identified as developing countries. This has been exacerbated by their alliance partners- the domestic firms now gaining an identity as local MNEs with a strong competitive orientation of their own which often conflicts with the foreign MNE interest in EMs now that both are operating for end markets. This has invited the use of co-opetition strategies by local MNEs wherein they can choose to both collaborate and compete with foreign MNEs at the same time or choose either. Thus their impact on the bargaining power balance through increasing the bargaining power of foreign MNEs’ bargaining for FDI interests is open to their strategic choice through an issue-area approach.

5.3 A final note on foreign MNEs in EMs: revisiting the OBM

The above discussion regarding co-opetition suggests the very real possibility that in trying to become a strategic insider by aligning with the domestic incumbent- the local MNE, foreign MNEs might have under estimated the potential risks from the strategic alliance. Given the nature of interdependence that both multinationals suffer from and their penchant for co-opetition, it seems likely that eventually it is foreign MNEs who might suffer a relative loss of bargaining power as well as see their entry conditions deteriorate. This is because they are operating within an unfamiliar institutional environment where they are relative outsiders and have none of the structural power that has empowered them at the supranational level. The competitive challenge for foreign multinationals is most daunting within the home markets of local MNEs who are often the public face of their economies (Boston Consulting Group, 2011). Such a perception is based on the institutional environment of and historic trends from the policy environment of EMs like India (refer to Appendix 2 and 3), the strategic nature of EM governments as well as the presence of local MNEs, for whom the home market remains the critical growth market and production base as they practice co-opetition. Thus the threat of ‘obsolescence’ for foreign MNEs based on the current discussion in the previous sections is based on the following conditions.

- Recursive market seeking FDI by foreign MNEs in EMs;
- Relative market dynamism of the host economy which constrains foreign MNEs’ flexibility to exit and their bargaining power and becomes a source for the EM governments’ bargaining power and

- The presence of local MNEs who practice co-opetition with foreign MNEs to address their resource dependence but are formidable competitors within their home markets due to their incumbent position as strategic insiders and non-political liability of foreignness thus forming an uneasy triangle with foreign MNEs and the host government

Therefore the final proposition is stated as

P5: Co-opetition with local MNEs’ suggests the re-emergence of obsolescence for foreign MNEs within their market seeking FDI in EMs

The foreign MNEs’ dependence for strategic insidership capabilities on local MNEs in EMs leads to strategic alliances. This facilitates resource transfers between the two collaborating parties. Whilst the foreign MNE relies on the local MNE for insidership capabilities and remains dependent for a relatively longer period of time since building social capital is a function of time, the local MNE benefits from the knowledge transfers in a shorter time frame. Such knowledge spillovers from incoming FDI encourage both, the alliance partner- the local MNE and the host government to regain bargaining power in turn leading to a renegotiation of entry bargains. This signals long term deterioration in the foreign MNEs’ business prospects since they lose their competitive edge to their alliance partners who are existing insiders while collaborating with them. Through the renegotiating of entry bargains, foreign MNEs’ find themselves facing obsolescence in their bargaining position.

The conceptual framework developed here and the propositions offered therein are presumed to be for those EMs which have displayed robust growth in the past decade and attracted market seeking foreign MNEs to their local economy. These markets are understood to be big in economic and geographic size to counter the negative impact of their unfavourable policy developments within high risk environments for foreign MNEs by offering latent untapped market potential for continued future growth. However they are perceived to be politically stable environments. Examples of potential
EMs that could be considered are India, China, Brazil, Mexico, Turkey, Indonesia and the likes, where future research could gauge the application of this conceptual framework and propositions developed here.

The presence of the EMs’ own local MNEs and dominant domestic groups (private or state owned) is necessary to understand their impact on bargaining power of foreign MNEs. The framework offers understanding on their impact and influence in domestic policy in structuring industry–FDI policy and requires the presence of domestic enterprises that carry the ability to compete with foreign MNEs within their overall collaborative orientation towards forming strategic alliances with foreign MNEs. Within this co-opetition by local MNEs, EM governments mediate between both- the domestic tier II bargaining and policy constraints therein and tier I bargaining to form the industry- FDI policy.

5.4 Chapter summary

This chapter brings together the extant literature on bargaining models, EMs and local MNEs to put together a triadic framework for bargaining which is contextual to the EM institutional environment. The role of institutional stakeholders with a focus on local MNEs has been considered as they impinge on dyadic bargaining outcomes between host governments and foreign MNEs. With the growing convergence between FDI and domestic policy reflecting the EM government’s intent to provide national treatment to FDI, domestic policy constraints are found to bear on the development of the industry FDI policy even more explicitly now.

The role of local MNEs as the domestic firm at the forefront of its business network and within a symbiotic relationship with the government is perceived to impact on the balance of bargaining power between foreign MNEs and host governments through their vested interests as the domestic industry stakeholders as well as within their network ties with both the government and foreign MNEs. Local MNEs have grown through strategic alliances with foreign MNEs and continue to treat internationalization as a means to address their lack of FSAs. However their home market is the basis of their competitive strength. With the focus of foreign MNEs on end markets within EMs, local MNEs are now practicing co-opetition- simultaneously collaborating and
competing with foreign MNEs. This co-opetition perspective within EMs suggests the re-emergence of obsolescence for foreign MNEs albeit within a changed institutional environment. Yet, this indicates a possible revival of the OBM by revisiting its basic propositions in the context of EMs now.
Conclusion

Part I of this thesis has tabulated the extant literature to form the basis of a triadic conceptualization for bargaining in EMs that includes local MNEs who lend themselves to be considered for an inclusion within an extended bargaining framework which strongly incorporates the context for bargaining.

The bargaining framework has been contextualised specifically to address the rebalance in bargaining power that has occurred due to the emergent market potential of EMs which has empowered their governments. Foreign MNEs on their part have faced newer bargaining constraints within these markets based on their recursive market seeking interest which inhibits their inherent flexibility as well due to their ingrained LOF with respect to marketing in these economies. Thus a strategy towards establishing themselves as strategic insiders requires them to collaborate with local MNEs, more so in the face of regulatory constraints.

Co-opetition with local MNEs however has many implications on bargaining between foreign MNEs and host governments. Through their domestic incumbency, local MNEs have a strong voice in domestic policy formation which constrains and shapes the tier I bargaining, a development which is often overlooked in IB literature. Through the development of a priori propositions, this chapter concludes the literature review which will now guide the empirical data analysis and frame the findings from the case study on the life insurance industry in India.
Part II: Empirical context and methodology
Chapter 6: The development of the life insurance industry in India

This chapter presents the facts underlying the scope for life insurance business in India (6.1) which helps illustrate the market imperative for foreign insurers to enter the domestic market despite high competition from the state monopoly and an uncertain policy environment. First, the business of life insurance is explained (6.2) which will better inform the narrative regarding the strategic objectives of the domestic and foreign promoters. Section 6.3 elaborates the process of opening up of the sector and highlights the types of domestic promoters which have developed in the market (6.3.2). 6.4 briefly introduces the only 100% state owned public company - the Life Insurance Corporation (LIC) of India which had a monopoly over the Indian market since 1956. Section 6.5 is the chapter summary.

The modern insurance industry in India has a rich history and was one of the early industries to be set up in India following an unregulated, free market system. As early as 1818, the first Indian life insurance industry was set up through a British company called the Oriental Life Insurance Company to insure the lives of Europeans living in colonial India. Despite operating in India, the earliest private insurance companies did not deal in the business of insuring Indian lives which were treated as “substandard” and Indians had to pay extra premium of 15-20% or more (Sinha, 2002). Insurance was concentrated in the urban centres especially around the big cities of Delhi, Bombay, Calcutta and Madras which were trading hubs as well as the colonial power centres.

Indian life insurance with a focus on insuring Indian lives at “fair value” only started with the setting up of the Bombay mutual life assurance society in 1870. Mirroring the national sentiments of that time period, Indian enterprises that set up insurance companies were motivated by a highly patriotic spirit and sought to spread the message of insurance and social security to all sections of society. The swadeshi13 movement of 1905-1907 gave rise to more ‘nationalist’ companies. However, despite the passing of the Life Insurance Companies Act and the Provident Fund Act in 1912, the deep sense

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13 Notion of self sufficiency inspired by the Indian independence movement and the developing Indian nationalism.
of discrimination between Indian and foreign owned companies prevailed, with Indian companies disadvantaged on many grounds (Life Insurance Corporation of India, 2004).

By 1938, the Indian insurance industry was flourishing with 176 life and non life companies (both Indian and non Indian). However, in the absence of any meaningful regulations the industry was plagued with widespread fraud and the mushrooming of many financially unsound concerns. The first consequential legislation to cover both life and non life insurance in pre independence India, the Insurance Act of 1938 was passed to bring insurance business in India under strict state control. The Act was accompanied by growing calls for nationalization of the Indian insurance industry in line with the growing desire of Indians for autonomy and freedom from foreign domination. This particular sentiment had lasting impact on the insurance industry in India for it was eventually nationalized in January, 1956. The nationalization was accomplished by the eventual merger of about 154 Indian insurance companies, 16 non-Indian companies and 75 provident societies that were operating in India at the time of nationalization and resulted in the setting up of the Life Insurance Corporation of India (LIC) in September, 1956. LIC of India was a state monopoly in life insurance and the sole company operating in post independent India till 1999 when under the economic reforms programme of 1991, this sector too was eventually opened to privatization and limited foreign participation in 2000. LIC though remains a gargantuan and formidable organization till date which has only conceded limited market share to the private sector and retains a majority of the market through its default identification with life insurance in India, especially outside of the metropolitan cities.

6.1 The scope of the life insurance industry in India

Insurance premiums in EMs have increased robustly in real terms throughout the last decade at 11% per annum compared to the 1.3% growth figures for the industrialised countries. Particularly within life insurance, EMs grew at 12.6% compared to the average 0.6% growth for the industrialised economies (Swiss Re, 2011a). Such outperformance is expected to continue well into the next decade and has attracted the attention of all global insurers who wish to pursue profitable growth. Within EMs, it is Asia and Latin America which has spearheaded this impressive growth performance. This has been based on many favourable factors including market liberalization and the
introduction of enabling regulations which have allowed mature global insurers to tap the EM potential by enhancing competition and productivity as well as the use of multiple channels of distribution to reach a broader population spectrum; in particular the successful leverage of bancassurance (the use of the bank sales network to sell insurance products).

EMs are forecast to become even more concentrated within the life insurance space in the next ten years with China, India, Brazil, South Africa and Poland accounting for 82% of the total share of EM countries. Established global insurers from USA, UK, Japan and continental Europe have been drawn to EMs particularly China and India because of their burgeoning populations, very low penetration levels and rising incomes. Insurance business is highly sensitive to the general socio-economic conditions of the region/country concerned (Rao, 2000) and there seems to be a positive correlation between the economic development of a country and the amount people spend on insurance (Agarwala, 1961); with rising household savings in EMs and a growing middle class backed by strong economic growth, there is high latent demand for insurance in EMs which can be estimated from the existing low rates for insurance penetration and density in Asian EMs. Research by Morgan Stanley shows that India’s working-age population will increase by 136 million by 2020 (compared to the 23 million for China). Indian households save more than those in other EMs such as China and Brazil. Household savings were 25% of India’s gross domestic savings in 2008, compared with 5% in Brazil and 15% in China (2% in Britain and 1% in U.S.A) (Krishnamurthy, 2011).
The Indian life insurance sector has witnessed exponential growth, driven by innovation in product offerings and distribution with the infusion of new entrants since 2000. Currently, it is the fifth-largest life insurance market in Asia. According to Swiss Re, among the key Asian markets India is likely to have the fastest-growing life insurance market with life premium poised to grow at a compound annual growth rate (CAGR) of 15% for the next decade, slightly faster than the 14% expected for China (CII & Ernst & Young, 2010).

Table 1: Global insurance penetration and density

<table>
<thead>
<tr>
<th>Country</th>
<th>Insurance Penetration (in %)</th>
<th>Insurance Density (in US $)</th>
</tr>
</thead>
<tbody>
<tr>
<td>USA</td>
<td>4.23</td>
<td>4.14</td>
</tr>
<tr>
<td>France</td>
<td>5.7</td>
<td>7.08</td>
</tr>
<tr>
<td>Switzerland</td>
<td>-</td>
<td>6.2</td>
</tr>
<tr>
<td>UK</td>
<td>10.30</td>
<td>8.9</td>
</tr>
<tr>
<td>Brazil</td>
<td>0.35</td>
<td>1.33</td>
</tr>
<tr>
<td>Bangladesh</td>
<td>-</td>
<td>0.42</td>
</tr>
<tr>
<td><strong>India</strong></td>
<td><strong>1.39</strong></td>
<td><strong>2.53</strong></td>
</tr>
<tr>
<td>Malaysia</td>
<td>2.16</td>
<td>3.6</td>
</tr>
<tr>
<td>China</td>
<td>1.02</td>
<td>1.78</td>
</tr>
<tr>
<td>Thailand</td>
<td>-</td>
<td>1.99</td>
</tr>
</tbody>
</table>

*data pertains to the calendar years 2001; 2005; 2009; 2011
** data pertains to the financial year 2009/10; 2011/12
1. Insurance density is measured as a ratio of insurance premium (measured in US dollar) to the total population.
2. Insurance penetration is measured as a ratio of premium (measured in US dollar) to the GDP (in US dollar).

Compiled from various annual reports of the IRDA
Table 2: Insurance penetration and density in India

<table>
<thead>
<tr>
<th>Year</th>
<th>Density (USD)</th>
<th>Penetration (percentage)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001</td>
<td>9.1</td>
<td>2.15</td>
</tr>
<tr>
<td>2002</td>
<td>11.7</td>
<td>2.59</td>
</tr>
<tr>
<td>2003</td>
<td>12.9</td>
<td>2.26</td>
</tr>
<tr>
<td>2004</td>
<td>15.7</td>
<td>2.53</td>
</tr>
<tr>
<td>2005</td>
<td>18.3</td>
<td>2.53</td>
</tr>
<tr>
<td>2006</td>
<td>33.2</td>
<td>4.10</td>
</tr>
<tr>
<td>2007</td>
<td>40.4</td>
<td>4.00</td>
</tr>
<tr>
<td>2008</td>
<td>41.2</td>
<td>4.00</td>
</tr>
<tr>
<td>2009</td>
<td>47.7</td>
<td>4.60</td>
</tr>
<tr>
<td>2010</td>
<td>55.7</td>
<td>4.40</td>
</tr>
<tr>
<td>2011</td>
<td>49.0</td>
<td>3.40</td>
</tr>
</tbody>
</table>

1. Insurance density is measured as a ratio of insurance premium (measured in US dollar) to the total population.
2. Insurance penetration is measured as a ratio of premium (measured in US dollar) to the GDP (in US dollar).
3. The data of insurance penetration is available with rounding off to one digit after decimal from 2006.

From the annual report of the IRDA, 2011-12

Profitability however is still challenging after the expected early expenditure of high start up costs and a long break even period in a nascent industry. Within many EMs, the presence of domestic insurers (as independent companies or JV partners) is a particular challenge which has been underrated at best. In a tightly regulated industry (life insurance being more regulated than non life insurance), indicative study figures using 2006-2009 statutory results from life and non-life insurers in Emerging Asia and Latin America suggest that domestic insurers outperform their foreign peers (Swiss Re, 2011a). Outside of high entry barriers, the domestic insurers’ success could be attributed to their more extensive local distribution network, economies of scale and local market knowledge. These results are telling since this research is also based on efforts to ascertain the long term profitability and viability of both foreign and domestic insurers, in competition and collaboration with each other in such EMs.

India has built itself as a regional hub in insurance through sustained efforts at increasing competition, product innovation and an enhanced regulatory framework since
2000 when the industry was opened for private sector and foreign equity participation. Insurance together with other financial services contributed about 7% of the country’s GDP in 2009 (CII & Ernst & Young, 2010). The insurance industry is poised at a critical juncture having become a major contributor to national economic development especially for funding the growing infrastructure development needs of the country by diverting long term funds. The GOI has explicitly voiced its expectations of the industry as early as post independence wherein it nationalized the life insurance companies to have greater control over this channelling of resources. The mutual dependence of insurance and capital markets plays an instrumental role in channelling funds and investment capabilities to augment the development potential of the Indian economy. At the same time the pace and direction of regulatory change shall impact the future growth and strategic development of the insurance companies. Within India, as in China (another major Asian EM) life insurance remains highly regulated with mandatory JVs. India imposes a 26% ceiling on foreign ownership while China has one of the lowest foreign insurance penetration rates of all Asian EMs (Swiss Re, 2011a).

Generally it can be perceived that Asian governments are receptive to the idea of allowing foreign companies to operate within their markets. However in case of the bigger Asian economies like India and China, the willingness, pace and degree of market access seems to be conditioned by the size of their markets as well as the presence of domestic insurers. It would require the joint effort of all the stakeholders - the government, the regulator and the insurance companies (both domestic, foreign and JVs), to enable the continued positive momentum of the life insurance industry.

6.2 The business of life insurance

The foundation of life insurance is the recognition of the value of a human life and the possibility of indemnification for the loss of that value (Oviatt, 1905). Life insurance is a contract that pledges payment of an amount to the person assured (or his nominee) on the happening of the event insured against. The contract is valid for payment of the insured amount during the date of maturity or specified dates at periodic intervals, or death, if it occurs earlier.
Life insurance is widely acknowledged to be an ‘institution’ which eliminates risk and substitutes certainty for uncertainty. It is a lifelong contract built on good faith and trust since it has to be honoured after death of the insured. Thus for the policyholder, it presents the utmost task of choosing a brand and company that they can inherently rely on. The goodwill and trust associated with life insurance companies supersedes all other retail products and services. While the primary function of life insurance is protection, it has most often been used as a medium of thrift and tax relief, especially in a country like India which has a low score for uncertainty avoidance but has a high long term orientation (Hofstede, 2007) and high risk aversion (Sinha, 2002). Thus savings for the family and their future given their collectivist attitude is far more attractive than trying to protect against unknown risks. Indians have a high savings rate; yet, the cultural mindset dictates that Indians like to invest in safe assets. About half their investments are in physical assets like property and gold, 20% of their investments are locked in bank deposits which are low yielding but are perceived as secure. Within this outlook, life insurance policies, especially those being sold by a public sector monopoly become attractive as a safe guarantee on returns though as a savings vehicle and not necessarily for risk protection. Currently insurance products enjoy EEE benefits giving them an advantage over mutual funds. Investors are motivated to purchase insurance products to avail the nearly 30% effective tax benefit on select investments (including life insurance premiums) made every financial year, making them the most popular financial product among Indians in a country where there is very little social security (CII & Ernst & Young, 2010; McKinsey & Company, 2012).

Life insurance is an atypical business set apart from others as liabilities of a life insurance company have to be honoured after the death of the policyholder because of its indemnity of life or upon maturity of the policy which could typically be 10-20 years after policy inception. This makes it a much more long term business than most others. Moreover, most life insurance policies pay regular premiums over the policy term and profits arise for the company over time as regular premiums are received and reinvested. Further, industry regulations aimed towards protection of the customers require that premiums received in initial years of a policy are not realised as income straightway but rather set aside as provisions to meet potential claims in the future calculated on a prudent basis. Therefore, life insurance business is not judged solely by the accounting profits in the early years but rather by the total potential value generated through sales.
of new business. This value represents the margins within the premiums charged by the company as well as release of prudent provisions over time as claims experience develops. It should be noted that this value can be unlocked only through long term persistency of the policies – managed by appropriate and best practice business conduct and a relentless focus on customer service post sales. However, until such long term experience has fully developed, the valuation of a life insurance company must necessarily rely on proxies such as volumes of new business sold and pricing margins. This leads to a potential dichotomy in the management of life insurance companies relying heavily on the priorities of the ultimate shareholders of the business. If the principal focus is to demonstrate high early growth and increased market valuations over short-medium term for a potential take-over or stake sale through an initial public offering (IPO) in the future, then management key performance indicators are likely to be linked to metrics such as new business volumes, growth in number of agents and development of other distribution capabilities. This has potential pitfalls- even a very aggressive growth in new business volumes might not translate to long term sustainable profitability if this is achieved by compromising the quality of business (affecting persistency of new policyholders for the entire policy duration), expense controls or possible mis-pricing (i.e. if premiums are priced very competitively to bring in the new business but the (negative) impact is only realised many years later when excessive claims begin to be reported). Conversely, if the focus is on unlocking value for the share-holder over the entire lifetime of the policies in the long term, business decisions need to be geared towards not only generating new business sales but also ensuring retention of existing policyholders through on-going renewals as well as establishment of sound risk management and investment strategies. Within the business environment constrained with limited number of options that may be pursued over any period, such strategic inclinations can have a critical role in shaping the overall priorities of the firm.

6.2.1 Distribution channels within life insurance: the emergent base for competition

Distribution strength has emerged as the driving force for creating and maintaining market share in India. To increase market penetration, insurance companies are exploring multiple distribution channels to supplement and augment their distribution network. The industry has witnessed the emergence of alternate distribution channels which include bancassurance, online distribution, corporate agents such as non-banking
financial companies (NBFCs) and tie-ups of para-banking companies with local corporate agencies (e.g. NGOs) in remote areas. New market entrants however cannot expect to replicate the extensive distribution network that LIC has via agents. Since building a distribution network is expensive and time consuming, private insurers have largely followed a strategy of starting from the affluent segment and gradually strengthening the distribution network to reach out to the middle-income segment. While bank-backed insurers are better positioned due to their relatively lower development costs, their strong brand, variable cost business models, access to the bank’s database and walk-in customers which help reduce overall acquisition costs, LIC clearly stands as an exception to this tenet because of its scale of operations and productivity achieved over years of operations (CII & Ernst & Young, 2010).

Bancassurance increases the alliances between banks and insurance companies through the opportunity to leverage the banks’ extensive branch network as a low-cost option to expanding the distribution network and foray into previously inaccessible segments of the market. With more banks wanting to enter the life insurance market, bancassurance which contributed to one-third of the total individual new business premium collections of private insurers in India during the fiscal year ending 31 March 2011, is well placed to further increase its share and possibly emerge as the dominant distribution channel in the country over the next decade (Towers Watson, 2012).

This recognition of bancassurance partnerships as a means to leverage an existing and extensive distribution network through the banks has appealed to the private sector which has had a late start to compete with LIC based on access. Thus bank promoted JVs as well as bancassurance partners have acquired greater bargaining power within JVs and have established their dominance over operations by building on their partners’ resource dependence for access. These banks also have the required brand recognition and goodwill with customers to capture the headline name in the JV so that products can be sold on their dependability and goodwill.

6.3 The opening up of life insurance in India

India initiated economic reforms in 1991 under which it undertook the widespread liberalization and privatization of many industries and sectors. However insurance has
always been regarded as a ‘salient’ industry and the government progressed with caution by setting up a committee under Mr. R. N Malhotra, the then governor of the Reserve Bank of India (RBI) in 1993 to complement the financial sector reforms and advise on the feasibility of privatization of the insurance industry. After due consultations with the stakeholders across sections of the society and industries, the report in 1994 recommended the liberalization of the life insurance industry through opening up the sector for the private sector and ultimately foreign private sector competition. It was not until late 1999 that the bill approving the set up of the Insurance Regulatory & Development Authority (IRDA) was finally passed after much political uncertainty with changes in the central government. Finally in 2000, IRDA was incorporated as the statutory body to regulate and register private sector insurance companies. Formally, the state monopoly over insurance was repealed and with an initial promise of 26% foreign equity, life insurance in India was open to private sector participation. The country started in 20th place in the global insurance league table when the market opened to private players in 2000 and it had moved up to 11th place by 2010 (Krishnamurthy, 2011).

The basis for the privatization and subsequently foreign equity participation in insurance in India was based on two solid arguments. The principal reason was the lack of technical expertise within the private sector in India due to the long reign of the state monopoly LIC. The recommendations of the Malhotra committee report advocated liberalization of the sector to bring about greater efficiency by increasing productivity and reducing transactions costs. Competition would increase the product offerings at lower prices as well as increase outreach. Customer satisfaction would increase through better customer services and the use of better information technology. The argument for privatization is really hinged on increasing operational efficiency. However as the domestic private industry itself was not party to the life insurance business in India, technically it too lagged behind international standards in terms of technical knowledge, skills and managerial proficiency. Thus foreign participation became a necessity to bring about the desired efficiency gains (Rao, 2000). Given India’s long isolation from all competition, the domestic life insurance industry was cut off from the advantages and strides being made by the world insurance industry. Foreign firms- the global insurers were therefore the conduit to access superior managerial and technical
knowhow post liberalization. They would have the appropriate spillover and demonstration effects in the local economy, designed to encourage efficiency.

Given the lack of experience in setting up a life insurance concern within the private sector in India, most of the private companies which were set up (with the early exception of 2) were JVs between an Indian company and a foreign global insurer. The only concern of the policymakers against encouraging foreign participation was the loss of domestic market share for the domestic firms as well as the difficulties that they would face in competition with foreign firms. The foreign insurers had access to huge initial capital, were adept at the business and thus came in with high initial advantages which would be difficult to overcome for the domestic firms. Fears of foreign domination of the internal insurance markets and very low competitive pricing that could wipe out domestic firms had the policy makers stipulating limits to foreign equity participation in many LDCs during this period along with mandatory JVs with local partners (Rao, 2000). It had been the regional experience that once foreign firms were allowed in with limited equity, they exerted further pressure to increase stakes for a majority holding as was witnessed in the case of the South Korean insurance industry which was liberalised in the mid 1980’s. The policymakers’ final fears stemmed from the instability within the international sphere and whether by opening up the Indian economy in general and the capital intensive insurance industry in particular, they were subjecting a yet immature economy to possible exogenous shocks from the global economy.

For the foreign majors, India was a lucrative market to enter but they were constrained by the foreign ownership ceiling as well as heavy reliance on sound local partners for market knowledge and distribution access. It needs to be reiterated that insurance is a product that counts strongly on goodwill and branding and thus local recognition of domestic Indian companies with a reputation for fair play is a major business asset. However, given the existing regulatory constraints on FDI by the overseas partner and the initial ‘cash-burn’ that is a requisite of soliciting new business, a substantial part of the funding would have to be done by the Indian partner whose financial strength is likely to influence the credit strength of the JV.
Within the Indian partners most of the early entrants were either the financial service groups like those headed by the banking companies which wanted to increase their service offerings to include insurance and provide the full range of banking products and financial services or the business group conglomerates which saw insurance as further diversification. It was interesting to note that 10 out of 12 insurance proposals received for license by the IRDA in the early years had come from companies who are in the pure or applied finance sector. A third type of domestic promoter was further identified within the later set of JV partners who were typically single business companies specialising in their core business of telecommunications or real estate for example and only stepped forward to partner foreign insurers to realise the medium term valuation gains expected from the sale of the additional 23% stake as was expected to their foreign partners based on the promises made by the GOI and widespread industry expectations that FDI would soon be allowed up to 49%. The insurance industry in general is heavily concentrated and only a few efficient players are dominant in the market.

6.3.1 Some statistics for the life insurance industry

Table 3: Growth in the number of insurance players (as on 30\textsuperscript{th} September 2012)

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Adapted from (CII & Ernst & Young, 2010) and updated from http://www.irdaindia.org/hist.htm.

In 2010 only 2 of the 22 private sector companies were fully domestic owned. In 2013, of the 23 private sector companies now, only 2 still remained 100% domestically owned.
6.3.2 Types of domestic promoters

Indian promoters can be classified into primary three types of investors based on their firm characteristics and strategic objectives, even though their explicit motivations might be ambiguous at times.

The first set (strategic group I) belongs to the bank led companies who have formed a JV with a foreign insurance player. The companies which belong to this group are incidentally also some of the leading market players. They can be identified as companies like SBI Life, ICICI Prudential life insurance and HDFC Life. All three domestic partners- State Bank of India (SBI), ICICI Bank and HDFC bank are the top multinational banking and financial services institutions in the country. However SBI is closer to a state owned company like LIC since it is a government- owned corporation but is listed on the stock exchange.

The second set of companies (strategic group II) are the diversified Indian business groups who have diversified into life insurance in collaboration with a foreign partner. These companies are identified with the likes of Bajaj Alliance, Birla Sunlife, Reliance Life, Max Life and Tata AIG.
The domestic partners within the third set of companies (strategic group III) are notable for being sleeping partners and conceding management control to their foreign partners. In instances where state-owned banks (which are majority state owned but publically listed and have international operations) have been involved, they have been active as bancassurance partners only and have not yet got actively involved in the JV management. These domestic players (non banking companies) have mostly built their reputation on the basis of their core business in India which they often dominate. They are much smaller compared to their diversified business group counterparts, if equally successful in building an international brand name. They are slowly diversifying in other sectors and have multinational operations as well in some cases. The likes of such companies are Aegon Religare Life Insurance (with Religare, a global financial services group from India and Bennett, Coleman & Company, the largest Indian media house), Bharti AXA (with Bharti enterprises, an Indian business conglomerate), AVIVA (with the Dabur group), ING Vysya life insurance (with Exide industries; recently ING has exited the JV with Exide now owning 100% equity in the company) and DLF Pramerica (with DLF ltd.).

While these would be the dominant types of domestic promoters, it is noteworthy that some of the JVs have been forged with more than one domestic promoter. Metlife India which had a clutch of private investors and Jammu and Kashmir bank as its domestic investors has recently joined hands with Punjab National Bank (PNB), the second largest state-owned commercial bank (also listed) which has acquired 30% equity in the JV, diluting the stake of existing domestic shareholders. Interestingly, given the scope for bancassurance sales that PNB offers, it had high bargaining power with a shortlist of foreign managed JVs to choose from for its partnership- Metlife swung the deal primarily because of its diversified Indian shareholding which allowed PNB to become the dominant shareholder (Times News Network, 2011). The other example is of Canara HSBC Oriental Bank of Commerce Life Insurance which is a JV between Canara Bank (holding 51%), the Oriental Bank of Commerce (holding 23%) and HSBC Insurance (26%).

The JVs within life insurance industry in India can be classified according to a few basic criterions.
1. Type of Indian promoter (strategic group I- banking companies; strategic group II- diversified business group companies; strategic group III- core single business companies; within group III, many banks entered as bancassurance partners at times acquiring equity as well but have not yet shown any active interest in the JV beyond bancassurance sales).

2. Management control (Equal; Now with (transition to) domestic promoters; Foreign run; Always with domestic partners)

3. Number of promoters within the JV (Foreign-1, Domestic -1; Foreign-1, Domestic 2; Foreign -1, Domestic- 3 and more)

4. Foreign/domestic dominated

5. Market share (Market leaders / market laggards ) [based on top 10 companies]

Foreign insurers have learned that the strength of their domestic partners and their market franchises is vital to sustainable growth. Insurance buyers rely more on the market standing and distribution network of local sponsors than the global image of their foreign counterparts. At the same time, a few JVs have experienced growth constraints because local partners have not been ready to pump in capital as needed to support business volumes and solvency needs. As a result, well-capitalized banks are emerging as preferred partners in insurance ventures. In fact, entrants such as HSBC and Dai-ichi Life have offered high premiums to banks in order to forge partnerships. Now several ongoing ventures are also trying to lure banks including state banks by offering them a slice of equity in exchange for their funding and distribution capabilities.

6.4 The Life Insurance Corporation of India (LIC)

The state owned Life Insurance Corporation of India is coterminous with the life insurance sector in India. Contrary to the conventional perception of insurance as a directly correlated risk-return relationship, the high awareness of the LIC and its record for delivering stable returns over the years has further driven the Indian perception of life insurance as a low risk-high return investment option (McKinsey & Company, 2012). LIC thus holds critical importance in the Indian economy due to its dominance as the national insurance agency, pooling and redistributing risks across millions of households. Through its access to the major collective savings, LIC assumes the role of
the dominant financial intermediary, channelling investible funds to productive sectors of the economy (Rao, 2000).

LIC was formed by the nationalization of the 245 Indian and foreign insurers that were in operation in 1956 to address the nationalist concerns post 1947 in India. It was established by an Act of Parliament, the LIC Act of 1956, with a capital contribution of Rs. 5 crores (50 million) from the GOI with the objective of spreading life insurance much more widely and in particular to the rural areas with a view to reach all insurable persons in the country, providing them adequate financial cover at a reasonable cost (Life Insurance Corporation of India, 2004). It is not surprising then that LIC did manage to gain considerable penetration in rural areas and about 48% of its customers are from rural and semi urban areas (Sinha, 2002). As the first Prime Minister Jawaharlal Nehru envisioned, “the nationalization of life insurance is an important step in our march towards a socialist society; its objective will be to serve the individual as well as the state” (Kadam, 2012; 318).

The LIC plays a crucial role in supplying funds to the central government and various state governments by investing in government securities as it has to under its investment regulations. This makes the relationship between the GOI and LIC a complex nexus of dependent relationships which are difficult to unravel for the outsider. However, the GOI does use the LIC as its lifeline on many occasions and thus LIC receives ample state patronage.

12 years post liberalization LIC remains the largest life insurance company despite privatization of the industry and continues to enjoy near monopoly powers in the solicitation and sale of life insurance policies in India. Its strength lies in its incomparable established size, wide and strong network of branches across the cross section of India, huge trained labour force for the agency based distribution channel, strong rural presence and an in-depth knowledge of the nature of the market. LIC is today (as of 2012) the biggest financial institution in the country with total assets under management standing at a staggering Rs 14,17,891 crores which is in line with the 75% growth in assets as was predicted in 2009 (The Financial Express, 2009).
6.5 Chapter summary

This chapter has been framed to provide context to the empirical data collection from the life insurance industry that was undertaken for the purpose of exploring bargaining issues within a single industry context. The effort has been to provide sufficient information of the industry environment on the basis of which it will be possible to characterise the common traits that will be applicable across several cases as well as uncover the unique features of the case (Ghauri, 2004) once the findings have been presented in Chapter 8 (Part III). Thereafter, based on the integrative powers of the researcher the effort will be to concentrate on the ability to study the manifest dimensions and to draw the elements together to present a coherent narrative as well as interpretation in Chapter 9 (Part III).
Chapter 7: Methodology

The previous chapter provided basic understanding of the life insurance industry in India selected to form the focus of the single case study methodology discussed in length in this chapter. Section 7.1 embeds the discussion to structure the study within a case study research design. This is rooted in the demands of the research question as well as the epistemological predilections of the research and researcher (7.1.1). The conceptual research design which has shaped Part I of the thesis including an interdisciplinary literature review culminating in a priori propositions and the conceptual framework is discussed in 7.2. Thereafter the considerations of the empirical study are explored in 7.3 including the discussion regarding the choice of industry, country and the single case study design (versus comparative). In the interest of disclosure the researcher acknowledges the non linear and serendipitous decision making which accompanies PhD research and has been the case here in 7.4 which was only subsequently (and fortuitously) backed by the literature. 7.5 discusses the data collection process. Data analysis was shaped through progressive focussing (7.6). Further details regarding the unit (7.6.1) and level (7.6.2) of analysis and the use of Nvivo in analysis (7.6.4) are discussed along with the structure of presenting the data through narratives (7.6.6). Triangulation through multiple sources of data and their cross referencing within analysis adds coherence to the discussion of credibility, dependability and confirmability of the data in 7.6.6. The chapter is summarised in 7.7.

7.1 Case study research

Robert Stake’s (1978; 5) claim that ‘case studies will often be the preferred method of research because they may be epistemologically in harmony with the reader's experience and thus to that person a natural basis for generalization’ seem to perfectly express my personal inclinations towards undertaking empirical work for the research study on bargaining in EMs. However, the case study is also the natural default choice by virtue of what is to be studied rather than a methodological preference per se (Ghauri, 2004; Ghauri & Gronhaug, 2002; Stake, 1994). Therefore the decision to conduct a case study here is due to the implicit interaction between the subject matter of the research and the philosophical underpinnings of the researcher.
The case study is the obvious choice for a research design (Stake, 1978) with emphasis on understanding the bargaining process that is now emergent post liberalization in EMs. As Von Wright (1971) discussed in his book *Explanation and Understanding*, while explanation adds to understanding, understanding has an added psychological element imparting it empathy in the mind of the researcher which allows them to recreate in their minds the objects of the study. This understanding is characteristic of the humanities research (Stake, 1978) which appreciates the intentionality of action and provides an embedded social and cultural context (Von Wright, 1971). The twin focus on understanding and context within this study underlines the use of the case study. For even though the data is collected at the firm level, the respondents themselves are individuals reflecting on their experience as company executives. Since organizations are not a natural phenomenon, they are constructed and constantly reconstructed by the people within and around them (Noorderhaven, 2004). *Truth* regarding human affairs according to the antipositivists is therefore better approximated by statements that are rich with human encounter built through perceptions and understanding that comes from immersion in and holistic regard for phenomenon (Stake, 1978; 6). Thus the understanding herein is a sum of their perceptions and their interactions within the industry. Qualitative case studies enable the understanding of the phenomenon from the point of view of the participants within their social set-up. If the textual (through interviews or other qualitative methods) data is quantified, this contextual understanding is sacrificed (Kaplan & Maxwell, 1994). Since contextual understanding is critical to this research, the details are important because as has been argued, we can fully grasp human meaning only when we have a detailed account. The conviction behind conducting case study research lies in the belief that such cases reflect the reality of the situation or process (Bakker, 2010).

Ghauri (2004) cites a number of case studies covering a diverse range of topics in IB which were particularly well suited for a case study design. Themes of some of these studies happen to be very similar to those that are also reflected in the current empirical study like negotiations in domestic versus international settings (Ghauri, 1983) and the development of international JV relationships over time (Hyder & Ghauri, 2000; Hyder & Ghauri, 1989). It has also been argued that case studies facilitate the use of a longitudinal approach (Hyder & Ghauri, 1989;26) specifically quoting the example of a JV relationship which are best understood as a ‘historical process’. This study has
attempted to capture the development of the bargaining process historically through trying to track the development of the key industry wide policy issues which have been debated through an interaction between the triadic stakeholders where the foreign and domestic promoters are in a JV. Within the empirical study one of the emergent revelations has been regarding the development of this JV relationship between the foreign and the domestic promoters. While in hindsight it is fortuitous that I had adopted the case study methodology which is particularly well suited for the study of such relationships, I could not have anticipated this result at the start. However what I did know was that the industry was characterised by the presence of a high number of international JVs and that I knew relatively little about the dynamic interactions between the players. This encouraged me to structure the research as a case study of the industry so that the subsequent semi structured interviews could be flexible enough to accommodate the exploratory questions as well as evolve according to the demands and the details of the interview guide.

Case studies are often done through a review of the existing historical material available in the public space plus interviews. This makes them quite similar to a historical review but with the added advantage of allowing direct observation and interactions (Ghauri, 2004). Such interactions are quite important in the context of ‘the context’. By directly interacting with the individuals involved and through observation of the phenomenon in its natural set-up (or at least a part of it in the course of a longitudinal study) the researcher is able to interpret events in their proper context. According to Yin (1994), preserving and providing contextuality is one of the strengths of the case study. An appreciation of the context allows for the acknowledgement that context is integral to fieldwork and for the conscious and responsible acceptance of contextualisation as a core responsibility; thus subjectivity cannot be excused or avoided, but is valued and learnt from.

Also the so called ‘humane’ understanding which is often ascribed to case study research is not so much a characteristic of the methodological choice as it is a quality of the researcher (Stake, 1994). Our interpretive skills have become possible through our experiences and prejudices and only an honest appraisal of this will shape our ability to interpret. Such recognition allows for the fieldwork to be more context sensitive, where the researcher is a complex individual engaged in playing a variety of roles in the field
(Michailova, 2004). It is therefore the shortcomings of the researcher that would transcend on the empirical results rather than flawed judgement regarding the choice of the methodology. Despite adequate safeguards to prevent the contamination of the results and the case study during the process of the transfer of knowledge from the writer to the reader, it is natural that they will pass along some of their personal understanding of the events and relationships while failing to pass along some others; just like the reader will reconstruct the knowledge of the case in ways that might be differently connected but personally more useful (Stake, 1994).

7.1.1 Embedded epistemology

A case study is ‘an empirical enquiry that investigates a contemporary phenomenon within its real-life context, especially when the boundaries between the phenomenon and the context are not clearly evident’ (Yin, 1994; 13). Within the case study research the focus is on the in-depth understanding of the predefined phenomenon and its context (Cavaye, 1996). While the case study can follow either a positivist or interpretivist philosophical tradition and has been used as a research design in both, the underlying ontological assumptions of the case study are radically different and define what is to be perceived as knowledge within the empirical setting.

As Stake (1978) advocated, the epistemology and therefore the ontology that one subscribes to has a more ingrained origin. Here in this research, the empirical context has been approached with an interpretivist’s predilection since I seek to understand the phenomenon through accessing the meaning that participants attach to them (Orlikowski & Baroudi, 1991; 5). In this approach, the reality is subjective, a socially constructed product open to the interpretations of the researcher as a social actor according to their beliefs and value systems (Darke, Shanks, & Broadbent, 1998). Given that the researcher explicitly acknowledges their subjectivity, the value of the explanation is therefore judged in terms of the extent it allows others to understand the phenomenon and makes sense to those being studied (Walsham, 1995).

Interpretive- constructionist methodologists challenge the very assumption that an “objective” strategy can access reality as it is in itself independent of the observer. They claim that all knowledge is shaped by the sensitivities and the limitations of the observers. Thus all knowledge is interpretation (DeRoche & DeRoche, 2010). In truth, it
seems that most contemporary qualitative researchers revel in the belief that knowledge is constructed rather than discovered. From their perspective, even the world as we know it is first and foremost a human construction. Both children and adults construct their understanding from experience, from being told what the world is, not by discovering it untouched by experience. Reality then becomes what we believe we know rather than what has been verified outside of their experience (Crotty, 1998; Stake, 1995). It is the social construction of reality wherein all meaningful reality is socially constructed (Crotty, 1998; 54). This is quite succinctly put. For the constructionist this would be an apt and rational deduction to arrive at the ‘truth’ regarding the external reality which cannot be possibly accessed in a manner which allows a construction of the reality which can withstand disciplined scepticism. Thus the research experience and summary results are the process of interpreting as well as a product of the researcher’s notions of knowledge and reality. We construct meaning-yes. Yet, the world is always already there. Constructivism allows us to bring objectivity and subjectivity together through whose interplay, meaning is borne (Crotty, 1998; 45)

The epistemological view endorsed in this research and its philosophical underpinnings make me a relativist. Yet, relativists contrary to popular misinterpretation against the philosophical tradition are not absolutists. All interpretations are not equal and qualify to be judged based on their relative credibility and utility (Guba & Lincoln, 1994; Stake, 1995). In this respect, multiple interviews, the triangulation process and the immersion of the researcher within the research context facilitates rational judgement regarding the relative interpretations and their credible meaning.

7.2 Conceptual study design

The research problem and its subsequent conceptualization has been built within a tradition of rich literature which facilitated the development of the conceptual framework and understanding of contextual issues. Understanding developed over time by engaging with the literature and allowed me to bring about greater focus within the research questions which have gone through a wringing machine through-out the research process as is often the case in case study research (McGaughey, 2007; Yin, 2003). There is however the need to gather sufficient empirical data to support the same.
The literature review was an arduous process which revealed early on that determining the role of local MNEs as potential stakeholders in bargaining would be an exploratory study.

Within qualitative exploratory research, deep insight on the problem requires the use of techniques which allow causal relationships between variables to be firmly if tentatively established conceptually first. To begin with, it was important to first develop a theoretical framework that could be subsequently tested rather than to come up with definitive answers— the qualitative research design that was adopted facilitated this (Miles & Huberman, 1994; Yin, 2003). A conceptualization of the research problem that is able to develop relationships between the various constructs leads us to the problem of proposition generation. Propositions within the management and qualitative social science literature have adopted two fundamental approaches. Within this study, I have used Yin’s (2003) thesis in which he suggests the development of *a priori* theoretical propositions in contrast to Eisenheardt’s (1989) view wherein case studies should start without any theoretical background to avoid any preconceived constructs.

This was a simple choice which was largely led by the origin of this research embedded within bargaining theory, in particular the OBM. Yin’s (2003) recommendation is more suited for my research problem since there are many established frameworks which are available broadly that have only been adapted for the context of the study. Thus while the context of a triadic interplay involving local MNEs and within EMs is new, an extended bargaining framework per se is not. Analytic induction followed by theoretical propositions allows for a proposition based analysis which is *a priori* developed on the basis of the literature review before the onset of the actual case study research and helps guide the subsequent data analysis through focus on the research objectives (Tellis, 1997; Yin, 1994, 2003).

The development of *a priori* propositions is a distinguishing characteristic of such a case study research design (Yin, 2003). Such propositions help in training focus on the relevant theoretical issues within the scope of the study beforehand. Not only do these propositions help in guiding data collection, they also contradict popular criticism against the subjectivism within qualitative research (Miles & Huberman, 1994) by firmly rooting them in existing literature. The essence of *a priori* proposition
development is not to determine or cement the subsequent data analysis as much as it is to summarize the literature to suggest the expected lines of theory guided recommendations that can serve as guidelines for the emergent reality.

In order to follow a structured process towards such proposition building, the literature review which began as a snowballing exercise of referring to relevant literature was concluded in the end by a systematic literature review. Using the popular encompassing search engine- Google Scholar, I conducted an advanced search. The keywords used were ‘Bargaining’, ‘Government’ and ‘Multinational’ to be found anywhere in the article for the time period between 1980-2011. While the search words were kept broad so as to include applicable results, the scope was restricted to the management domain by only considering the subject area of business, administration, finance & economics, social science and arts & humanities. There was an expected glut at about 23,600 results. Thereafter I sorted and sieved the results based on the ABS 2011 journal rankings according to criterion of relative relevance that I perceived of the applicable areas and restricted myself to the top journals in related subject areas to keep the exercise manageable. I then manually browsed through the articles to select the relevant ones and sorted them into folders according to journals. This exercise was germane in ensuring I cover all major academic work on the topic of bargaining. I also gained from coming across related perspectives which might involve the concept of bargaining.

7.3 Empirical study design

Through a gradual process wherein many alternative case study designs were considered including the choice of a comparative case study (discussed in 7.3.1), the empirical research was eventually framed as a single in-depth case study of the life insurance industry in India operationalized through semi structured interviews with high level company executives across all major stakeholders from the industry. Within this study the meagre resources and time have been spent studying this industry trying to understand its complexities in order to fulfil the research objectives. Ultimately though I was interested in the general wider phenomenon of bargaining which I could not know

14 From Social Sciences all 4 * and selected 3 * journals; From IB all 2, 3 & 4 * journals; From General Management all 3 and 4 * journals
15 Excluding customers
about without knowing about other cases as well (Stake, 1994). Case study frequently implies the collection of unstructured data and its subsequent qualitative analysis. The fundamental purpose behind case study research is to capture cases in their uniqueness rather than as a basis for wider generalization or theoretical inference (Hammersley & Gomm, 2000). Generalizations are characteristically context free; ‘they don’t apply to particulars’ (Lincoln & Guba, 2000; 27). Thus for case study research being pursued to increase contextual understanding, it is not always a desired outcome. Whilst case study research allows generalizations, this is not pursued within the current research design. Therefore this remains a concentrated inquiry into a single case.

The choice of the case (or cases) has to be based on the accessible population which one can get access too as well those that are consistent with the research problem at hand (Ghauri, 2004). The empirical research was considered at the industry level rather than at the individual firm level since the policy outcomes affect at the industry level and were apparently being negotiated through collective effort (as the literature on policy networks would suggest) rather than as individual negotiations with the host government. The selection of the industry was based on parameters which were also supported by the literature and based on practical considerations like suitability of the industry to match the research criterion. This is an instrumental case study wherein the case itself is of secondary interest. It plays the supportive role in facilitating our understanding of the research questions. According to Stake (1994), the case is still explored in depth and its context scrutinised; but this is done in the pursuit of the external interest which is to further our understanding on bargaining issues. The industry being chosen had to be one of the salient sectors of the economy, of strategic importance to the government and been recently opened up for foreign participation. The degree of foreign participation should not be absolute just yet since it was perceived through the preliminary interviews (conducted to establish suitability of the industry as a potential case and to determine what the current policy (and regulatory) issues being debated at the industry level were) that the percentage of foreign equity that was allowed was the most important policy issue within bargaining.

Telecommunications was the most promising sector in this regard since it met all requirements and has also been the basis of recent research. There is a lot of investment being made in this sector by both domestic and foreign firms. It is one of the industries
with huge latent demand potential thus attracting foreign capital. Yet, it is also in the news in India (the country context- discussed in 7.3.2) since it seems to have been beset with a string of corruption related issues and scams which incidentally also brought up the role of companies influencing political appointments in India, the use of corporate lobbyists (lobbying is still not legally recognised in India) and the role of domestic business groups in influencing changes in FDI policy. Thus this sector seemed well poised as the research context.

It was a chance conversation with an actuary\(^\text{16}\) though from the life insurance industry, during a discussion of the conceptual framework wherein it was observed that the conceptual propositions seemed to be in line with some of the conditions and complexities that the life insurance industry in India was currently facing. Further exploration revealed that this industry was also very conducive for an in-depth exploration of the research problem since the configuration of foreign MNEs partnering with local MNEs in JVs allowed for sufficient interface of the ‘triadic interplay’. Most importantly, the industry is very small in terms of the number of players. It only has 24 companies in all including the public sector monopoly- the LIC. LIC alone constituted the life insurance industry in India till privatization was allowed in 2000. Of these 24 players 21 were JVs between foreign MNEs and domestic promoters from India. This was fortuitous. This industry thus seemed to not only provide the settings for the abstract dimensions which came from the conceptual framework but also provided a perfect opportunity to ‘discover’ given the relatively low number of companies in the industry. Interviews with a cross section of the stakeholders within the scope of the study would actually in this case be quite representative of the industry\(^\text{17}\).

Stake (1994) recommends choosing the case which is most accessible\(^\text{18}\) or the one we can spend the most time with. In this regard, even an atypical case provides a ‘better

\(^{16}\) An actuary is a professional who deals primarily with the financial impact of risk and uncertainty. Thus insurance is one of their dominant fields of expertise. The individual in question was my husband who has been a qualified actuary for 4 years and is a consultant with a major financial services MNE headquartered in the USA with significant global business interests including in the Asian economies.

\(^{17}\) The life insurance industry not only was more accessible through using my husband’s contacts and colleagues for gathering/arranging interviews, but I also had a working knowledge of the industry given
opportunity to learn’ and understand than a typical case from which little can be learnt because of practical limitations. While he acknowledges the relative importance of variety and balance, the ‘opportunity to learn’ is rated most highly by him, to the extent of even disregarding the sampling of attributes beyond a point.

7.3.1 Single versus comparative case study design

A comparative case study design was seriously considered since it allowed more flexibility in terms of analysis and a stronger conceptual basis. It was also recommended for practical reasons like not relying solely on the outcome of the research from a single industry. However preliminary interviews with executives from the telecommunications sector in India proved futile and sources revealed that executives had recently received a “gag order” following the widespread interest in the sector due to the ongoing investigations into the scams that had embroiled the industry.

Given ease of access and personal contacts within the life insurance industry which in India stands for a lot, the opportunity to delve in-depth into a single industry context through a single case study research design was thereafter considered. Budget and time constraints also indicated that a single case study of the life insurance industry would expectedly leverage available opportunity\(^\text{19}\)(Ghauri, 2004; Stake, 2005) by allowing greater depth in the data which need not be sacrificed to accommodate two different industry contexts. Furthermore, the emergent focus on policy development at the industry level also made the comparisons between industries within a comparative design difficult and uncalled for. While it is argued that a sample size of a single case is enough and need not be apologised for (Ghauri, 2004), it is also appropriate when a case is revelatory. As in this case wherein the study is exploratory and sought to research the phenomenon in a new context to update the holistic understanding regarding the bargaining process involving a local MNE within EMs, I was hopeful of providing useful insights. Given sufficient encouragement, this could be a first step which later leads to more comprehensive studies in which case the single case study is advisable.

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my economics background as well as through frequent conversations with him. I was familiar with the key industry issues which made delving into the heart of the matter easier and allowed me to have more detailed discussions throughout the course of the research study.

\(^{19}\)Stake (1994) suggests that access, hospitality, budgets and time constraints are important considerations in case selection. Ghauri (2004) adds the criterion of personal contacts as well.
(Ghauri & Gronhaug, 2002; Yin, 1994). Subsequently, a presentation\textsuperscript{20} to Professor Arie Lewin\textsuperscript{21} also confirmed that a single case study design should be followed. He was appreciative of the decision to concentrate solely on the exploration of a single industry.

Till much recently, I was still contemplating following a watered down version of the comparative case study design by referring to the telecommunications sector through the extant literature. However yet again at a presentation at the AIB UKI, the single case study research design was appreciated for the depth it allowed me to go into. Since the achievement of the research goals and a critical understanding of the phenomenon is contingent on choosing the case well (Patton, 1990), in consultation with my supervisor Prof Yamin, I decided to restrict the empirical data to a single case study design. Thus a single case study outlined at the industry level seemed recommended in this case to keep the scope of the study and the management of rich contextual data within reasonable limit.

7.3.2 Choice of country context

The demands of the research problem determined that the methodology would be a case study. The choice to locate the case study in India was dictated in part by the demands of the empirical context as well as logistical ease. I needed to centre the case in an EM. Since the Asian EMs are in focus and I am from India, the decision to locate in India was quite straightforward. The unique character of the IB field is ‘distance’-geographical, social, political, economic, cultural and linguistic distance between actors in the field and the distance between the researcher and the social reality that they seek to study. By locating the empirical study in my country of origin where I have intimate familiarity with the society in which the research phenomenon is embedded (Noorderhaven, 2004), I partly addressed this notion of distance.

More importantly, India is one of the major growth markets with the 2\textsuperscript{nd} highest population after China and a growing middle class, amply meeting the high potential

\textsuperscript{20} I am grateful to the CIBER at Manchester Business School and Prof Rudolf Sinkovics (the director) for giving me an opportunity to present my research at a PhD presentation session with Prof Arie Lewin where I got valuable feedback

\textsuperscript{21} Arie Y. Lewin is Professor of Strategy and International Business at the Fuqua School of Business, Duke University. He is their Director of the Center for International Business Education and Research (CIBER). Professor Lewin was the Editor-in-Chief of the Journal of International Business Studies (2002 - 2008)
demand criterion for determining critical end markets for foreign MNEs. India began a series of economic reforms in 1991 under which many industries are still undergoing liberalization measures. In terms of economic might and size, India is now increasingly considered as one of the major superpowers especially within South East Asia. India is also a signatory to the WTO. The conceptualisation of the EM government as an economic power with supranational influence and big markets and their practice of strategic governance within ongoing liberalization make India a suitable choice.

Informed by existing literature it would seem that there are parallels between India and China in terms of their general stance towards FDI and domestic enterprises. Though there is lack of enough empirical data, the conceptual framework would suggest that the empirical results derived from this study should hold true for all EMs which have empowered governments (especially with a socialist history and ongoing liberalization) and their own local MNEs (dominant local business groups) that are now seeing a growing interest in their internal markets by foreign MNEs and their growing involvement in domestic industry policy.

7.4 A note on the researchers experience

Stake (1995; 107) captured the more practical but mundane aspects of the PhD researcher’s sentiments and anxiety quite well when he expressed that ‘all the way through our case study work we wonder “do we have it right?”’. This statement is indeed the constant companion of the researcher once we leave the folds of the available literature and embark on the empirical mission. In truth, the empirical phase is beset with uncertainties. For not only is one unsure of the outcome and the best manner in which to conduct themselves given practical limitations of time and access, but processing information timely is itself very befuddling. Throughout the data collection process you have to constantly relate the interviewees remarks with the literature and research questions and keep modifying the interview guide by pursuing those areas which have been newly revealed or follow unexpected results.

Through this journey, one does not consciously take decisions based on the criterions of our philosophical bend. Rather we follow through with what seems to be the right thing to do according to the demands of the study. That “the right thing to do” is influenced
by our perceptions of what we construe to be knowledge and our understanding of reality as well as our interpretations of the meanings of the data is something that I only figured out for myself once I had to write this section. As Stake (1994) reflects, subjective choices are made throughout the course of the study and right till the very final hours in many aspects of the research. To deny that it happened any other way in this case as well, will be travesty.

When we were taught the course on epistemology in year 1, I followed it with deep interest and sought to define myself as a positivist or a rationalist etc. However I could not sufficiently make up my mind since it seemed like an abstract conversation where I could not really make any meaningful choices which would suggest what my philosophical underpinnings were. And once you are within the empirical set-up, you are far too caught up in it to give epistemology much thought. Only after reading ‘The Foundations of Social Science Research by Michael Crotty (1998) and an excellent paper ‘The Case Study Method in Social Enquiry by Stake (1978) subsequent to completing my empirical data collection, was I able to elucidate what stance I had adopted all along and put in perspective the choices that I had made. This is a much more implicit process than one would be told and isn’t really ever considered a priori-atleast not by novice researchers such as me. In the end, it was the seemingly “logical “ decisions that I made through the empirical process influenced by guidance from supervisors, advisors and peers that shaped the final case study research design.

Lastly, as the words of Van Maanen (1983; 247) aptly express, ‘time however, is the master perspective provider’. Like goals, intentions and purposes, perspectives too are best determined retrospectively, especially to products of scholarship that are long in coming. Thus this research output has evolved and benefitted from the hindsight of perspectives.

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22 This is an honest acknowledgement of the course of the empirical phase of the research study. Timing and the natural flow of the research made many of decisions rather than a considered deliberate choice for example regarding the interpretivist stand.
7.5 Data Collection

As mentioned earlier, three preliminary interviews were first conducted over the telephone with stalwarts of the industry to establish basic understanding of the core set-up of the industry and identify policy issues which could form the basis of the subsequent interviews. These preliminary interviews were interactive where I sought to discuss my understanding and potential ideas on how to identify the ‘bargaining’ phenomenon. The interviewees were well versed in matters of the industry and represented the academic as well as the practitioner’s perspective. The discussion ranged from the early institutional environment in India and identification of key stakeholders, the foreign promoter’s perspective and expectations including the present JV structure to the current state of the industry. These conversations which ranged from an average of 60 minutes to 2 hours\textsuperscript{23} allowed me to develop a comprehensive understanding of the industry as well as how I might structure the empirical data collection during my fieldwork trip to India.

Thereafter I identified the key groups of stakeholders from the industry that I needed to establish contact with in order to develop a holistic understanding of the private life insurance industry since its inception in 2000. The stakeholders included the JV companies in India, the foreign and domestic promoters of the JV companies, the industry regulator and GOI representatives especially from the Finance ministry, which is the nodal ministry for life insurance. Multinational consultancies which specialise in financial services with a focus on risk consultancy services were also accessed because they have negotiated many of the market entry proposals on behalf of the promoters (both foreign and domestic) and are also regularly consulted by the companies in the course of their business. Thus not only do they have an ingrained understanding of the JV companies across the board, but they have a wealth of high-level information especially regarding JV agreements which is information pertaining to the promoters and their shareholding in the JV which is at times even restricted from the JV employees. Many of the consultants have come from the life insurance companies themselves and also have the practitioner’s experience to add to their understanding.

\textsuperscript{23} These preliminary interviews were also transcribed and formed part of the overall data collection. Two of the three interviewees were also part of the final sample where I conducted face to face interviews with them following the interview guide that I had developed before I visited India.
The biggest advantage though is their ability to assimilate information at the industry level since they are consulting with all companies and can therefore put their knowledge built through various accounts in the proper perspective.

Industry and trade bodies were also interviewed as they are usually an important channel for consolidating industry views and presenting them to the government. The Federation of Indian Chambers of Commerce and Industry (FICCI) present themselves as ‘the industry’s voice for policy change’. Lastly, some officials from the regulators office were also contacted as well as institutions like the Institute of Actuaries of India (IAI) which is the statutory body established for the regulation of actuaries\textsuperscript{24} in India and has regular interactions with the government officials and regulators over business regulations and policy.

Interviews were chosen as the method for data collection. Following the Gubrium \& Holstein (2002) typology of interview types, qualitative interviews which allowed for the freedom to raise topics, formulate questions (since we only had a semi structured interview guide) and move in new directions was found to be suitable for the exploratory, theory driven collaborative approach that I had adopted. The ability of qualitative interviews to allow the interviewee to talk about what they perceive to be important within the scope of the research project is an important attribute of such interviews (Alvesson, 2003). Such an interview technique also counts on good language skills\textsuperscript{25} to facilitate the interview dynamics. It is seen as a resource rather than a source of bias which allows the researcher to be flexible and responsive to unexpected and emergent (emic) issues and themes (Marschan-Piekkari \& Reis, 2004). I was an engaged interviewer in part because of the cultural context (Wilson, 2004) and also because of the social process of interviewing (Yeung, 1995). While this could possibly lead to reconstruction of events with the benefit of hindsight contaminated by inaccurate recall and tempered through personal opinion and is a common criticism against this method...

\textsuperscript{24} Actuaries are responsible for the technical aspects of running a life insurance company. The foreign expertise is usually related to technical and managerial aspects. Since there was no private insurance industry in India prior to 2000, this ability to bring in the technical expertise as well as knowledge of how to run a life insurance business was particularly crucial in the early formative years. Thus actuaries are well placed to comment on the development of the business from the perspective of the promoters’ contributions and the changes in the dynamics between them. Some of the experts have also been heavily involved in the policy making sphere and were part of government committees which were making some of the formative recommendations on the structure of the industry.

\textsuperscript{25} As a native speaker of both Hindi and English, I had the requisite language skills.
for data collection (Crotty, 1998; Gummesson, 2006; McGaughey, 2007), it also allows for discovery and perspectives through the engagement (Scapens, 2004) of previously unconsidered issues. As with all methods it has its advocates, but is fallible.

It is usually required of a PhD study to conduct around 35 interviews in both the exploratory as well as the confirmatory stages even though the range varies on a case to case basis (Perry, 2001). I conducted a total of 40 interviews of an average duration of 60 minutes and thereafter concluded the process since based on the scope of the thesis, I had reached theoretical saturation (Lincoln & Guba, 1985). Interviews with 38 individuals (including the three preliminary interviews) were carried out in 2 phases between April- May, 2012 and August 2012 in Mumbai and Delhi in India. The interviewees were first contacted via email. Their contact details were sourced through contacts or when not available accessed through the company websites. I first introduced myself and the research and sought an interview with them at a convenient time during the period that I was going to be in India for the fieldwork. The respondents were mostly quite responsive and followed up with meeting times. I explained the scope of the research to them and requested permission to record the interviews. All but three of the respondents were happy for me to go ahead. Only two of them ever asked me to turn of the recording to mention some details “off the record”. These were more in the nature of specific details regarding company names and instances where behind the scenes meetings had taken place, which were not in public knowledge. All but 3 of the main interviews were conducted in person. 2 of interviews were conducted via Skype since the interviewees in one case was located in the regional headquarters in Singapore and in the second retired to the English countryside; the third interview had to be conducted via the telephone because of repeated rescheduling- however this turned out to be a very short interview. The interviews were all conducted in English since in India it is the widely spoken language in which all business is conducted. In this respect it can be regarded as the native language.

The interviewees were selected after due consideration on the basis of eligibility and the ability to establish access. A master list was drawn up in which all the major sets of stakeholders were identified. Given the level of detailed inside information I had based

26 1 of the face to face interviews was conducted in London- the interviewee had been unable to meet in India but was later travelling to London and graciously gave me an appointment.
on my access, I was able to also identify individuals who are regarded as stalwarts of the industry and have seen it develop in the last 12 years. Among the JV companies, I selected those which were either the earliest entrants or held a significant market share. A further set of companies were identified where the management control was with the foreign promoter. Such companies were invariably smaller but an important segment of the market especially in terms of their bargaining influence as far as policy issues were concerned since they were perceived to have significantly different bargaining objectives versus the bigger domestically managed companies. After the first round of interviews the snowballing technique was used to some extent to further outreach. On the other hand, the scope of the interviews was also redefined after the first few interviews (due to emergence of emic issues) and thereafter within phase two another set of respondents were identified who could specifically contribute to extending understanding on the new range of more focussed themes which had emerged from phase one.

This experience followed the following sampling logic- while purposive sampling allows building variety and acknowledging opportunities for intensive study (Stake, 1994) as the initial definition of the sample universe is more limited because social processes have a logic and coherence that random sampling can reduce to uninterruptable sawdust (Miles & Huberman, 1994; 27), the definition of the case at the industry level provided the opportunity for within case sampling. Such sampling is always nested (Miles & Huberman, 1994). It allowed me to study individuals who are within the environment of the defined case. Most importantly, within case sampling has an iterative or rolling quality, working in progressive “waves” as the study progresses (Miles & Huberman, 1994; 29). In the course of interviews and observations, the researcher is constantly processing new information along his evidence trail; this leads to new samples of informants and observations. Such sampling decisions allow us to clarify the emergent patterns, see contrasts, identify exceptions and further our interpretations. Within case sampling helps us to see a local configuration in some depth and inherently affect the quality of the analytic conclusions that we draw.

Following Patton (1990), I adopted the general interview guide approach where I had clearly outlined the set of issues I wished to probe following a checklist style to ensure that all relevant research topics were addressed. This allowed for the free flow of
conversation within a broad ambit allowing for accidental discovery of relevant but unknown information yet not leaving the outcome of the interview entirely on spontaneity. Over the course of the fieldwork, the scope of the checklist also evolved with new issues being identified and ‘saturated’ and superfluous ones being phased out. While the basic checklist of issues approach was followed, there were certain aspects which differed in focus among the various groups of stakeholders and the issues (and question probes) which were accordingly modified to reflect the same (see sample interview guides in Appendix 4).

While the interview guide was semi structured, the nature of the interviews often resembled conversations wherein I was trying to discuss the interviewees’ understanding of the industry dynamics along the lines of their (the JVs’) relationship vis a vis the government, the regulator, policy making and their competitors as well as JV partners. Thus communication formed the heart of the interviews where I was not a neutral observer but more an active participant trying to interpret their understanding of their environment. According to Scapens (2004) it is important to be able to communicate with the subjects of the research. By doing so, one is often able to uncover deeper understanding which goes beyond just the words. Thus I was not independent of the case but by engaging with the interviewees was able to raise issues which might have been previously not considered or discussed (Scapens, 2004).

The ability to be disengaged and objective within the Indian cultural context is particularly challenging (Wilson, 2004). One has to be prepared to reveal themselves and engage with the interviewee. Not only did I have to conduct interviews wherein other individuals present were included by the interviewee in the discussion and invited to provide their point of view, a clinical phrasing of the question rooted in diplomacy and neutral words was also on instances challenged by “why don’t you ask me in simple English if the industry is lobbying…” (JV 35)! As has been noted by others in such cases, impromptu discussions are best carried on since they can be potentially tapping a rich vein of empirical material (Wilson, 2004; 429)

The following table captures the diversity in the interviewees experience as well as the range of stakeholders whose views were captured during the fieldwork. Most of the individuals had experience either in various capacities or across companies and thus
have been included to reflect as many perspectives as they might have the ability to provide (a detailed information sheet with the names, positions and career experience of the interviewees is attached in the Appendix 5).

**Table 4: Details of stakeholder interviews**

<table>
<thead>
<tr>
<th>Key</th>
<th>No of Interviews which reflected each perspective (perspectives developed across the interviewees career)</th>
</tr>
</thead>
<tbody>
<tr>
<td>JV perspective</td>
<td>13</td>
</tr>
<tr>
<td>Domestic company perspective</td>
<td>8</td>
</tr>
<tr>
<td>Foreign promoter perspective</td>
<td>5</td>
</tr>
<tr>
<td>Regulatory / institutional/ government perspective</td>
<td>7</td>
</tr>
<tr>
<td>Trade/ industry organisation perspective</td>
<td>4</td>
</tr>
<tr>
<td>Consultancy perspective</td>
<td>9</td>
</tr>
<tr>
<td>Academic perspective</td>
<td>3</td>
</tr>
</tbody>
</table>

7.5.1 Triangulation

Since the focus of the interviews was to gain information on ‘naturally occurring ordinary events in natural settings’ (Miles & Huberman, 1994; 10) triangulation through secondary sources was accessible to a point. Once the core events and contextual information had been highlighted, thereafter various sources in the print media, websites and other publically available information such as reports were useful in corroborating facts. This added to the credibility of the interview data and identified relatively more coherent accounts from others. Company websites, the regulator’s website and publically available documents and news reports were also referenced not only for the purpose of triangulation but also for confirmation of factual information. In certain aspects like branding of the JV, tracking the evolution of the JV company names and brands was also revelatory.

The empirical data benefitted from not only methodological triangulation to a limited extent (cross verification of interview data with committee reports, news articles, public information and websites) but also from robust data triangulation since the same benchmark policy issues were used to anchor the interviews across all interviewees (adapted for group of stakeholders) and therefore provided triangulation across
individuals and over time\textsuperscript{27} (the interviews were conducted in two phases lasting one month each in a gap of two months). Of the four types of triangulation proposed by Denzin (1978), investigator triangulation was not possible due to time and cost constraints and was not required within a PhD study because as a native speaker I was able to conduct all the interviews myself. Theoretical triangulation was not attempted since Denzin himself questions its plausibility and it remains highly problematic to reconcile in reality (Mathison, 1988).

Triangulation, as a validation strategy has attracted significant criticism (Flick, 2004) to which Denzin (Denzin, 1989; Denzin & Lincoln, 1994) responded by revising the understanding of triangulation to now suggest a strategy for justifying and underpinning knowledge by gaining additional knowledge (Denzin & Lincoln, 1994; Flick, 1992). As Sinkovics, Penz and Ghauri (2008) highlight, validity and reliability are dimensions rooted in a paradigmatic view that is not espoused by qualitative methodologies like case study research. Therefore the use of alternative terms like credibility, dependability and confirmability are preferred (Denzin & Lincoln, 1994; Guba & Lincoln, 1994; Miles & Huberman, 1994). The use of triangulation here though hopes to capture a more complete, holistic and contextual portrayal of the research phenomenon. ‘That is, beyond the analysis of overlapping variance, the use of multiple measures may also uncover some unique variance which otherwise may have been neglected by single methods’ (Jick, 1979; 603). This allows the examination of the same phenomenon from multiple perspectives and allows for the emergence of new or deeper dimensions.

Once the interviews were concluded, transcripts for all the recordings were prepared (34; notes had to suffice for 3 interviews which could not be recorded; based on the audio recording, 3 very short interviews of approximately 30 minutes each were considered to not lend themselves to transcription since the interviewees did not really contribute to extending understanding given their reserved or peripheral input). Due to time constraints I did not personally transcribe all the interviews myself but requested some college students (from India) to do so. This ensured that parts of the interviews which were either bilingual or referred to India specific details were not misunderstood.

\textsuperscript{27} For example, information regarding anticipated industry dynamics like the application for banking licences by domestic promoter groups was mentioned at the onset of these events, which is now being played out, much in a manner that was suggested.
and the veracity of the recordings was maintained. However in order to ensure quality and to put the expressions in context, I diligently heard all the recordings myself and ensured that the transcripts were verbatim. This exercise also gave me an opportunity to put my thoughts in perspective and recall the interview experience. I also did the first round of pre-coding during this stage by highlighting all parts of the text that I deemed important and thought required greater attention by underlining parts of the text or using a bold font based on the degree of importance.

7.6 Data Analysis

Before I progress to the details regarding data analysis, it bears to acknowledge the stinging criticism against case study research which is biased towards verification ‘as a tendency to confirm the researchers preconceived notions’ and according to Francis Bacon is a human tendency rather than a trait restricted to the case study research (Flyvbjerg, 2006; 234). Yet the intense observations which are made within the real life context of the case study and the gradual learning process are more likely to lead to a casting off, of such preconceived notions and theory that lean towards falsification rather than verification (Flyvbjerg, 2006).

The reiteration that qualitative research is often non linear and ‘messy’ (Gummesson, 2005; Parkhe, 1993) and follows a complex process of gradual evolution with iterative interactions between the theory and data – progressive focussing (Parlett & Hamilton, 1972; Sinkovics & Alfoldi, 2012b; Stake, 1995), which shapes the research process is met with some relief. It is also comforting to know that it is the hallmark of qualitative research (Sinkovics & Alfoldi, 2012b). This cyclical process has been a constant companion during much of the research process. The qualification of the above statement is not to say that ‘rigour’ was not maintained but that the ‘mess’ was manifest in the full circle that the progressive focussing seemed to entail. This was particularly true for the stage wherein the coding was undertaken and was not just restricted to the analytical stage.

When the checklist of issues informed by the literature was prepared to form the basis for the interview guide, it was constantly updated in the field (as has been mentioned earlier). Some of the etic issues of the literature were phased out because they either did
not fit the case circumstances or did not elicit meaningful responses. However *emic issues* also emerged; those issues that were of the case actors (Stake, 1995). Yet there was an inherent interaction between these *etic* and *emic* issues which emerged during the coding process using the CAQDAS- Nvivo. In part, this process was facilitated through the organizational tools that Nvivo provided and made the cycle all the more apparent. While some of the unanticipated *emic* issues on discovery could be subsequently related back to the literature, the incidence of strategic group behaviour for example which in the early interviews was found to be absent, was reflected in absentia when the JVs or domestic promoter groups could be bundled into strategic groups based on the commonality of their underlying objectives. Thus while they may not operate collectively in explicit action they have objective reason to do so.

7.6.1 Unit of analysis

Within IB the focus remains the multinational firm. The research problem approaches bargaining from the perspective of the foreign multinational seeking to enter EMs and how the bargaining between them and host governments has now evolved. Thus the role of the local MNE and the discussion of recent bargaining issues is only to the extent that I wish to extend understanding on the bargaining challenges that foreign MNEs now face in countries like China and India wherein they are trying to establish a long term presence. In this regard, the unit of analysis therefore remained the firm in its interaction with government bodies. Both foreign MNEs and local MNEs were accessed, usually through the JV that was established between them in India.

While individuals representing various stakeholders were approached to understand the issues, channels and structures which represent current bargaining, the actions were discussed at the company level through their presence in the policy space as either the JV or as the parent foreign/ domestic company. Essentially, the effort was to understand the non-market behaviour and strategies that companies follow in bargaining and how it pans out over a period of time given that most bargaining now is iterative and encompasses issues at the operational industry level.
7.6.2 Level of analysis

It is much more difficult to articulate the level of analysis that the research eventually took. The case study is bounded at the level of the industry— the life insurance industry in India. The interviews were conducted with various stakeholders, individuals who represented companies or institutions and had access to high level strategy decisions as well as veterans of the industry who have seen it evolve over the years and are well versed in its dynamics through their experience and through anecdotal conversations.

While at the one level the discussion of bargaining was broadly based on the industry level issues which are relevant to the sector and thus are the basis for bargaining between industry players and the government, at another level it evolved into and involves insights on the strategic motivations in terms of the industry players i.e the foreign MNEs, local MNEs and the government. This strategic dynamism is explicit in the triadic interplay that results between the three primary players being studied here and is also contingent in part on the larger macroeconomic environment in the host economy. As the analysis in Part III will elaborate, bargaining is a complicated phenomenon to study since much of the negotiations are carried out behind closed doors and are not available in the public space. Similarly there is a reluctance to fully disclose the actual strategic plans that most promoters (domestic, more than foreign\(^{28}\)) have in store since despite having divergent objectives, they still have to maintain the semblance of harmony within the JV.

Thus the analysis will centre the discussions along three parallel aspects which are quite entwined in each other. These will involve the policy and regulatory issues which will underpin the exploration of the promoter objectives of the various groups of stakeholders in the private sector in India and as the findings in Chapter 8 reveal can be distinguished on the basis of the key conceptual issues like strategic insidership and co-opetition behaviour on which information was gathered and is the basis for the interplay between the foreign and domestic MNEs and defines the trajectory of their collaboration and coexistence. This discussion will form the heart of the analysis since it started from

\(^{28}\) The foreign promoters have all been very vocal about their desire to be allowed to raise their foreign equity holdings in the JV companies as per their expectations which were acknowledged by the GOI at the time of opening up the sector. It is the domestic promoters who have been more reticent about disclosing their future plans. These aspects have been explored based on the data in Part III.
the topical concerns that were informed by the literature based on which I structured the foreshadowed problem and articulated the research question. By concentrating on the issue related observations, we will be able to interpret patterns of data that will finally allow us to reform the issue as assertions (Stake, 1994).

7.6.3 Triangulation in analysis

Through the triangulation process, the multiple perceptions of the interviewees are used to clarify meaning and verify the veracity or repeatability of an observation and interpretations (Ghauri, 2004; Ghauri & Gronhaug, 2002). Since the empirical data in this study relates to issues pertaining to strategic interactions as well as border on suggestions about the use of political resources including political clout, some of the information obtained might be anecdotal or inferred. Triangulation allows for using such information against the context of all the other accumulated knowledge which provides an in-build system of ensuring consistency and caution. By allowing varying accounts of the same observation, triangulation thus provides for different perspectives to be accommodated within the same analysis since it acknowledges that observations or interpretations are not perfectly repeatable. It not only helps identify different realities (Stake, 1994) but it is also aligned to the epistemological position of social construction that I adopt within the empirical research.

The ability to contextualise and interpret the responses of the interviewees on sensitive issues such as strategy and political activeness is very critical. Triangulation allows for consolidation of information across the individual interviews based on accounts of their current and overall industry experience. In this case, since the discussion was based on specific policy issues as well as strategic motivations of the foreign and domestic promoters, I could compare the data across interviewees on these issues, without specific regard for which company they belonged to. Accuracy might have been a potential issue in case of differing accounts of the same event, but those are better explained as ‘displays of perspectives and moral forms’ (Silverman, 1993; 107) rather than a statement on the true or false reports on reality (Ghauri, 2004). Such an interpretation which is not evaluative or judgemental but rather accommodating of various accounts through different lenses adds to the richness that contextual data can provide since it opens the researchers mind to various possibilities of explanations.
7.6.4 CAQDAS

The instrumental case study facilitates the manifestation of the conceptual issues with the context of a real life scenario. The critical issues are known in advance and to follow disciplinary expectations, the design can take greater advantage of already developed instruments and preconceive coding schemes (Stake, 1994). However since it is an exploratory study, despite being instrumental intrinsic in its own right, one has to also be open to the possibility of coming across new themes which require changes in the preconceived codes which were drawn from the literature. This requires progressive focussing (Sinkovics & Alfoldi, 2012a) wherein we move between the theory and the case details to hone understanding on the research issues.

Once I had the complete set of transcripts (only some of which I transcribed myself), I first revised them during a quality check to ensure that no words or expressions were mis-transcribed. This exercise was done for all the transcripts including those that I had transcribed myself since it was also an opportunity for pre-coding. Following the interview text whilst listening to the recording was invaluable for understanding the context and to account for the tone. All parts of the text which seemed to be particularly relevant or important were highlighted in orange in the word document. Where particularly attractive quotes presented themselves, I used a bold font and underlined them. This was useful later during the writing up of the analysis chapter to revert back to chunks of text which were memorable and could then be easily found.

I began using Nvivo for the coding process due to time constraints even before the precoding for all the transcripts was complete. This was fortuitous since I coded 7 transcripts at first, only to abandon that project to start afresh much later. This was a valuable learning experience because I was able to ascertain an early set of recurrent themes but more importantly got a taste of using Nvivo with real data. Coding is a process that facilitates grouping of text according to themes that give contextual meaning to the information in the text and explore relationships among them to generate findings. The coding itself allows for data reduction that makes the raw interview data more manageable while retaining its context (Miles & Huberman, 1994).

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29 The screenshots of the coding list for comparison and understanding the evolution of the nodes is attached in the Appendix 6.
I was only able to start coding again in February, 2013 after a couple of months during which I was developing a conceptual paper. This was excellent given the early coding experience because it allowed me to iterate between conceptual and thematic issues in the empirical data. With the second attempt I used topic coding as before, but ensured that I defined the scope for each node to contain overlapping meaning between nodes which seemed to be a trap that I kept falling into if I did not consciously re-evaluate the nodes every few days. I was also encouraged to develop more nodes that were restricted in their scope and could be merged later (which is a simpler process in Nvivo) rather than make broad categories which would be too messy to suggest meaningful results. This did lead to a proliferation of nodes but these were often merged on regular appraisals.

Given the first attempt, I was able to generate the first set of nodes and complete the coding process successfully without further ado. During the perusal of the interview data I was simultaneously making a lot of annotations as I kept making linkages between practical aspects of the case to various conceptual issues as well as acquired further information towards triangulation of certain information. Seeming contradictions in reasoning (as they seemed at each stage) were also noted down, to be dwelled on later and juxtaposed with the other sources. Memos were using for noting down emergent propositions which seemed to present important points for further consideration at the close of the analysis.

After coding the first 15 transcripts, I had 48 codes. The first set of complete codes across all the transcripts were 50 with child nodes as well. Coding here was useful from three perspectives. It allowed me to synthesize information on each code across sources and to develop ingrained understanding of the issue. The codes were also interrelated to each other which suggested dependencies and relationships between them which needed further understanding through immersing myself in the analytical process most of which at this point required constant reorganization of the codes in hierarchies. This is an essential aspect of analytical coding. Some of the codes figure under more than one parent node to suggest that they contribute to the broader understanding of the broader concepts embodied in the parent nodes. Lastly, coding allowed me to make further, finer categories from finding different dimensions in the data gathered by the first coding.
In actual this process while adhering to the cyclical iterations of progressive focussing was much more linear. First I conducted topic coding manually. Most text was coded at more than one node. Thereafter in stage two, I recoded some of the thematic codes, by substituting codes which had explanatory labels with labels which had a mirror concept in the literature but one that I had not previously identified, beginning the process of analytical coding. For example, I tried to represent the different views that exist within governments between the regulator and the finance ministry which together represent the government’s viewpoint. However the literature acknowledges that governments are non-monolithic. This was also accompanied by rearranging the codes which had 70 items into 5 parent nodes, based on their emergent relationships as parent to child nodes. Only later reflection through further analysis allowed me to see the link between the 5 basic nodes- co-opetition, structuring industry policy, the triadic engagement between triadic actors, strategic objectives of the triadic actors and for ease of analysis. It had not been anticipated that this reorganization of the nodes into 5 parent nodes based on their apparent coherence under the various heads would present the basic OBM model which is based on an interaction of the objectives of bargaining, the engagement between actors and the outcomes and following a co-opetition perspective in this case. The sources of bargaining power were reflected in child nodes like branding and strategic insidership which required a lot more analysis to be apparent as sources of bargaining power and were only recognised under the co-opetition node in Nvivo.

Once the analytical coding in Nvivo was complete, I used an excel spreadsheet to synthesize the interview data across sources based on each code and was able to draw visual relationships between them. This was a follow up of the Nvivo process but now rather than only across nodes, I went further by looking at the finer text within each node across individuals and drawing further dependencies. This allowed a synthesis of the data under each code as well as in the context of the other codes. During this process, the 5 parent nodes were again broken into a few key nodes which were

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30 Manual topic coding also allowed for some analytical coding since there was interpretation and judgement required for coding certain texts and deciding which code they belonged to.

31 Topic coding is the process of assigning references within your data to the topics, categories or concepts they relate to. It is necessary to see all the information about these topics, categories or concepts in your data to facilitate further analysis (QSR International, 2006).

32 Analytical coding is the process of interpreting and reflecting on the meaning of the data to arrive at new ideas and categories (QSR International, 2006).
explanatory variables. For example market imperatives as a basis for understanding domestic promoter objectives from bargaining. Here I used different colours to differentiate between text from interviews in orange from my own analytical thoughts in blue. This is where the process got particularly iterative. Last of all, based on the text that I exported to excel from Nvivo within these iterations, I was able to structure the findings and the analysis chapter following a broad OBM framework.

Using Nvivo was very time and paper efficient since it helped in the organization of the vast amounts of data that I had. By saving the results periodically I was also assured of turning back time (Coffey & Atkinson, 1996; Fielding & Lee, 2002). Yet, it is a tool wherein the quality of the analysis remains only as good the researcher is. Using manual coding allowed me to impute my analytical thoughts in the organization of the codes as well as in drafting memos and annotations. Once the coding process was over, I was more comfortable using excel as a canvas to further develop my analysis since it allowed me a free run of the software. I was not limited by the CAQDAS software (or my limited understanding of it) but could use it in a manner that allowed progress rather than frustrate my efforts due to lack of options. This use of both CAQDAS and manual analysis (Easterby-Smith, Thorpe, Jackson, & Lowe, 2008) was able to counter criticism against the single minded focus on using software tools that blunts the intuitive and creative analytical process, inherent to qualitative research (Coffey & Atkinson, 1996; Maclaran & Catterall, 2002).

Perspective and reflection was an integral part of the analysis where many of the relationships were only revealed during the writing up stage. Many of the analytical insights were actually discovered outside of active working hours where I was trying to frame my thoughts together to present the findings; during such contemplative states, the deeper linkages would stare at me! Thus the subtle implicit interaction of data, information, literature and discussions helped shape the final analysis. This iterative progression included analytical processes and was reflected in data reduction, synthesis, rearranging text to suggest causal relationships, identifying emergent themes and the eventual formation of propositions that add to extant knowledge (Miles & Huberman, 1994).
7.6.5 Structure and presentation of data

Through their ability to study phenomenon ‘in the real world’, case study researchers claim that they are better able to study causal processes even through an in-depth examination of only one of two cases in a manner which is not possible through either survey research or experiments (Connolly, 1998). To this end, narrative accounts of events in particular cases help in understanding outcomes which can possibly be reached through multiple pathways (Becker, 2000). Most qualitative researchers believe that there are multiple views and perspectives of the case that need to be represented but there is no way to establish beyond contention, the best view (Stake, 1995). Thus narratives help in furthering general understanding which is the underlying theme of exploratory research. While constructivism does not preclude generalizations, it encourages providing readers with good raw material for their own generalizing. Case study research facilitates this process wherein it bears the burden for providing clarifying descriptions and innate interpretations through “thick descriptions” - the interpretations by people most knowledgeable of the case. Thus the final report is replete with lots of narrative descriptions (Stake, 1995; 102).

The presentation of the findings are structured as a narrative, using representative verbatim quotes, which have been randomly numbered along with identifying codes like JV/ For/ Dom/ Con (joint venture/ foreign/ domestic/ consultant) suggesting the stakeholder perspective they represent to protect confidentiality. The chosen quotes are those which are grasping as well as comprehensively and decisively state the issue. However the same perception has been reiterated in many other interviews as well and are therefore triangulated through other sources of data including press articles and reports. However unique perspectives which are coherent in terms of the overall narrative and carry explanatory value have also been incorporated so as not to lose rich insight that might not be that well echoed within this data set but can be explored further.

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33 I have used random numbering along with a basic identification of which stakeholder perspective was being presented to protect confidentiality within a close knit industry since even expressions were suggested to be identifiable by colleagues.

34 Those verbatim quotes which were striking but concisely suggested the desired perspective were chosen. They were only modified to correct for grammar and sanitised for repetitions. The additions in text that I have made to provide further clarifications have been included in [ ] parenthesis. Bulky text that was not adding to the point at hand has been omitted due to space constraints between two points and replaced with….. to indicate that there was text in between- however the context has been assiduously retained.
and help in directing future research. I have also retained the conversation text as much as possible within the narrative to reflect the terminology and expressions used by the interviewees and avoid misinterpretations, the foundation of qualitative research and a step towards establishing trustworthiness of the data (Patton, 1990; Stake, 1995; Yin, 1994). By retaining the actual text and lacing it with theory within the narrative, I adopted the approach advocated by Eisenhardt & Graebner (2007). Explanations and descriptions that were repeatedly mentioned from various sources and formed a coherent narrative have helped understand the bargaining process which is quite shrouded in complexities and to an extent secrecy which accompanies political power.

By the time I was writing the discussion chapter I had come a full circle. I started by incorporating the etic issues in the interview guide which was modified by the emic issues which emerged. During the coding there was constant engagement between the theory and data which led to reorganization of the codes first thematically and then analytically- bringing me back to the core conceptual issues. These were again broken down during the excel analysis to reveal the findings and composed back as the OBM framework during their presentation. Thus the bargaining framework formed the initial and the end product with the OBM structuring the core findings.

7.6.6 Credibility, Dependability, Confirmability and Transferability of Data

Following a number of authors like Miles & Huberman (1994), Denzin & Lincoln (1994) and Lincoln & Guba (1985), the traditional focus on reliability and validity is being replaced by a methodology which is more suited for qualitative case study research. Triangulation facilitates the credibility of the data. This data is perceived to closely reflect and describe reality. Yet, isomorphism with reality is impossible since if we knew the precise nature of this reality, there will be little need to test it further (Lincoln & Guba, 1985; 294). Thus credibility can be maintained to high standards by preserving rich data, contingent on the analytical abilities of the researcher (Patton, 1990). By comparing the findings with the current literature given the boundaries of the case and its specific context, the scope for transferability can be defined. It is important to acknowledge the limitations of the case since it reiterates the scope of the research as well as enhances its applicability to other contexts by providing an honest account of the

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35 On a more honest note, I was relieved to come across this reference which provided ratification of the process that I had adopted
research process. This has been done in the conclusion chapter. Full disclosure not only facilitates transferability but also ensures dependability and confirmability of the data.

7.7 Chapter summary

This chapter is essential to develop the overall understanding of the study in this thesis by appreciating the decision making in its conceptual and empirical research design as well as to understand the data analysis and estimate its quality. The authenticity of the data which is presented through the narrative in Chapter 8 can only be gauged by following the process of analysis explained here. The chapter underlines the process and the progress of the study in the last 3 years which has led to its present format in this thesis.

The development of a thesis requires many explicit decisions which are well captured in the literature and the classroom. However only by writing this chapter was I able to appreciate the more implicit nature of research which demands consideration of my treatment of ‘reality’ and knowledge and how I have perceived and constructed my study and the data. It has demonstrated how seemingly ‘logical’ decisions are also embedded within the larger research design and reflect underlying epistemology. It has been humbling to experience this richness of the literature and robustness of research methodologies. I have embraced its contributions with the gratefulness of a PhD researcher at the end of her tether by revelling in the knowledge that there was method in all the madness.
Part III: Empirical analysis, findings and discussion
Chapter 8: Analysis and findings regarding key (select) policies and their development within the life insurance industry in India

In this chapter the findings from the interview data are discussed and analysed in the context of the bargaining relationship. The first section (8.1) highlights the bargaining objectives of the triadic actors from their trilateral relationship. Thereafter the notion of co-opetition between local MNEs and foreign MNEs particularly within their JVs is introduced. Thus following a co-opetition perspective, the triadic engagement between the focal players is analysed (8.2). Lastly, the policy outcomes are discussed as an interplay between bargaining objectives conditioned through co-opetition and other environmental factors (8.3). 8.4 concludes with a chapter summary.

With the gradual liberalization of industry, the government is also developing regulatory coherence. The establishment of the Insurance Regulatory & Development Authority (IRDA) means that most industry issues are now consigned to its domain and the JVs have to regularly engage with it for business development. Therefore it is important to note that it is not only policy issues (which are debated in the parliament) that are subjected to the ‘triadic interplay’ but regulatory issues as well given their interdependence. This is reinforced with the focus on operational issues to structure business conditions which remain hinged on policy issues. For the foreign MNEs the outcome of the interplay is contingent to their desire to implant themselves in the institutional environment to improve their long term profitability, viability and survival.

8.1 Strategic Objectives of triadic players

Flagship insurance multinationals gained access to the life insurance sector in India post 2000, when GOI opened the industry for private sector participation and allowed a foreign equity holding of upto 26% within JVs with Indian companies (many of them local MNEs in their own right). Subsequently, acting through the JV as well as independently through their respective parent companies, both the domestic and the foreign promoters (shareholders) of the JVs are engaged with the IRDA and the GOI to structure the favourable development of the life insurance industry according to their vested strategic interests. The interview data sheds light on the motivations of the triadic
actors engaging with each other and their objectives from the incoming FDI as well as the conditioning factors which led to the development of certain industry specific policy and regulations through a ‘triadic interplay’.

8.1.1 Strategic objectives of Government of India (GOI)

“So that is the ideology of the Indian government where even historically it has been iffy towards foreign capital. I mean, it always used it when it wanted it but it’s very happy with its own domestic capabilities” (Con 10)

The 1991 reforms led to a period of economic liberalisation under which many sectors were deregulated and opened for privatization and FDI which was seen as a break with the existing policy of the GOI to have only limited dialogue with foreign multinationals. GOI had followed a “definite policy that the foreign investor should have only minority holding in our country... I mean except in rare occasions we never even permitted majority holding. Therefore the interest of the foreign investors in making investments in India was very limited” (Gov 11).

The GOI constituted the Malhotra Committee to make recommendations for reforms in insurance and develop a roadmap for privatisation of the industry. In April 2000 the IRDA was incorporated as a statutory body and opened up the market in August, 2000 for application of licences. The Malhotra Committee had recommended introduction of a concept of “professionalization” in the insurance sector to make a strong case for paving the way for foreign capital, albeit through JVs with domestic companies. The private sector insurance industry was perceived to be in a nascent stage of development and reliant on FDI for technical expertise and upgrading existing capabilities which were only available within the state owned Life Insurance Corporation of India (LIC).

While the committee recommended a 40% limit for foreign equity (Gov 13) due to the lack of political consensus and opposition to foreign investment by the Left parties, the GOI settled for a 26% FDI cap which was passed by the parliament. The 26% limit was unexpected by the foreign players who had already initiated the setting up of the

36 This has been validated through the Malhotra Committee report which recommends that a stake of 40% is found to be “reasonable” for the promoters, which at no point should be less than 26% of the paid up capital so that promoters have an effective say when special resolutions are considered by shareholders (Government of India, 1994). The wording is ambiguous though since it mentions promoters as one homogenous group without distinguishing between the foreign and the domestic promoters.
JVs with the expectations of 49%. The government further fuelled their expectations by promising that they would relax the 26% limit as soon as possible. “I have personally heard a Finance Minister assuring in an open meeting that this was a compromise that they had to do to get the Bill passed but soon they would change it” (For 22).

While the stimulus for opening up the economy came from supranational pressures and the foreign exchange crisis, the decision regarding the extent of foreign shareholding is determined by larger economic considerations of the government. Their broad concerns regarding the foreign investors were how much will they contribute in expanding capacity, new products and the nature of their involvement in the JVs. While FDI was initially required to bring in technological knowledge, expertise and capital to the private sector and revitalise industry through the competing innovative products that would increase customer satisfaction and product offerings, the government also wanted to ensure the development of domestic insurance industry rather than an international insurance industry by limiting foreign control. Insurance is a ‘salient’ sector that deploys funds in long term investment that are available for infrastructure development and capital accumulation. The government needed to retain some control over domestic savings instead of allowing foreign investors to enjoy control over Indian savings. Some politicians had qualms to the extent that they believed that the foreign multinationals should be barred from participation since they would “run away from India with all this money” (Gov 13). “They [also] said that we can't afford to allow a truly retail product to go completely foreign... an insurance investor may not be such an informed participant in the market” (JV 35).

Through the minority shareholding for foreign capital the government ensured domestic interest in the sector to allow the industry to mature and develop to withstand foreign competition (like the banking industry). Initially many JVs had teams of 10 - 20 people

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37 This was reiterated by individual policyholders who had been covered under the MARG survey conducted to gather public and stakeholder opinion on the issue. Policyholders were divided on the issue of liberalization with half of the respondents opposed to the idea on the grounds that their savings may not be safe with private companies.

38 Compared to some other sectors within financial services where foreign MNEs are allowed higher equity like the mutual fund industry. However, such industries are not perceived to be as sensitive as insurance because they deal with an informed, educated (in terms of financial acumen) investor.
who were deployed or seconded\textsuperscript{39} in India but over time almost all the management teams have turned predominantly local. In time, the local expertise has developed through knowledge transfers. This was facilitated in part by human resource transfers from the banking sector who were adept in financial services and were able to quickly develop the technical capabilities, skills and knowledge of insurance.

Successive GOI have been unable to get the resolution allowing 49% equity for foreign MNEs passed. “I think the foreign companies that came in are feeling disappointed because they were promised that this was on the cards... come in now while its 26% and the moment it increases to 49% you’ll have a bigger interest in the companies” (For 21). The foreign promoters are more circumspect about their strategic role in the industry now. They believe that there is little appetite in the central government to change the status quo. “They basically set up a committee to investigate us and it was clear the bias of the committee was well if it changes how is it going to benefit rural insurance in India and how was it going to help us to cover more socially disadvantaged people? But the people said bringing in more foreign nationals is not going to help you to get insurance in rural India and they said that in that case then why are we doing it. So they were just looking for excuses to not increase the percentage from 26% to 49% that was my sense” (For 21). Such perceptions have been built around observations that the domestic partners who are capital sufficient are not too keen to lift this limit anymore unless there are some capital problems. The very real fear persists that if ever there are solvency issues in the Indian insurance industry, the government and domestic promoters will be willing to allow increased foreign participation and the foreign MNEs will be forced to buy the additional equity since they are obliged to do so under the JV agreements, at a time when maybe it won’t be in their best interests.

It seems that the government has “played it really well” (For 22). On opening up, GOI immediately got reciprocity for all the Indian IT companies going to America. It now seems to be sitting on the fence regarding allowing additional foreign capital in the insurance industry. Their expectation might have been “let them come in now. Let me

\textsuperscript{39} A secondment is a temporary transfer to another post in the same organization. Foreign parent companies had seconded many of their employees to join the JV in India to facilitate the transfer of technical knowledge and development of local expertise.
build up this expertise in my country because I don't have this expertise at all. Then I will think about what to do with these foreign partners. ...I don't know. I mean, the Tata’s and the Birla’s might have agreed to this to say that ok, let me build up this expertise over the next twenty years, then I will see if I can do this business on my own” (Con 8). Such speculations are supported by the ambiguities in the wording of the Insurance Act and voices within fractions of the political ecosystem who question the utility of increasing FDI further while the government maintains the public rhetoric that it supports higher limits.

Since the government’s first priority is to consider the wellbeing of its many stakeholders including its own industry and domestic promoters, it is likely to align with the majority view within the country if they are against allowing additional foreign holdings. Fractions of the government and parts of the industry cannot understand what FDI will now bring in at 49%, which they have/ could not do/ have not already done so at 26% (Dom 41). By maintaining the existing limit, GOI ensures the continued development of domestic companies which are majority owned by domestic promoters by preventing some domestic shareholders to cash out on early gains and exit the industry as investors as well as maximises its revenue generation by preventing repatriation of profits beyond the 26%. Concurrently, it has also been able to address supranational demands for access to nascent sectors signalling receptiveness yet only allowing foreign capital on its own terms. By allowing minority stakes foreign MNEs’ get a foot in the door, but little more. The foreign promoter as a minority shareholder would be able to oppose all general and special resolutions of the board, which require a 75% majority, protecting his financial interests. Yet, at 26% their strategic control in the JV remains fairly low allowing domestic companies’ room to grow. There is now a belief that FDI at 49% is a distant reality and in conditions which do not remain favourable to foreign shareholders. The immediate gains that FDI carried have been wrung dry. The government has been fairly wily in ensuring that its short term

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40 Both the Tata and Birla group are leading Indian multinational conglomerates. They remain family-owned businesses. They are used illustratively here as examples of business groups which have been at the forefront of private industry development in India.

41 In India, the foreign ownership cap of 26% is a significant impediment limiting foreign investors’ leverage over strategic management of the JV. Other countries in the region do not erect such daunting ownership obstacles and permit a more level playing field.
objectives and expectations from FDI were met. Now, it remains to be seen what the future holds.

8.1.1.1 Political imperatives of the Government

“But at the end of the day the ministry’s decisions are not really based on, or influenced by these people to that extent. Because it’s more political mileage that they can draw” (Con 1)

The FDI legislation regarding 49% has not gone through supposedly because of political opposition and the inability of the government to build consensus within a multi-party democracy. However, “political parties also have a perception [that they] will not allow foreigners to control us” (Gov 12). This allows domestic strategic groups within the industry to muster consensus on issues where their interests might be divorced from those of the foreign partners (like equity issues). Since these same political parties form the government, it is plausible that there is an ingrained unwillingness to further raise foreign equity stakes despite the public rhetoric unless there are some macroeconomic constraints which require the government to act in the larger economic interests.

The overall political system has become increasingly complex. From being largely bipolar now there are “multiple poles” where one can exert influence42 (JV 30). In India, legitimate lobbying is still not allowed. This makes the political apparatus largely inaccessible to foreign investors who have fewer means of reaching out beyond the outer façade of the government. Domestic investors though are adept in the art of cultivating political alliances where they are able to attain insidership simultaneously with political parties, bureaucrats and the policymakers. “I think some of the larger players in the industry and I am including ourselves, we have been very actively engaged with different parts of that ecosystem I spoke about other than the political side. It’s more the relevant people in the ministry, bureaucracy and the regulator in trying to deal with them directly or through different councils because there is a lot at stake for us. Our two promoters have put twenty five hundred crores of capital in this business, that’s not a small amount by any yard stick. There aren’t many businesses that require that kind of capital. So obviously it’s important for us to ensure…” (Dom 40).

42 Influence was understood by interviewees as indicating lobbying which has no statutory or non statutory form in India. Companies acknowledge that they indulge in advocacy but not lobbying though they admit that it happens and carries significant ability to shape policymaking.
In the absence of legitimate lobbying, there exists a dubious fine line between illegitimate lobbying and corruption which are largely symbiotic. The access to the policymakers that the dominant domestic business groups enjoy though is at times invisible since “they are quite strategic in not making things happen rather than making things happen” (JV 30)\(^{43}\). Strategic groups are often able to act behind the façade of vote bank- interest group politics by colluding with political parties who subscribe to a certain philosophy (like the left parties which are anti FDI or on the basis of interest groups whose rights they champion like the interest of the small traders and farmers in multi-brand retail trade). Fractions within the domestic industry also shape political views, a meaningful facet of a parliamentary democracy which seeks representation.

8.1.1.2 The Government and the regulator

The non monolithic structure of the government is evident in its role as a political party elected to form the government and its complex and strained relationship with regulatory bodies. The IRDA, a non political body is concerned with its objectives of maintaining quality of supervision and regulatory standards within the industry. It is perceived to be a fairly transparent body which controls the bargaining power with little scope for influence unless you are able to convince the regulator on merit. Yet, they remain under the defacto control of the government and are plagued by its political tribulations. In contrast, there is scope for leveraging influence with the government which stems from the business groups’ position within the economy, their relationship with the government across sectors and issues and the governments’ identity as a political party. In this respect, there is more capacity for ‘bargaining’ since the government has a socio-economic stake in ensuring the welfare of the economy within which these groups operate. The onus is on the government to ensure that it is able to provide a conducive environment for the conduct of business.

\(^{43}\) For example, subtle manipulation of the political system which stifles competition by changing/maintaining policy that is detrimental to a few interests while supporting others. FDI often has an instrumental role for supporting the growth of firms which are dependent on foreign MNEs for capital and/or technology. By preventing FDI to come in at the levels conducive for such firms, competition is held in check.
8.1.2 Strategic objectives of the foreign promoters

“So many companies are now saying I don’t understand where I am in the Indian market, on the other hand its massive growth opportunity that I can’t miss out on. So I think people are looking at India and saying I want to be there. What is their agenda? I want to make a success of the business. I don’t think anyone is saying look until I have a 49% stake in the company there is not much sense in pushing the agenda for the company, they will push... they’ve just got to hope that they find a partner who listens” (For 21)

Foreign investors have undergone a marked level of interest in the Indian market since 1991 which is reflected in their willingness to become equity partners in the Indian companies now. The foreign promoters have always wanted a greater proportion of the Indian life insurance sector. They were content with 26% only to enter the market. Their expectations were 49% equity which received the backing of the Government and they devised their strategic plans keeping this in view. The 74% holding by the domestic shareholders was just considered a platform for their eventually heightened role in the Indian market.

In many instances, the 26% was only in name. Foreign promoters brought majority of the capital indirectly to the Indian partners through many routes like as share premium and brand premium for example (Gov 12). In return, they got the privilege to run the JV completely (barring a few JVs where the partnership was with a very strong domestic bank who being big chose not to concede that kind of management control to the foreign partner) and ensured that the premiums that they paid now for their 26% share would give manifold returns through their automatically guaranteed increased stakeholding in the company at predetermined rates expected to be lower than the future market valuation when the regulations went through. They expected the regulations to change in the near future and to avoid fresh negotiations removed business uncertainty to a large extent to align their long-term interests by writing the bilateral agreements keeping in mind the expected regulatory framework for FDI (Con 7). However, “because all the agreements assumed that at some date in the future they will get 23% more on certain terms and conditions, if they don’t get it that is a loss to them. If they

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44 Recently many Japanese companies are partnering domestic companies in the life insurance JVs. The valuation of the 26% holding is yielding windfall gains to the domestic/foreign shareholders who are selling their stake. The interest in the Indian growth story is led by the unexciting growth rates in Europe and USA and the Japanese companies’ current disillusionment with China, where they find the environment challenging.
get it even if it is delayed that is also a loss” (JV 37). At the same time, “it is also frustrating for them because they see the business drifting from where it should really be. And they cannot influence that because they are only a 26% promoter” (Con 6).

49% is considered a strategic level of equity which warrants the headache of designing particularly for the market (TIO 1). 26% alone is not considered strategic enough since it adds relatively little to their bottom line while significantly adding to their risk of doing business in a market like India (For 20). Yet they have also seen the value of their business in India grow despite the low stakes. Earlier, this 26% in US dollar terms was like a footnote in their balance sheet. But now with the businesses growing ten-fold for every company, the Indian market has become a “potential lion” (Con 3). It seems that even the foreign MNEs’ might have underestimated the potential in the Indian market despite understanding the income stream within the insurance business. Thus their failure to convert their share to a 49% holding is hurting all the more. Yet, despite the desired regulatory changes not going through, even in cases where the foreign promoters do not hold management control, shareholder interests remain perfectly aligned—both promoters at least want good returns on equity (JV 36). Thus even though there are growing tensions regarding the 49% equity clause and its strategic long term implications promoters find sufficient returns to continue within the JVs.

What the foreign MNEs have discovered in the last 10 years in India is that if you have to do business you have to do it the Indian way, at the Indian cost and not the way it was done before (For 24). Since knowledge on various technical aspects of the business is available in the market today, strategic positioning and strategy have increasingly become the game changers.

8.1.2.1 Strategic Choices by the foreign MNEs

The foreign promoters have chosen between two distinct paths of forming JVs in the country. Their choices have been a product of the choice of their JV partner and inter alia, the management control they have to run the company and the brand and distribution access that they get from the domestic partner.

The first set of foreign MNEs were those who partnered with non-financial companies, where domestic promoters had no allied interests in the financial services sector. Such
foreign MNEs were looking at a long term presence in the market and needed partners who would not become dominating because of overlap in interest and would be easy to buy out. By partnering with them foreign promoters were able to retain management control. However this strategy has meant that capital adequacy of the domestic promoters has often been a challenge. This has imposed managerial challenges when foreign MNEs have been forced to partner with more than one domestic promoter to address the 74% capital requirements. This has possibly constrained the JV growth (*Con 2*).

The decision to partner with such companies who have no branding and supporting network of logistical relationships within financial services was a leadership decision. While it was influenced by the timing of entry and the choice of available partners, it was also a decision regarding branding (*JV 3I*). Foreign promoters within this group wished to leverage their own global brand name and were more averse to partnering with a local brand which could dilute their visibility.

This decision to partner with non financial sector players whilst strategically oriented for the long term was based on foreign equity stakes going up to atleast 49%. Yet in the absence of facilitating regulations this strategy has faltered- their domestic partners had formed the JV to provide a platform for the foreign MNEs and had retained only an investor interest in the entity wherein their JV arrangements assured them handsome returns on the capital deployed. Such domestic promoters are also keen on exiting the sector since they are not really long run players within this sector and are not interested in continued heavy capital investments.

The second set of foreign promoters were those who partnered with either a financial conglomerate headed by a banking company (strategic group I) or a diversified business group company (strategic group II) who have allied interests in the financial services sector. The difference between strategic group I and II is with regards to capabilities and the eventual course of co-opetition the domestic promoters adopted. Those foreign

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45 The foreign MNEs in such alliances have paid premiums which have gone towards funding the stake of their domestic partner. They have also guaranteed floor rates of returns (at times as high as 16%) to provide security of capital for their JV partners (*For 20; Con 8*).

46 These set of domestic promoters have been referred to as strategic group III and have been discussed in the next section in full.
MNEs which partnered with strategic group I immediately dominated the market given the scale and expertise that their domestic partners carried within financial services. For such foreign promoters it would seem that scale and dominance of the market was important. To achieve this they partnered with a dominant market player who was in control (For 20).

Foreign MNEs which partnered with strategic group II have seen a gradual transition in their relationship with their domestic promoters. These domestic promoters had no financial services acumen (which their banking counterparts within group I were naturally endowed with) but have over time developed greater interest in the management of the JV and are slowing gaining management control of the JV from the foreign promoter. The resource dependency perspective where the bargaining power is eventually lost once capabilities are gained is best seen within such JVs with the eventual shift in the JV dynamics (discussed in 8.2.4). The foreign promoter within this second set has been reduced to being a minority partner with little scope for providing strategic direction now. They were at the helm during the early years when technical knowledge was at a premium but have slowly lost their competitive advantage. Yet their JVs remain the market leaders capturing the bulk of the private sector market and this has been possible only through the branding and dominance of their JV partners as the experience of the first set of foreign MNEs too would suggest.

8.1.3 Strategic objectives of the domestic promoters

“I think the unique feature of India is the joint venture structure. So while everything is in joint-ventures, the Indian domestic will always have the headline name and the clout” (For 23)

Life insurance in a peculiar business in terms of its capital flows and profits. When the market opened, most private insurers underestimated the Indian market’s potential volume and policy sizes (Krishnamurthy, 2011). Most of the domestic promoters including the financial conglomerates did not really have an objection to sharing equity and control with their foreign promoters in the early formative years. This was based on their lack of knowledge regarding the life insurance business but more because they never thought that they would be able to make any significant inroads in market share versus the state owned LIC. “LIC was such a large monopoly in this country that people didn't believe that they would be able to take market share away from LIC. And if you
look at how this historically moved, LIC did lose market share significantly in the initial years, only to start getting back that market share in the last five years. Most domestic promoters primarily believed that this was not a business you would make money in [because of LIC] and therefore they were not averse to sort of reducing their stakes five years down the line if the government had allowed it (JV 35). Ten years back they never thought the life insurance business will show such a huge valuation. Now, many of them are less keen to divest their stakes as per their JV agreements. Yet, the foreign partnership was critical in ensuring private sector participation in insurance in the country. Without the initiative on the foreign promoter’s part, the Indian companies would not have had the wherewithal to enter the sector. “The Indian domestics have leaned on the foreigners to have the confidence to invest capital into the sector. Many of the current Indian domestic owners, who I’m sure would never have been anywhere near the insurance sector if it wasn’t for the fact that foreigners decided this was something they wanted to do. So even a Birla or an HDFC[47], would they have entered the insurance sector without a foreigner? The answer is probably no” (For 23).

Most of the Indian players who entered the insurance sector were drawn primarily because of its overall attractiveness. Life insurance companies are really large enterprises, hugely profitable though it takes a long time to come to some kind of profitability profile. Strategic group I and II promoters were keen to increase their product offerings within their domain of financial services and add insurance to their umbrella brand. “They were quite keen the market opened up. They wanted LIC’s manipulation to go and for private players to come in. Some of them were also interested in the foreign partner because they didn’t have the technical expertise and know-how” (For 22). As the insurance product market is a business to customer model, it provides immense opportunity to leverage brands, past clients, current customer base and create a franchise which could be profitable.

The strategic group III promoters had entered the space purely as an investor. They were primarily a front for their foreign partners who had management control of the JV. Many of these promoters were local MNEs, but within the limited space of their focussed core business like real estate and telecommunications. Being smaller than the

[47] A bank led financial services company in India.
diversified business group companies and the bank led financial conglomerates, they were more likely to be capital constrained and had lower brand value for financial products. They entered the JV with a short term orientation hoping to either exit the JV or reduce their stake in favour of their foreign JV partner which would give them windfall profits through their investment.

Despite their inexperience in running an insurance business, the domestic promoters were happy to retain the majority stakes since they believed that they understood the market. Domestic companies in India are used to retaining majority stakes within a JV unless they are viewing the business purely as an investor where they might be content with a guaranteed rate of return every year. But within their orientation as an owner, promoters insist on control since that’s the “crux of the business” (Dom 47).

8.1.3.1 Strategic groups I and II (I- the bank promoted companies, including financial conglomerates specialising in financial services products; II- the diversified business groups)

“Many of the Indian business houses wanted to have the best of both worlds. They wanted to enter the field—they did not have any know-how, they were not particular about the investment requirement but they didn’t have any technical expertise. So they wanted the foreign companies to come, start the business for them—do all the hard work and then they thought later on as and when they would have to part with some of their equity it wouldn’t matter” (For 22)

The above statement representing the foreign promoter’s perspective surprisingly strikes chords with similar sentiments being expressed on behalf of the domestic promoters as well. This implies that the JV was forged within very real expectations from both sets of promoters regarding what the resource dependencies were for either party which required them to collaborate. Dominant business groups were keen to have foreign players purely to gain the ability to participate in the insurance sector in their own home market (Dom 40) since capital was not an issue for the large financial institutions or many of the business groups- they only lacked insurance expertise.

Strategic group I and II companies have seldom quoted capital constraints as a reason to raise foreign equity. Their accumulated learning experience has endowed them with the confidence to believe they are on their own feet now (JV 36). It is notable that such group I and II companies have not publically called for FDI to be raised in their sector. By partnering with a foreign MNE, such companies gained the early technical expertise...
and continue to benefit from a strategic partnership where there is capital sharing, continued technical support and risk hedging (Con7). Most importantly, while foreign MNEs have lately recognised the strategic value of partnering with a local brand name, domestic companies have ensured that they retain their foreign partner who brings in global repute and long term experience which adds to the JVs credibility in the conduct of the business (For 22).

Thus strategic group I companies might be neutral observers wherein they might honour their JV agreement, but have little incentive at this point in time to encourage the increase in FDI limits. “…And they have a huge influence on the government but no one will admit it” (For 22). “Because there is no pressure on the government from the industry as such, to increase it…if you see domestic companies are not saying anything…there is no comment in the sense that those who carry weight, they are not saying anything” (JV 34)

8.1.3.2 Strategic groups III (includes the local MNEs which have grown on the basis of a core business area and have entered the life insurance space primarily as investors)

“Some of the marginal or the not so large business houses in India are also very keen [that FDI limit is raised] because they don’t have the ability to inject capital and therefore grow in that process” (Dom 40)

For the local MNEs which entered the sector purely as investors “the expectation of realization of their investment not happening. These fellows are not willing to fund additional requirements of capital” (Gov 13). The subsequent expansion of their core business (within home and other EMs) is demanding capital. Therefore they want to sell out (only if partly) and cash in on their investment rather than continue to fund further capital requirements in ventures which are currently loss making.

These are the companies that are set to gain the most if the FDI limit is raised at an appropriate time for them since till 2008, “every time they delay[ed], the value [of the 74% stake] will go up..they will become richer by a few hundred crores (For 24). Also, whenever 49% is to go through, the foreign promoter might be expected to pay a premium for the additional 23% share, which would mean the domestic promoter “would be capitalizing all the future profits now” (Con 3). Their investor orientation is most visible wherein “there is flipping happening- foreign partners wants to go out, I
will buy the foreign partner out and then another foreign partner will come in and I will get a higher value from those partners..” (For 24). Yet for the most part, these strategic group III companies have followed a collaborative approach with their JV partner. However since they are only concerned with their monetary returns, they are not engaged with the business. This is limiting their strategic insidership. “Indian partner which is a lot more involved in the business is also a lot more engaged. ..then if he or she is more engaged then he or she also brings a lot more of that influence that he or she is able to bring…to policy, to regulation” (For 20).

The key to understanding the motivations for domestic promoter action with respect to their foreign partner, their co-opetition with them and their predilection to certain policy changes rests on two basis-the JV agreements which the domestic promoters signed at the time of entry and the imperatives based on market developments which were largely unforeseen.

8.2 The co-opetition perspective to the life insurance JVs

“I mean it's an uneasy alliance if I can say. Put [ting] it that way ...the domestic companies are allies with the foreign companies” (Ac 50)

The JV structure was able to address critical needs for all sets of promoters and formed the basis of the co-opetition by strategic group I and II companies. The domestic companies were able to access resources required to set up a private sector industry in India. The foreign MNEs were finally able to access the untapped Indian market. Additionally, the domestic promoter was able to ease the LOF for the foreign promoter and help with market knowledge. However, in light of this foreignness and the minority equity stakes, the foreign promoter is merely a foreign investor until he acquires or adopts a strategic interest in the JV. On the other hand, the domestic promoters were crippled by their lack of knowledge regarding the business which restricted their ability to explore their own home market. “I think it's a symbiotic relationship. Both of them are getting something from one another and as long as that happens they will continue to be with one another” (JV 35). Since even in the worst case, the shareholder interests from the JV remained aligned, cooperation within co-petition perspective of the bilateral relationship was safeguarded. Although growing dominance of local MNEs has created
challenges for foreign MNEs, but their continuance within the JV creates an opportunity for foreign MNEs in the absence of facilitating regulations.

Insurance unlike technology imbued sectors like telecommunications or automobiles where regular technical innovations occur and companies need to invest considerable resources in R & D, is not technology intensive- it is knowledge intensive. And as long as local MNEs acquire that knowledge (from the market or the foreign MNEs), they are able to address the knowledge constraints\(^{48}\) that were inhibiting them and was the basis of their collaboration with the foreign MNEs.

The competition between the promoters though is inherently linked to their long term interest in the market. Since equity and management control allows strategic control, it is of tactical significance. The behaviour of the domestic promoters though has been largely influenced by the JV agreements and the market imperatives. “I think it is all about what your agreement is about. So if a foreign company is doing an agreement on a fair market value, you’re opening it to interpretation and the behaviour of the Indian partner- if you had a fixed return deal, till such time as they invested their capital, there was no issue about it. So it is also about the negotiation of the shareholders agreement the way it has been done between the shareholders and not only about an Indian partner” (For 24). This goes on to convincingly put market imperatives and the structure of the JV agreements as the twin basis which have led the co-opetition behaviour of the domestic promoters through the evident impact on equity valuation and management control.

8.2.1 JV agreements

Indian shareholders it would seem did not have much knowledge about structuring of the insurance JV agreements in the early years. They looked at what they were getting at that time and thought that the JV structures were heavily tilted towards them. However, “they did not realise that the market is not going to remain the same as it is. And foreign partners had seen these cycles in various other markets internationally and they knew that cycles change” (For 24). Because the foreign partners knew that markets

\(^{48}\) With respect to insurance the knowledge did exist in India because of the LIC. Though whether it was of the same level of efficiency as international standards is debatable (Con 6).
change, they wanted to ensure that they locked in the price for the additional 23% stake at the time of negotiating the JV rather than when (expectedly) the valuations grew. Thus the JV agreement when signed were believed to be favourable to foreign partners - if by a certain date 49% happens, equity will be transferred at certain price (in most cases, in others based on market valuation) and the foreign promoter had the right to increase his equity (JV 34). However, this potential gain was made redundant because the change to 49% never happened within the time frame envisaged representing potential losses to the foreign promoters. “Depends upon what is the tenure of these agreements. So some of these agreements were renewed after 3 years...some after 5 years...some at the end of 10 years... its related to merely the financial terms that you change, [rather] than everything else” (For 24). “For example, for some cases the agreement is till 2016-17 so that is 15 years, after that, the agreement will lapse. After 15 years they can’t take equity....” (JV 37).

Among a few common types of equity transfer structures that are embedded in the JV agreements are those where domestic partners are charging a high premium for a very strong brand name. Local MNEs were offering their brand name and getting capital as brand premium and so were willing to let the foreign partner run the business since they were putting in the capital. For another set of partners, as long as they were getting a return on the capital that they had deployed irrespective of whether the business made money or not, they too were happy to be sleeping partners. The third set of partners ignored the return on capital but wanted the upside at the time of listing (For 24). Essentially, many domestic promoters want to either exit on the terms in the agreement if better in today’s scenario or they want the IPO where they can get a realisation better than what is there in the agreement. This has defined their co-opetition perspective wherein at times they have actively supported their foreign partners’ cause to get the FDI limit raised whereas at other times, they have been party to getting the legislation delayed (or atleast not pushed for it as a strategic group).

8.2.2 Market imperatives

“But having been in the industry for 12 years I can say that different companies at different stages of evolution have different agendas. Those agendas don’t meet” (JV 32)
This above statement considered together with the complexities of the established political system is representative of the black box of policy development in the industry. Within the industry, there is little room for concerted industry action since each strategic group as well as individual promoters within the groups are all promoting their own special interests which are aligned to market imperatives and their own strategic agendas. Since dominant business groups are known to indulge in lobbying for their “self interest” which consequently affects policy development (Dom 40; For 21), foreign MNEs are ‘outsiders’ to such dynamics unless their cause is echoed by their JV partners.

The market imperatives impacted the development of the life insurance industry in India in many significant implicit and explicit ways. They have largely driven the co-opetition agenda with respect to FDI limits for the domestic promoters and led to frequent changes in their strategic objectives from the bilateral relationship. The two key developments that conditioned the life insurance market were the financial crisis of 2008 and the discovery of distribution leverage in the Indian market.

The global financial crisis (and regulations restricting the scope of unit linked insurance products) marked the end of a phase for the Indian life insurance industry which had seen huge growth through new policies being written and soaring market valuations for the JVs, a result of the maturity of the business and positive market sentiments. “Till 2008 people were growing at a breakneck speed and they needed a huge amount of solvency. Capital was very, very important. And therefore it was actually a prerogative for many of these people to push for FDI dilution and get in capital. Since 2008, what has happened is industry growth has slowed down dramatically. Most of the large players have solvencies of something like 350%. The required solvency under the IRDA regulation is just 150%, right? So they’re all over-capitalised. There is no urgency to push in for FDI because you don’t need capital anymore” (JV 35).

Both types of domestic promoters who were in the sector for the long and the short term were strategically impacted by this unprecedented growth period though in remarkably different ways. The early position of all domestic promoters was that they were agreeable to diluting their 74% stake in favour of their JV partner. However, it was after the crisis that the co-opetition behaviour really emerged. Pre 2008, the domestic
promoters who had entered the sector as investors were anyway on board to support the rise in FDI stakes, even though they might have been holding out for the most optimum valuation, if their agreement decreed market valuations or used a fixed formula rather than a pre determined rate at which the transfer of additional was supposed to take place. Given the huge capital demands which accompany the writing of new business, even the large domestic promoters might have been happy to support FDI since they were facing growing capital requirements and had agreed in principle to the same within their JV agreements. After the crisis, with the fall in growth not only did the valuations plummet but the JVs become over capitalised as well.

More significantly, the growth period had a demonstration effect. It gave a preview to both shareholders regarding the immense latent potential within the life insurance market in India. The domestic promoters were now surer of creating market share for their JVs given their early experience and were also surprised to discover the huge valuations that their companies were receiving. Foreign shareholders on their part were now convinced that India was a future growth market but also experienced ground realities to develop realistic business expectations. Their faith in the ability of the government to bring about the regulatory change allowing 49% had been tested. Moreover the local institutional environment for the sale of insurance products was quite different. Access to a distribution network was identified as the critical resource along with the commensurate brand leverage that a local partner might bring.

Foreign promoters who had chosen domestic partners on the basis of their disinterest in the business were unable to become market leaders despite having strategic control49.

“Because LIC was predominantly agency based, companies didn’t think of bancassurance as being the niche thing to do. So, they formed joint ventures with all these companies …that just didn’t have their distribution channels. But the companies which came in later …the companies that formed in the last three years, they thought, okay, we need in this market…being cost-efficient is very important. We...if we get this bancassurance distribution channel, we'll be well placed” (Con 8).

49 In recent deals, foreign promoter controlled JVs have forged equity partnerships to the extent of even 30% with local banks who provide the desired bank network to facilitate distribution and have been featured most prominently in the new branding of such JVs. This is suggestive that foreign promoters have learnt from the market and are now appreciative of the market value that a local brand name and distribution channel brings to their business.
Different foreign MNEs put different value on attributes such as access to local business networks, branding, distribution access etc which was reflected in their choice of domestic promoters.

The co-opetition perspective though is also influenced by the entanglement between the FDI and other industry issues like IPO and bancassurance guidelines because they all indirectly impact on control and equity which can further change strategic objectives. For example, for the dominant business groups (group I and II) who are in the sector for the long term, the choice for them if the FDI limit of 49% is to go through is between diluting their stake in favour of the foreign promoter wherein the foreign MNEs’ would finally acquire a strategic level of equity that might allow a more active role for them or the IPO which will allow domestic promoters to cash on the market valuations and meet the stipulations regarding the promoters to bring down their shareholding to 26% but would allow them to retain management control.50

The IPO issue suffers from its own regulatory ambiguities. The regulation stipulates that after 10 years and after showing required profitability, the promoters have to bring down their stake to 26%. It does not address whether it is only the domestic promoters (who are the only ones who qualify as of now since the foreign MNEs still hold only 26%) or whether it is all promoters. This is an important clarification since it means that either the 49% FDI has become a redundant issue for those companies who have crossed 10 years in the market (which is most of the early entrants and market leaders) if the IPO is carried out first or that the foreign promoter will be allowed to hold 49% and only the domestic promoter will be required to dilute their shareholding in favour of 51.

50 The Insurance Amendment Bill might include two significant changes to the existing clauses which are being considered. One, any insurance company that conforms to the listing requirements of the securities and exchange board of India (SEBI) and IRDA will be able to go ahead with its IPO irrespective of the number of years it has been in the business. And two, instead of the mandatory listing of insurance companies on completion of 10 years in business, it will be left to the discretion of a company to decide whether or not to be listed (Khare, 2009).

51 It remains to be seen how much of their stake the various domestic partners would be willing to give up in order to become listed since Indian laws regard ownership as a stake of 51% and above (CII & Ernst & Young, 2010). SEBI requires a minimum public holding of 25% in publically listed companies and any foreign partner would be unlikely to accept any dilution of its stake below the current 26% — the minimum percentage needed to retain key veto powers. Thus the shareholding towards the IPO has to predominantly come from the domestic promoter’s stake. Both the FDI limit and the IPO clause are part of the Insurance amendment bill over which the government has been unable to build political consensus. It is likely that when the bill is presented to the parliament both clauses would be considered together. With sections of the industry disinterested in further FDI and political parties against FDI in principle, it seems that the balance might tilt in favour of the IPO.
the public. This brings in the question of timing the regulatory change. The IPO being carried out first or the FDI limit being raised has important implications for the choice that the domestic promoters make in favour of foreign MNEs or not.

8.2.3 Timing of regulatory change

The timing of the IPO is of critical importance. If the domestic promoters carry out the IPO first in order to further capitalise the JV, then the foreign MNEs would in essence lose out on all their strategic planning as reflected in the JV agreement; though they might be yet be in a position to become more of equal partners with both promoters holding 26%. However if the FDI goes up to 49% first, then it seems unfathomable based on the data that the domestic industry (and the government) would allow the foreign MNEs to hold the majority stakes and the domestic promoters to hold only 26%. The IPO in theory also addresses the most common refrain of the foreign MNEs for further FDI saying that the JVs are cash strapped since it provides a viable option to raise capital. Given that most JVs are over capitalised as of now and can further take the IPO route, it is believed that the FDI issue now largely pertains to a tussle for management control of the large dominant JVs which are controlled by the domestic promoters. The foreign MNEs entered this EM to capture early gains and structure the favourable development of the industry. However by merely operating as foreign investors they are deprived of the strategic engagement which will allow them to be embedded in the market as a local brand and within the institutional environment with respect to policy development. However if the FDI limit is raised first and the JV has not had an IPO yet, then the domestic promoters can choose to divest their stakes (to adhere to the regulation requiring them to bring their stakes to 26%) in favour of either their foreign partner or the public as long as they achieve their strategic purpose which could be about retaining management control.

The entanglement and implications of the FDI and the IPO issue go on to demonstrate how acutely domestic industry policy issues like the timing of the IPO can affect FDI issues as well as the leverage domestic business groups have over facilitating changes

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52 This is similar to the telecommunications policy where state patronage to the CDMA technology which was being used by the leading business groups did not lead to any changes in the FDI policy with respect to the level of equity allowed. However the non diversified smaller companies were reliant on foreign capital but were using the competitive GSM technology. Only the subsequent change in the governing
in FDI policy through an alliance with the government or by the same means further setting up entry barriers. As was mentioned earlier, the domestic promoters can use their insidership with the government to ensure that favourable changes for the FDI do not happen—such preventive action while innocently shrouded in political inaction has important implications for the future of foreign MNEs. “The Indian partners may not like to let that….so that’s what looks like a political issue as well, that some of the Indian partners are probably not letting this happen as well...But that’s a hypothesis....that till the time the shareholders agreements’ terms comes to a situation where they can be revised…and the Indian partners manage to change the terms to make them remain at 26%, this change will not happen” (JV 31).

8.2.4 Co-opetition within the industry

The other instance where co-opetition behaviour can be seen with respect to co-opetition between JVs, rather than foreign promoter interests versus domestic interests is with respect to the bancassurance guidelines. The state monopoly LIC has an agency based model which relies on its vast network of agents to reach potential policyholders. Bancassurance has been the dominant model for insurance products in many developed world markets. Given the agency based traditional model which was being used in India, it was never perceived that bancassurance would become the success in India that it has. Access to customers through the banks existing extensive network became a critical resource for increasing outreach. In this regard JVs which had a local partner who were bank promoted gained early dominance.

The ability of the foreign promoter managed companies to become market leaders in part was reduced because of their lack of distribution access. Recent deals though have seen bancassurance partnerships claiming high premiums and also buying into the equity partnership for nominal values. In this respect, JVs which lacked a bank partner (invariably the foreign promoter managed JVs) have taken the lead by allowing the banks to buy equity which ensures not only their longer term commitment and prevents opportunistic behaviour on their part but also a vested interest in promoting the JV sales. State–owned banks which had been overlooked earlier in place of investor promoters are now being swarmed with bancassurance partnership offers. Such coalition which was sympathetic to the GSM operators’ interest could lead to changes in FDI policy, leading to a revision in the FDI limits (Mukherji, 2008).
partnerships are witness to the strategic constraints that foreign MNEs face in an institutional environment like India which puts little value on global brands at the grassroots level outside the urban centres. Foreign MNEs have been compelled to seek local partnerships which endow them with the insidership which comes with local brand recognition and distribution access.

Thus the development of the bancassurance guidelines has highlighted two facets with respect to policy development within the Indian industry. It is the equity related policy issues which have seen the emergence of competition between the foreign and the long term domestic promoters in the Indian market. Other regulatory operation issues pertaining to the JV are still dealt with amicably by both promoters within a cooperative relationship under the aegis of the JV. On the other hand, JVs which have an existing bancassurance partnership have adopted a different perspective with respect to the bancassurance guidelines versus those JVs which do not currently have a strong bancassurance partnership. This imperative is more stinging for those JVs which are bank promoted. Within this industry debate, sections have been united based on their issue – based interests (which has united bank led JVs against the smaller JVs which do not have a bank led promoter or a bancassurance partnership) and not divided on the question of origins or equity.

8.2.5 Changes in the JV relationship over time: the development of competition within co-opetition

Over time, MNEs might have acquired local market knowledge but building insidership is a function of time. Given superior resources foreign MNEs have been able to invest in some strategic partnerships (assets) which imbue them seemingly with insidership- like forging bancassurance partnerships with local banks which brings distribution access and brand recognition. This though comes at the cost of significant strategic changes for the foreign MNEs including rebranding and potential managerial hazards from aspiring local partners who might wish to slowly dominate the JV relationship.

Many aspects of the JV relationship bring home the point that from an overall collaborative stance there is a growing trend towards increasing competition between shareholders to acquire ownership of the JV in terms of brands, management and the long term positioning in the market.
8.2.5.1 With respect to equity

The domestic and foreign promoter initially both wanted 49% to happen. However given the delay in the political process in getting the regulations to change, over time domestic promoters believe that they have developed significant capabilities. “One thing is clear that in the insurance field the foreigner have lost their influence... they are no longer needed like before. As a result their relative clout has reduced” (For 22). Dominant domestic strategic groups I and II are of the opinion that since “it is after 11 years that that insurance company [starts] making a profit right? That is the time where the current players tell the government that this is the loss making period and you’ve allowed them 26% with the sort of understanding, the hope that it will go to 49% because we still want control with Indians. So the loss making period is now, and you will allow them to get into 49 whereas losses are of the Indian company - when the business is stronger and therefore the value of the business is also growing at that time it is obviously more expensive for them to get in —but the losses will be booked by us” (Dom 44).

The core issue which has seen dissent between the foreign and the domestic promoters has been over the issue of raising the FDI limit to the ‘expected’ 49% which has not happen within the expected timeframe. Given ‘valuation’ discovery and reducing dependence on the foreign promoter, the dominant domestic promoters are at odds with their foreign partners over the issue of parting with additional equity since it questions their future strategic positioning. Not only would they be sharing future profits (which are now expected to flow in) on a more equal basis but have borne 74% of the losses since opening up. They now risk diluting their hold over strategic management and control over the operations and future prospects. Given the EM potential of the sector, these local MNEs are fraught to do so. By manipulating the timing of the 49% through their considerable political insidernesship or due to political inability, the local MNEs are now not obliged to sell their stakes to foreign MNEs because of their JV agreements but can choose to do so or go for the IPO.

8.2.5.2 With respect to branding

While foreign controlled JVs acquired domestic brands and acquiesced to sharing equity at levels even higher than their controlling share of 26%, the market leading companies which had dominant domestic promoters but had a brand name which leveraged both
the global and local brand saw the foreign promoters name being gradually reduced or phased out. This is a marked trend which is being witnessed across JVs. This rebranding has been accompanied by an increasingly active and now dominant role being played by domestic shareholders which belonged to strategic group II. Those JVs where the shareholders were either equal partners or even foreign managed are now seeing a growing dominance of their erstwhile equal/sleeping partners.

8.2.5.3 With respect to management and technical leadership:

“There initially, yes...the products, understanding of how it should be structured... but I think very soon the Indians took over and started making the products to suit the Indian clientele. So the idea of a product might have come from them but the structuring of a product—if you ask me today do you really need foreigners I would say.....” (Dom 44)

The peculiarities of the Indian market require that most products and processes need to be adapted to the Indian market and the mindset of the Indian consumer. In this respect, the local market and understanding of the domestic partners has been an important resource which has helped product modification for example. After the initial transfer of the business specific expertise and knowledge, there is a sense of (over) confidence by the dominant domestic groups that they are able to conduct the business at par with their foreign partners’ capabilities given the market specific knowledge and insiderness which they have. Thus while largely left unsaid, there is a sense of redundancy regarding increasing foreign promoter stakes in the JV. “[Some of] the domestic promoters are in a scenario that.. they own 74% of the business, over the last eight-ten years they have learned how to run the business. They are the ones who bring in the goodwill, the brand value to the business. They are ones who bring..some of them, distribution network which is one of the most important aspect of the life insurance sector. So, given that, what is it... that the foreign promoter is actually bringing to the table. And it's not much as of now so why should I allow the foreign promoter to increase its stake beyond 26%” (Con 6).

8.2.5.4 With respect to JV objectives:

“So yes there is a balance so they [domestic promoters] drive short term, we drive longer term because they want to be seen as the big player. The big player is equal to

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53 See Appendix 7 for illustration
54 It is these shifts within the JV relationship which stress on the value of strategic insidership as a key determinant facilitating co-opetition behaviour.
what is seen on the IRDA league table, which then tends to make them take shorter term decisions” (JV 20).

From a psychological viewpoint, both sets of promoters put different value on the JV objectives. These are related to historic experiences, profitability and the relative value of the business. “Most of the Indian business houses are into diversified businesses. They keep redeploying capital from one business to another depending on the economic cycle. Whereas most of the insurance company’s world abroad are only insurance companies and there is only one business they do. So the way we [domestic promoters] look at different business from one business to another in the country, they look at one country to another” (For 24). This aspect of the JV relationship is essentially related to capital perceptions. Given capital scarcity in India, there is a perception that cheapest is the best. Whereas foreign MNEs hailing from capital abundant markets view expense as an investment and look are the long term returns. Thus while foreign MNEs might go for the more expensive option if it will give them better return and better quality business albeit within a longer time frame, Indian MNEs would be more short term oriented given the varying demands on their capital (For 25). Also, Indian partners are more focussed on building the business which positions them as market leaders today. In contrast, the foreign MNEs’ who entered the market with a strategic long term plan and understood the inherent nature of the business are more (or would like to be more) focussed on enhancing the long term profitability of the business. The hook for domestic promoters has been the growing valuations of the JV business and thus their stakes. With the clause demanding that promoters dilute their shareholding to 26%, the Indian promoter would be eventually selling part of their stakes either through the IPO or partly to the foreign partner. On the other hand, the foreign MNE is looking at buying. Thus for the domestic promoter, the focus of the JV is on investing in valuation build-up whereas the foreign MNEs wish to increase profitability. This suggests two divergent paths for carrying out the business operations in terms of scale, geographies and quality of new business. Domestic promoters are therefore often intent on maximising the top line since that affects valuations through new business.

Co-opetition within the life insurance industry can thus be studied through the issue-area approach wherein we witness behaviour not only between foreign versus strategic groups of domestic promoters but also among different JVs over business regulations.
As has been discussed there are instances which unite various industry sub groups on certain business issues while they might still be competing on other aspects of the industry policy. This is visible in the industry as a struggle between groups on the issue of FDI which unites segments of the domestic industry versus foreign dominated interest as well as on the bancassurance guidelines, which pit the combined strength of the bank led companies versus the diversified group companies. Market leaders focussed on promoting certain regulations (the basis of which can be different JV objectives rooted in the focus on valuation versus profitability) are also seen to lobby together, to the chagrin of the smaller, lesser represented companies.

8.2.6 Strategic Insidership\textsuperscript{55}: determining/ facilitating coopetition

“It’s not guaranteed …. Typically influencing the regulatory agenda, [we] identify what are the 5 things that we want to drive in our favour and in a very programmed manner you drive it….so that agenda will include going and meeting the regulator, you know going back publishing white papers, sharing your views and maybe involving chairman and CEO at times…representing to life council, representing to industry forums like FICCI and CII” (JV 30)

Strategic insidership is an encompassing term which involves many aspects some of which are also sector specific. While it might be commonly identified with political power, it is also related to the ability to conduct business in the local environment by building organizational legitimacy and credibility through branding. Essentially it suggests the ability to strategically engage with the institutional environment to make the business conditions relatively more favourable by embedding yourself in the tissue of business networks and relationships. This includes social capital and its application in structuring policy, business aspects such as distribution access, a logistical business network and business networks.

Size of the operation in the economy ensures that the business network is larger. Through correlation the size of operations becomes the key to influencing. Size often empowers through the ability to “represent themselves at the right levels” (JV 31). The Indian entrepreneur has built his credibility over the years. Domestic business groups have built their ability to have a sounding board with the government through their

\textsuperscript{55} There is a plethora of information on strategic insidership which has not all been used here since it was only an incidental finding.
pioneering business activities that have established their credibility through continued sustainability and scalability in their field. In the instance of financial conglomerates or diversified business groups with financial interests for example, there is some sort of a confluence of all financial interests, which give them strength, market and standing (Gov 13). Dominant company representatives because of their professional credibility are often appointed to the industry feedback/ consultative committees appointed by the government. The government typically invites industry feedback on setting a roadmap for the future development through a consultative, consensus building process. Within such a process, industry leaders can/ will “push an agenda where they might be better off than the others” (Dom 42). Insidership though works best in sectors where licensing is involved or the government is involved in the capacity of a buyer or seller with the ambit to negotiate prices. It has also been suggested that insidership helps speed things up (and possibly by that same logic can also be used to delay!), where time can be critical as in timely product approvals to make the most of a conducive market environment or facilitate and ease critical communication by conducting the engagement ‘offline’ (JV 37).

“The doors that’ll open for someone with credibility in India with past history or past experience, is far greater than what an MNE will be able to do. An MNC will get an Indian CEO to face it but the Indian CEO will not have a 10 year record or a 20 year record…” (Dom 42). Credibility is related to the time spent in the local economy where the company has spent effort in building a brand which is considered isomorphic with the local environment rather than just importing foreign brands. Foreign MNEs on the

56 Mr Deepak Parekh the chairman of the HDFC group which is the domestic promoter company for HDFC Standard Life was one of the committee members of the Malhotra Committee on Insurance sector reforms.
57 The most quoted example in the interview data regarding the ability of a foreign MNE to build strategic insidership has been Hindustan Lever. This is the Indian subsidiary of Unilever. It was first established in India through its first Indian subsidiary, the Hindustan Vanaspati Manufacturing Company in 1931. Through subsequent mergers it was known as Hindustan Lever Limited till 2007, when it was finally rebranded as Hindustan Unilever Limited (HUL). The company has not only established itself as an Indian company, but its brands are identified as Indian brands and are associated with high goodwill and trust. “Hindustan lever is an Indian company for all practical purposes. They have now changed their name to Unilever since 4 to 5 years because now it’s socially acceptable for them to be an international company. But before that they were an Indian company, embedded in India”(Dom 42). This is evident from the fact that eighteen HUL brands feature in Brand Equity’s India’s Most Trusted Brands 2012 List. HUL also has a successful history of engaging with the GOI where it has been able to avoid policy restrictions like FERA in the past which required it to dilute its shareholding in favour of Indian partners. Instead it was able to ‘bargain’ with the government to meet some of their objectives and was allowed to continue with a 51% ownership against the 40% stipulated for foreign MNEs (Shashidhar, 2013).
other hand leverage the reputation that they already have across the globe. They don’t build it up in the local economy which is why they are outsiders to the business networks and don’t come with the credibility associated with domestic companies by virtue of their organic growth in the economy. “HDFC [for example] has got significantly more clout in the Indian government circles than an Aviva ever could… which stems from the HDFC brand in India” (For 23). However the foreign MNEs access the government via diplomatic channels and through bilateral trade associations and forums. Yet the possibility that either parties’ influence could work depends on the governments’ own strategic agenda, wherein it has to balance its macroeconomic and social concerns along with manage the concerned stakeholder interests which extend beyond the multinationals and domestic industry concerns.

While strategic insiderness is primarily identified with a group/conglomerate and a brand rather than an individual, the continuity in building relationships is ensured through individuals. Strategic insiderness is essentially about building the ‘connect’ and the relationships within the business network. Within foreign MNEs, people switch positions too soon or get transferred etc. It is perceived that “if you’re very focussed on the Indian market and you believe that you can add value much more in the Indian market then the general tendency would be to join the Indian partner because that’s where the expertise of the local market comes” (JV 32). In such cases, the foreign management teams would seldom have access to the insiderness which such individuals can leverage since they would typically choose to represent Indian promoters or join the Indian companies58. Thus the stature that individuals with their own insiderness carry doesn’t seem to lend itself to foreign MNE causes if divergent from the issues being pursued by the domestic promoters nor through their heading foreign controlled MNEs.

Regarding logistical networks, domestic promoters especially bank promoted companies have unparalleled access within the local economy. Given the rise in bancassurance as the basis for successful competition, foreign MNEs are hard pressed to find banking partners that carry a strong brand name as well. With life insurance being

58 The individual who is joining as an employee of the foreign company rather than the Indian company, the JV or the Indian partner, will always have a view that might be that “okay I’ll work in the Indian company, the Indian JV, prove my work and then I will have the opportunity to move into the international circuit with the foreign company”. People do join with that view and that does happen (JV 32)
synonymous with LIC in the rural areas, foreign MNEs face a huge challenge in matching both its access through an agency or bancassurance based model as well as building a rival brand within a short time frame. “In terms of the distribution I don’t think they can survive without their local partner. Simply because, and this is my understanding I maybe wrong but I talked to a lot of people who come from overseas in a large number of joint ventures, and they are actually completely baffled with this distribution game because they don’t see the kind of scale that we have in India where people have a thousand offices, a thousand five hundred offices, you know, half a million agents kind of thing. They don’t see this kind of reach in any of the geographies they do business in” (JV 35).

Thus as far as strategic insidership pertaining to business networks, branding and influence is concerned, there is a definite non level playing field because of the embeddedness of the Indian players and the level of influence they can bring to the table. Within their operations, dominant Indian promoter groups have influence which extends across sectors and their engagement with various regulators, where they are the dominant player in many segments of the economy59. They bring a very different level of influence which is unequalled by foreign managed or owned MNEs. In effect, it is about showing commitment. “Because HSBC has been a hundred years in this country. So, the type of experience you have in this market…. you considered this market as one which is probably a huge opportunity all these years” (Con 7) is indicative of your commitment. This is borne out both in terms of building brand image and loyalty and fostering relationship networks. “These companies have become so large and they have become so well entrenched in the Indian system, and they have spent so much time here...So, you have to embed yourself in the...you have to be seen as an Indian company selling Indian products” (Dom 42). Typically though there is a trend from a situation where autonomy and adaptation are restricted because the market is considered irrelevant to garner such attention to where it acquires strategic importance in scalability and size. That is when foreign investors turn to strategies that allow them to become strategic insiders.

59 An example is extended where “just given the influence of ICICI bank with RBI [Reserve Bank of India], with SEBI and with IRDA, where they are the dominant player in all three segments of financial services business, they bring definitely a very different level of influence, that a Sunlife or a AVIVA or a Metlife [all three are examples of foreign controlled and managed life insurance companies] can never bring” (For 20).
8.3 Outcomes of a triadic interplay

“And I have seen overt and covert attempts to subvert things” (For 24)

Within the concept of a strategic insider, developing political capabilities becomes a strategic tool given the complexities that shroud policy development in India. Business groups typically cultivate political linkages for business purposes (For 21; Gov 12). “Those businesses where there is large government influence, financial services for example is one of them, telecom would be another and so on, there it is important you need to know what is really happening. Also, to work with directly or through associations to influence government policies in the direction which you feel is suitable” (Dom 40). While local MNEs from strategic group I and II in a JV with foreign MNEs might pay lip service to the FDI cause by acknowledging that they do have a ‘gentleman’s agreement’, their bystander status as neutral observers is telling. This fits in well within their orientation to ensure the development of favourable business conditions (Dom 40) whilst engaging with the government and the regulator for their own self interest motivated issues which might de facto influence policy (For 21). Thus the domestic players engage on a one-to-one basis where they could be countering their public position and that presented through the associations, “but they could always work in tandem also’ (Dom 41), since they have their own little circle of communications going on all the time” (Ac 50). For the foreign partner this means that “if by chance the interests of the Indian industry are aligned with the JV partners then their agenda will be taken up but if not aligned then [associations] it’s [as] a platform that doesn’t represent” (For 24). Associations especially the national chambers of commerce like Confederation of Indian Industry (CII), Federation of Indian Chambers of Commerce and Industry (FICCI) and Associated Chambers of Commerce and Industry of India (ASSOCHAM) carry significant lobbying ability to structure policy. In this regard foreign MNEs despite being active participants in India industry, find themselves severely under represented within domestic policy making within the limitations imposed by their often minority shareholding. “I think what this country really needs is a chamber for the foreign companies. There is no chamber for them. We have got this American chamber, we got the European chamber, we don’t have a foreign companies’ chamber that represents the combined forum for all those” (For 24).
This apart, the foreign MNEs’ existing insidership only stems from either bilateral channels (which are incapacitated to take up micro level operation and regulatory issues pertaining to domestic policy) or from relationships that have been forged in the past. “So long as Frank Wisner\textsuperscript{60} was there with AIG you know he used to meet the Prime Minister or somebody and lobby for 49%, this that and all… They at least they go and meet their friends in government, private politics…. But beyond that I don’t think the…” (Gov 13). Foreign MNEs are hard pressed to build insidership within the local economy since their supranational leverage is of little significance within domestic policy formation. “I think they [foreign MNEs] will try and influence policy but as of now policy is not set by IRDA. [It] is set by the government and the government is hard to influence from the outside- they are just not amenable to listening to international companies…” (For 21). Representation through JVs enables foreign MNEs to voice their concerns on regulatory operational issues which impact business development. However equity limits are not concerned with the JV per se and therefore with respect to such issues, foreign MNEs are still outsiders unless they enjoy the support of their domestic partner. However, the rise in the level of equity to what is deemed strategic levels by foreign MNEs will give them greater internal control over management and policies and also over influencing the government and policies which is largely absent right now. “You don’t see the foreign partners actually pressurizing the government or the regulators or the policy makers that there should be some amendments” (Con 3).

Foreign promoters can influence regulations pertaining to the JVs because they have an interest in an Indian company and they have a representative management team, so they have an identity. However on FDI issues, they do not have a voice to speak inside the country- since it is a domestic issue, not pertaining to the JV but regarding shareholding. Thus they have to use outside channels. So as long as industry policy is being debated, they will be insiders with respect to the business regulations in alliance with their domestic partners, but outsiders on issues which pit them against the domestic promoter who is a domestic stakeholder in policy formation.

\textsuperscript{60} Ambassador Wisner served as the Vice Chairman of External Affairs at American International Group (AIG) Inc. since 1997. He served as United States Ambassador to India from July 1994 to July 1997.
Industry policy is now determined through a triadic engagement between the government (and the regulator) who is the ultimate arbitrator and holds complete sovereignty, the foreign promoter and the domestic promoter. However, as has been discussed, the inability of the foreign promoter to become a strategic insider and think beyond the strategic level of 49% equity has put the blinkers on foreign investors and their ability to actively influence policy as yet. Actively partnering with a domestic ‘insider’, one who is actively engaged in the business and thus a strategic insider allows foreign MNEs’ to not only gain an insider view, but also juxtaposes him against a formidable competitor should he wish to compete on a policy/ regulatory view. The domestic MNE can choose when he is ready to compete determined by the advantages offered by his strategic insidernesship and till then continues to collaborate within the co-opetition strategy to fend off competition. He uses his insidernesship in this respect both for strategic disruption (to prevent future competition or changes which are favourable to foreign MNEs but undesirable by local MNEs) as well as to reduce his resource dependence (through continued collaboration with foreign MNEs within which his strategic insider status acts as a resource providing access to distribution and business networks and legitimacy).

In the early days, domestic MNEs were prepared to share equity in 49-51% ratio as long as they got to enter the insurance space. However the process got delayed seemingly because of politcal imperatives leading to market discovery by domestic MNEs, in terms of both valuations (for the smaller JV companies, which had the investor domestic MNE) and long term potential (for big companies sceptical about making inroads in market share in competition with LIC). Thereafter the dynamics of the engagement between the promoters with regard to business issues that impacted equity changed from collaboration (acquiescence to raising equity) to competition (barriers) – the emergence of the co-opetition strategy. This co-opetition though is manifest through an issue-area approach. Whilst companies are not bound to lobby collectively through strategic groups within the industry, they are naturally aligned on certain issues that follow through from their strategic agenda. “Once you enter the field people try to influence the outcome in their own way. [For example] Bancassurance companies will be more interested in seeing that the bancassurance model succeeds in comparison to others….So these are different players who have collective interests as well as their own sectional interests” (For 22).
Thus co-opetition is defined by the objectives that the JV promoters have on particular issues and as has been elaborated in the previous section are influenced by the market imperatives and the JV agreements. The ability for co-opetition though is defined to an extent by strategic insidership of both the parties and in this regard, the foreign promoter has often had to collaborate with local partners for lack of sufficient insidership to compete. So policy outcomes are shaped through the co-opetition stand of the promoters in engagement with the strategic agenda and political compulsions of the government. Co-opetition though is itself defined through the bargaining objectives and the ability for co-operation is facilitated/constrained through strategic insidership.

A generic discussion of the triadic engagement that occurs between the three strategic actors that affects the development of industry policy and regulations cannot be divorced from the issue of the FDI limit. Given the impact of equity holding on control over management and the strategic direction of the JV, it predetermines the stand of the promoters (foreign and domestic MNEs) on a number of business specific issues which seem unrelated but cannot be viewed in isolation. Yet, it is not unexpected that the FDI limit should play such an instrumental role in determining various facets of the industry policy. The initiation of the bargaining behaviour by the foreign MNE is hinged on this very issue. Unless they acquire the right to form a wholly owned subsidiary or become the dominant strategic group within a sector, FDI limit issues will supersede foreign MNE concerns regarding industry policy since a low FDI equity holding not only limits their ability to engage but also restricts the level of their strategic engagement within the JV.

To illustrate, the IPO requirement which is enshrined in the Insurance Act and requires the promoters to dilute their stakes to 26% in favour of listing on the stock exchange is due for some of the early entrants who have completed the stipulated 10 years in the market and have been recently showing profits. The entanglement of the IPO issue with the FDI limit though is deeper than appears. Whilst it opens up an additional channel for raising capital, easily countering the argument that FDI should be increased because of capital constraints, it does not really address the needs of the smaller, later market entrants who are the particularly cash strapped companies. On the other hand, the bigger market players can easily raise capital and cash out on high valuations through the IPO.
Yet, a raise in the FDI limit would be preferable by them too- not only does it lead to a better price discovery via sale of stock to FIIs (foreign institutional investors), it does so without diluting the hold over management control that dominant domestic groups hold. Thus such business groups are negotiating a fine line on the FDI issue since they are also bound by their JV agreements to be obliged to part with the additional equity to their foreign partners. However, if they are able to defer the required legislation going through by not actively campaigning for it in the very least, “the participants lot of times they…they are quite strategic in not making things happen rather than making things happen” (JV 30)- “[And] I do know a couple of the business houses delayed 26 to 49 for a very very long time…and they continue to play a very active role” (For 24), the domestic promoters within such JVs not only manage to void the time bound clause regarding obligation to sell the additional 23% stake, but retain management control. Thereafter even if FDI is allowed, based on current market requirements (where one foreign promoter perspective even cited solvency concerns as a good reason to allow greater equity sharing), the domestic promoters can still take a decision regarding its preferences towards foreign equity.

The IPO route is now open for the early JVs to raise additional capital at a time deemed most favourable because of market sentiments or as the needs dictate. If however FDI is now allowed to go up to 49%, such JVs who are no longer bound by their JV agreements to sell the additional 23% stake to their foreign promoters will also benefit from the additional value put on their stock by FIIs without the commensurate claims on management.

The foreign and domestic promoters at the strategic decision making level are both interested in the equity and ownership level issues which is where both try and use their influence. The JV management as an independent entity mostly handles all the operating level issues being removed from shareholder issues per se. While earlier this domain might have seen more active involvement by the foreign companies because they had the technical expertise and also were more engaged expecting 49%, given the delays with 49%, this legislative issue seems to be their foremost concern since it defines their future strategic potential. However with the shift in bargaining over industry policy, the dominant theme is now regarding or influencing the operational
aspect of the business which has put the dominant domestic promoter with 74% back in the driver’s seat.

**8.3.1 Industry and trade associations: a medium for local MNEs voice within Governments**

“You see in FDI policy.. there are different kinds of associations, there are the big industries associations like FICCI, CII, and ASSOCHAM also.. and so on they put forward their views then there are like Indo- American business consul and so on and so forth they also put forward their views. Therefore these are views which emanate from different quarters at different points in time…” (Gov 11)

That said, foreign MNE interests would be well represented by those strategic groups within the domestic industry where both are aligned. To this extent, even the industry associations and diplomatic channels can be used in collaboration to supplement the domestic insidership of strategic groups and drive home the strategic interests of that section of the industry which is reflected in the foreign MNE concerns. Thus while “some agenda may be dictated by what the WTO might say in terms of using international frameworks to open up either services or manufacturing but ultimately the base and the direction that the government will take will to a great extent depend on what the domestic players would want” (JV 32). Within the domestic space, the initiative towards liberalization is often spearheaded by the chambers of commerce if supported by the larger private sector. “The Indian private sector; it was CII which was lobbying for opening up of insurance. We used to have summits. We started our lobbying since 1993 for opening up of insurance. There were lot of foreign interests in India... Munich Re, Swiss Re, your AIG’s, they all had come out setup liaison offices, waiting for the policy to open up, so then they could start you know..operations...because they found the market to be very lucrative. Almost all the major Indian domestic companies, the TATAs, the Reliance..you know.. the Bajaj, all the major groups and including banks, all the banks were very interested. ... they all used to come, we used to have an insurance committee, we have a national committee on insurance that is as old as, the first insurance committee was setup in 1991. Since then we were talking about opening up” (TIO 1).

The evolution of bargaining to cover issues pertaining to industry policy means that domestic industry is heavily involved because such bargaining is no longer over dyadic issues and impacts their everyday business interests. “I think that’s the right way to do
things if you're framing regulations, you need to be aware of the impact of those regulations. You don't want to do it in a vacuum and be surprised by the fall out. You need to get the input of the industry. It's in the industry's interest that the regulations are framed in such a way" (JV 33). Thus the involvement of domestic policy issues within bargaining not only expose the foreign MNEs to local stakeholder influences like that of the local MNEs, it also further empowers the host government of markets like Indian and China which have a robust state owned sector as well in many ‘salient’ sectors of the economy. It is contended that foreign MNEs have less influence in EMs where there is parallel state ownership since it augments the government’s ability within industry development and partly reduces its dependence on FDI. Regarding foreign MNEs leveraging influence in domestic policy with respect to big EMs which have local MNEs (particularly state owned), it is perceived that “It can’t be done because you know there is a system of government. We’re not a, we’re not a small economy you know. We are not Surinam or a smaller economy is like a Shell goes there, dictates everything on their hydrocarbons policy. You can’t do it. See because, that’s also because there is a parallel state run sector in.... in India. You have a state owned sector also, you have this public sector enterprises who are also in the same business right. They are also producing oil, refining oil and selling oil” (TIO 1). This shows that the governments’ strategic objectives from FDI are modified by the presence of state owned companies and private sector at large in India while restricting their reliance on FDI in general. Thus “for example, some policy that the domestic industry thinks that it's contrary to their interests in the short or long run. They will make sure that it doesn't go through. Of course, it's a question of who can influence what to what extent and so they may not have their way but they do have... I mean it's an uneasy alliance if I can say. Put it that way that... the domestic companies are allies with the foreign companies” (Ac 50).

This reference to an uneasy alliance between foreign and domestic business groups has echoes at the higher echelons of policymaking as well. The extension of the G7 to a more inclusive G20 in 1999 reflecting the rapid shift in the weight of economic power by including the new centres of economic growth that have arisen in the last 10 years, is also testament to the arrival of the G20 as the new forum for global economic governance (Cho, 2011a, b). This heralds a new era in supranational policy making which is much more inclusive through supporting international dialogue and co-
operation by integrating the principle of a widened discussion which takes into account the increasing economic weight of a certain number of countries (such as Brazil, South Africa, China or India). “If you look at G20, look say example of G20. G20 has a group called B20\(^6\), they have various working groups. B20 is nothing but business of these 20 countries. They come together, they make strong, they work on various issues, and these issues are jointly decided by the businesses and the governments of the G20 line...And when they completed their report and were presenting, Japanese PM was in that meet listening to what this group had to say because then he would go, along with these convener and co-convener and they would go and report to the G20s, the main G20 leaders...” (TIO 1) This shows a triadic engagement now at the supranational level which involves not just the governments, but also the business community wherein local MNEs now have an equally active role to play in ensuring representation of their business interests. Such recent developments are growing indicators of the progressive need of having economic actors and political leaders together and within the current context, further support the growing need to recognise domestic MNEs within EMs as important stakeholders within bargaining. While this research has extended the discussion to study their influence on dyadic bargaining in the host country context by using industry policy as the bargaining outcome, there is little doubt that their hold over supranational policy is also set to grow in the near future. This institutionalization of the B20 (Cannes B20 Business Summit, 2011) paves the way for stronger representation of the local MNEs at par with their emergence from critical end markets in emerging economies and to address the grasp of foreign MNEs over supranational policy making.

8.4 Chapter summary

The analysis of the interview data has been able to show the evolution of the bargaining objectives of the triadic actors through the lenses of the strategic impact they carry on shaping bargaining over industry policy. The co-opetition by local MNEs has been an outcome of the JV agreements they signed with foreign MNEs, the market imperatives they faced and the degree and quality of their strategic insidership including political

\(^6\) With the creation of the G20, businesses from the G20 countries organized themselves to contribute to the emerging global discussions and provide input to the G20 and the international organizations. Previously, the most representative business federations from the G8 countries – the “B8” – provided input to the G8 summits. In 2011, the G20 business summit took a step forward: it became a mirror of the G20 by ensuring business representation from all the G20 countries. The B20 Coalition brings together the most representative and significant private business organizations from the G20 countries, the world’s leading economies (B20 Coalition 2012).
influence. The analysis has been able to distinguish between two sets of domestic local MNEs—those who have collaborated with foreign MNEs but are noticeably from non-allied industry sectors and those who have practiced co-opetition. The emergence of competition by local MNEs within the JVs is most prominent over equity issues and has emerged explicitly after a period of time. This is indicative of their growing ability to compete with these foreign MNEs following collaboration with them within the JVs which has built their ability to do so. Whilst both multinationals continue to engage constructively within the JV in their engagement over business issues with the regulator, their competition over equity in their engagement with the government is indicative of their awareness that it will shape their long term position in the Indian industry and their own strategic market position which is able to capture early market share.

Through industry associations and their own insidership in the economy, dominant business groups have the ability for setting up barriers which can adversely affect foreign MNE prospects especially if they are able to delay the timing of regulatory change to diffuse the impact of certain clauses with the JV agreements as has been seen. Political influence though is difficult to perceive from the outside, especially since political imperatives and lack of consensus have been the explicit cause for preventing certain regulatory reforms. In either case, through their LOF and outsidership to business networks, foreign MNEs face certain ‘obsolescence’ within their operations in India as has been made explicit through the development of the JV relationship between local MNEs (strategic group I and II) and foreign MNEs in India through the co-opetition perspective. This has seen the gradual reaffirmation of competition by local MNEs within their collaboration. This is a direct outcome of the foreign MNEs’ heavy reliance on local MNEs who are incumbent insiders, a critical resource for business operations in the sector as well as the failure of entry bargains with the government to mature. The government now seems all the more likely to renege on its promises signalling a reassessment of early expectations for foreign MNEs, who have shaped their strategic choices and plans for the sector, including the choice of the JV partner.
Chapter 9: Discussion of findings in light of research objectives

This penultimate chapter brings together the findings from the case study which are synthesized and analysed through a discussion positioned within the bargaining context and against the research objectives. It reflects on the *a priori* propositions which were developed in chapter 5 based on the literature and further advances them based on the industry experience offered by the development of the nascent life insurance industry in India. The key takeaways are structured within three distinct sections which are interdependent and allow for an appraisal of the *a priori* propositions, their advancement and some concluding statements which can be further tested through future research. Section 9.1 begins with the co-opetition perspective in the context of the triadic bargaining interplay and underscores the impact of the local MNEs’ ambivalence in its bargaining objectives and therefore bargaining outcomes reflected in the (non) development of the industry policy. Furthermore, EMs are explored for the uneven playing field that they offer for foreign MNEs operating for end markets in 9.2, despite the best efforts of the host government to accord them national treatment. The foreign MNEs’ political liability of foreignness (9.2.1) is an acute factor leading to a perpetuation of their lack of strategic insidership. Finally, the study proposes and demonstrates how the OBM is not yet obsolete for the foreign MNEs’ market seeking FDI within EMs in 9.3. This research offers a first step towards the revival of the OBM to better understand the foreign MNE experience within EMs based on its key propositions.

9.1 Co-opetition by local MNEs affects bargaining objectives and bargaining outcomes over industry policy

Co-opetition between foreign MNEs and local MNEs (strategic group I and II) has originated within the JV and has been facilitated by the local MNEs’ strategic insidership as is evident from a discussion of the case study. In this respect, this research extends the work of Luo (2007b) which contends that foreign MNEs should try to become a strategic insider within EMs through co-opetition with local MNEs. It is the local MNEs’ embeddedness in the local economy and access to institutional networks which invites collaboration with foreign MNEs’ and is the basis of their superior understanding of the market and local economy. Within the JV, this insidership has
facilitated resource transfers between the domestic promoters and foreign MNEs by providing access to networks and local market knowledge in exchange for getting capital support and benefitting from business specific knowledge spillovers. However, over time it is this same insidership which has become the local MNEs’ competitive strength versus the foreign MNEs (as well as between JVs). The knowledge transfers within JVs have reduced the local MNEs’ dependence on the foreign MNE. Therefore, within their continued cooperation in running the JV, local MNEs in order to strengthen their strategic and competitive market position in their own home market have started dominating the JV operations.

Foreign MNEs have little recourse since they do need the local MNEs’ branding and distribution networks in order to capture market share as has become visible from their acquiescence to featuring the domestic brand more prominently in the JV brand as well as through their efforts to acquire a domestic brand and distribution capabilities in cases where foreign MNEs had chosen to leverage only their global brand and had partnered with non allied strategic group III promoters (refer to Appendix 7 for illustrations on the transition in branding in some JVs in India).

Based on the industry case study it would therefore seem that determinants of the bargaining over industry policy stem from institutional factors like the importance of distribution capabilities which make bancassurance the strategic capability within the industry and local brand recognition. These strategic attributes not only make local MNEs the partners of choice for foreign MNEs but also makes them stronger competitors within the co-opetition approach (through their possession of this insidership). To answer the first part of the research question then, co-opetition by local MNEs indeed mediates the bargaining outcomes between foreign MNEs and host governments based on their strategic insidership which is the basis of their co-opetition rooted in the JV. This has been visible in the development of the FDI debate within the industry and its implications for the IPO clause as well. Furthermore, as discussed below, the co-opetition by local MNEs follows an issue area approach. Herein they strategically collaborate on business interests within the JV and compete on equity issues between promoters of the JV leading to a perpetuation of the lack of insidership for the foreign MNEs and therefore deterioration in their long term business interests.
The case study has demonstrated how the development of policy variables like the FDI limit and the IPO norms are guided by the stand of the strategic group I and II companies who carry the clout and the scale within the economy to be considered the dominant domestic stakeholder representing the industry position. This view has repeatedly emanated from various quarters through the interviews that the domestic promoters whose views count have been largely silent on the issue of the FDI limit. As leaders within their field, these local MNEs have high institutional credibility with both the government and the consumers which is an important facet of their strategic insiderness. It was this embeddedness and credibility which attracted those foreign MNEs who valued building up early dominance of the market to partner with them as a conscious strategic choice regarding their long term positioning within the market. However, time and political inactivity has ensured that strategic group I and II promoters are now beginning to compete with their foreign promoters within their continued cooperation in the JV in order to gain superior positioning within the market. By taking over the reins of the JV operations, carrying the headline name and driving the strategic direction of the JV (for example, a short term focus on developing new business that affects valuation build up versus conducting quality business which yields long term profits) domestic promoters are setting themselves up favourably in the market.

This co-opetition is clearly visible through an issue- area approach. The JV business operations and regulations pertaining to them continue to see a collaborative approach between promoters fronted by the JV management team. This is because despite growing competition, the JV business continues to be aligned to the foreign MNEs’ shareholder objective which is to be present in a growing lucrative EM. Given restrictive regulations, foreign MNEs have atleast got their foot in. And by partnering with committed domestic partners (strategic group I and II), they have seen the scope and scale of their JV business grow. This has translated into greater returns for them, even if at the cost of giving away management control. However, these same local MNEs are also now increasingly aware of the strategic value of the resources they bring to the JV. With the development of the local industry and knowledge spillovers and transfers, it is their resources (like distribution capabilities and branding) which are now the basis of the competition between JVs to capture market share. Therefore these domestic promoters are now changing the co-opetition equation between them and their
foreign promoters by resisting those regulatory changes which will give foreign MNEs either greater equity or more strategic control over the company.

The discussion of the development of the JV relationship is testimony to the growing aspirations of the domestic promoters which has translated into their reluctance to support higher FDI limits. This argument is sustained from public archives which have repeatedly carried foreign demands for FDI but little in support from their domestic group I and II promoter’s post 2008. Within the interview data, domestic promoters have made explicit their ‘rational’ argument for why FDI should not be raised further or at least their non priority to the issue in their engagement with the regulator and the government. Clearly, the FDI limit is not on their agenda. Beforehand as one report clearly quotes, the domestic promoters were bound by the fixed return they were getting from the JV (which they agreed to in view of expected initial losses) according to the JV agreement, with the clause ending in 2016 where they would switch to a market valuation for their stakes. However with the JVs making greater inroads than was expected in the market versus LIC, the domestic promoters have woken up to the inherent potential within their market which has been facilitated with their growing understanding of the business. This has indicated a sore deal for the foreign MNEs, who through a variety of ways had brought in the majority of the capital in anticipation of their increased shareholding.

The imbalance in the capital investment versus the position of both sets of promoters now can be deduced through the following example- a foreign insurer invested up to 13 times the capital domestic promoter invested, for only 26% of the stake in one JV. Such arrangements met the FDI law but did violate its spirit. Despite these agreements, the delay in the regulation going through (due to the local MNEs strategic insidership which endow it with the political capital to do so or through the political imperatives that the government faces), these local MNEs are nearing the time limit wherein they will be able to choose whether they wish to sell the additional 23% stake to their foreign promoters or not and get a better valuation in return than was guaranteed in the agreement. At the same time, they have made little investment in the JV which hedged their potential losses from the venture while getting a fixed return from their foreign promoter. And now that they have discovered the business potential, they are slowing but clearly taking over the JV.
Such examples within the life insurance industry clearly support the first proposition P1\textsuperscript{62} regarding the bargaining outcome on industry policy being dependent on the co-opetition strategy of local MNEs (strategic group I and II). Strategic group III promoters are collaborative (and not competitive; so no co-opetition, only cooperation) but since they are from non allied sectors they have little to contribute in terms of insidership to the JV since they have little brand credibility within financial services and no supporting distribution network. It is the strategic insidership of local MNEs from allied fields which determines their co-opetition with foreign MNEs over industry policy. Based on the empirical data, proposition P1 is therefore modified to now propose that

P1a: The bargaining outcome between EM governments and foreign MNEs over industry FDI policy depends on the co-opetition strategy adopted by local MNEs from allied fields (as evident from the actions of strategic group I and II), who follow an issue-area approach

9.2 Non level playing field for foreign MNEs in EMs: the role of strategic insidership

The motivation for this research stemmed from the common objective of the government (while trying to attract FDI) and the intent of supranational agreements to create a level playing field for foreign MNEs. This requires that they are given national treatment and recognised as a local company. However even if governments do not privilege domestic firms over foreign firms as discussed by Prakash (2002) by influencing the non market environment, the institutional constraints that inhibit foreign MNE operations and require adaptation of their strategy for the local market ensure that the playing field for conducting end market business in EMs continues to be stilted in favour of domestic MNEs. The findings from the case study which have stressed the role of strategic insidership in facilitating and determining the emergence of competition within co-opetition by local MNEs underpin this conclusion (as discussed later in proposition 3).

\textsuperscript{62} P1: The bargaining outcome between EM governments and foreign MNEs over industry FDI policy depends on the co-opetition strategy adopted by local MNEs
Foreign MNEs made a clear strategic choice in terms of choosing JV partners, structuring their JV agreements and in planning their product/pricing/ market strategy when they entered the Indian market. However the failure of either strategies (of partnering strategic group I and II promoters who are from allied fields versus partnering strategic group III promoters who remain as investors in the JV, giving strategic and management control to foreign MNEs) to mature according to expectation is contingent on the foreign MNEs’ lack of understanding of the institutional environment (including lack of appreciation of the high value of strategic insidership) as well as the heady emergence of competition by local MNEs (strategic group I and II).

Therefore strategic insidership has surfaced as the explanatory variable which has determined the pace and the degree of competition by the local MNEs and the degree of the foreign MNEs’ dependence on their domestic counterparts. For those foreign MNEs who partnered with strategic group III companies, the extent of the relative imbalance in their market prospects based on industry insidership is in fact not negative. Foreign MNEs compare favourably to such partner companies since they at least rely on their global repute and branding as leading insurance companies versus those local MNEs who have just forayed outside their core business. However the foreign MNEs do lack institutional embeddedness (both relationship based and logistical) which the incumbent players from financial services carry. Therefore these foreign MNEs have managed to implement their global vision (within the restrictions imposed by the capital constraints of their domestic partners and the regulatory barriers) but have suffered from the combined lack of (both theirs and their domestic partners’) strategic insidership.

On the other hand, those foreign MNEs which partnered with the business group companies and financial conglomerates benefitted from their superior understanding of the financial services market, their existing incumbency and access to business networks as well as their brand recognition built through allied financial services. These strategic group I and II local MNEs were strategic insiders. Through them, their JV and therefore their foreign partners gained considerable market access by partnering with such strategic insiders. However their future prospects within the JV are also relatively unattractive based on this same lack of insidership with which they are competing against to get more strategic control. Notably though, even these local MNEs needed their foreign partners to gain the ability to conduct the life insurance business. Only
subsequent knowledge transfers within the JV and spillovers in the economy have gradually reduced their dependence on the foreign MNE. It is with respect to such local MNEs from allied fields and therefore their natural competitors that the foreign MNEs face a tough uneven playing field. This follows from the threat of contractual hazards that JV partners need to beware of (Henisz, 2000) while using local alliance partners to counter their liability of foreignness. The institutional nature of the market demands local credibility and isomorphism which is a function of time. Only by committing to the market over time will foreign MNEs who seek to gain such insiderness be able to build (and demonstrate) their capabilities and institutionally embedded resources. This is borne out by the experience of companies like Unilever, HSBC, Standard Chartered Bank and Bata to name a few, which are now unmistakably recognised as ‘Indian’ companies by the mass market consumer. These are examples of companies who have displayed the ability to successfully implant themselves in the institutional environment and become socially embedded in the network of ties, which is the key to becoming a ‘strategic insider’ (Luo, 2007b), as discussed in chapter 4.

The data analysis and the above discussion also modify proposition P2. As the domestic promoters have stressed in the interview data, the stimulus to their partnering with foreign MNEs came from their lack of technical knowledge of the life insurance business. With the existence of a state monopoly for the last 50 years, the only expertise in the country was available in the public sector. Private sector groups were keen to end the LIC’s dominance of the market and gain the ability to compete by developing a robust private sector. Collaboration with foreign MNEs was a necessary condition to initiate the development of the private sector life insurance companies irrespective of their identity as leading financial institutions and diversified business groups. Thus the resource dependence could only be addressed through structuring JVs with foreign MNEs. However as the evolution of the JVs is witness, with growing confidence and reducing dependence on their foreign partners given knowledge transfers, strategic group I and II promoters are slowly but keenly growing dominant within the alliance. This has also been facilitated in part with the development of a domestic market for

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63 P2: Local MNEs’ strategy of co-opetition in EMs is rooted in their resource dependence on foreign MNEs
private life insurance industry in India. Thus co-opetition by these local MNEs is indeed rooted in their degree of dependence on foreign MNE capabilities where the JV itself becomes the fulcrum for the co-opetition and subsequent resource transfers. As the literature on local MNEs has amply elaborated (Luo, 2007a; Luo & Tung, 2007; Mathews, 2006; Mathews, 2002), the unique characteristic of local MNE’s is their lack of FSAs and subsequently they forge strategic alliances with foreign mature MNEs to facilitate such resource transfers which help them develop capabilities to strengthen their competitive ability. Thus

P2a: The JV with foreign MNEs is the fulcrum for the local MNEs’ strategy of co-opetition in EMs

Figure 6: Revised framework for triadic bargaining in EMs- Co-opetition in JVs by local MNEs following an issue – area approach

With respect to proposition P3, the experience of strategic group I versus group II companies within the evolution of their JV relationship demonstrates that the competition – collaboration equation within co-opetition is indeed dependent on the

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64 P3: The development of the competition–collaboration equation within the local MNEs’ co-opetition depends on the degree of their continued reliance on the foreign MNEs’ capabilities
degree of the local MNEs’ continued reliance on foreign MNE capabilities. The strategic group I companies are the financial conglomerates led by the bank promoted companies. This group of MNEs have the financial services acumen which suggests that their overall understanding of the life insurance business was the strongest (within private industry outside LIC). Whilst even these companies needed foreign assistance to develop business- specific capabilities, the quality of their existing human resources was of a high calibre which was able to imbibe the insurance related skills relatively quickly. Even in term of their overall position, strategic group I companies were the dominant leaders within financial services and therefore their strategic insidership was also the most developed. Their brands are recognised as the leading brands within the sector and their influence and standing with the regulator and the government is a sum of their confluence across sub-sectors like banking, mutual funds, asset management and regulators like SEBI and the RBI. Such companies are represented at the highest levels and often appointed to government committees in light of their sector specific credibility. Therefore, presumably the resource dependence of strategic group I companies was the lowest amongst all the domestic companies. This would explain their refusal to hand over management control to the foreign partners from the start (or at least bargain for equal management from the start of the JV).

On the other hand, the strategic group II companies were the diversified business group companies, which had related interests within financial services like mutual funds or an asset management company which were only part of their larger diversified holdings in the economy including predominant interests in manufacturing. Notably, these groups did not have a banking company which has been identified as the prime resource for the bancassurance distribution channel (GOI is now soliciting applications for granting banking licences and many of these local MNEs have indeed applied). Yet they carry considerable insidership since they have built credibility and goodwill across sectors and can leverage a recognisable brand name within financial services now. Their standing with the government has been built through their interaction across sectors. These business groups are an important institutional characteristic of EMs and a significant stakeholder in the local economy, both in terms of recognisability and influence as well as their contribution to GDP.
It is the JVs with these strategic group II companies where the gradual emergence of competition is explicitly visible in the development of their JV relationship. Their early dependence and relative inexperience within the sector meant that they were only leveraging their brand name and distribution access earlier. The management control was held by the foreign promoter. However as the experience of numerous JVs is witness, domestic promoters within these JVs have learnt from their foreign partners and their experience in the industry. They have steadily increased their involvement in running the company and raised their active profile in the industry. This has been a direct result of their reducing dependence on the foreign partner and growing understanding of the business which indicates a loss of bargaining power for the foreign promoters since they have lost the keen edge that their resources gave them. On the other hand, the foreign MNEs’ sustained lack of insidership has been perpetuated by their losing even their global name from the local branding or being sidled out from retaining management control which required their strategic engagement with the JV.

There are a few notable examples from the industry which confirm this trend (refer to Appendix 7 for changes in JV branding). Within one JV for example, the foreign promoter was a leading US insurer and had enjoyed management control with equal visibility in the JV branding, voting rights (versus only information rights) as well as in the equal division of chairing the management sub-committees controlling key functions like audit, investment and risk. The JV was however terminated after 11 years as part of the foreign MNE’s strategic decision to exit Asia. This domestic promoter formed another JV with a Japanese company this time. However, 12 years in the business during which the JV had turned both profitable and become the largest non bank private life insurance company in India ensured that the domestic promoters entered into a very different JV agreement with their new partners. They renamed the JV carrying only the domestic promoter’s brand name (the Japanese company does not feature in the branding) as well as retained chairmanship of all the key statutory sub-committees. This suggests that their growing comfort with conducting the life insurance business, easy availability of resources in the local market and knowledge spillovers have been responsible for enabling the competition by domestic MNEs within the JVs by reducing their overall dependence on a foreign partner. Thereafter, the quality of their existing strategic insidership (like branding and distribution access) becomes the leveraging factor for the growth and demonstration of this competition once the knowledge
dependence is reduced; in particular if insiderness is used to cause regulatory/policy road blocks to further strengthen their hand. Therefore it is JVs with those local MNEs who are dominant business groups and financial conglomerates- incumbent strategic insiders in the sector that become the fulcrum for the co-opetition behaviour with foreign MNEs. In addition, in doing so, foreign MNEs that desire to become potential strategic insiders - through their strategic orientation – transform existing insidership into a potential resource\(^{65}\) for the existing strategic insiders – the local MNEs. Therefore it follows that

P3a: *The development of the competition–collaboration equation within the local MNEs’ co-opetition depends on the quality of their strategic insidership with respect to the industry in question*

### 9.2.1 The host government and political liability of foreignness of foreign MNEs in domestic policy formation

The discussion regarding the uneven playing field between local MNEs and foreign MNEs has to be reviewed in the context of not just the ability to conduct the market operations (through access to local networks and branding) but also the ability to structure and condition the policy and business environment. This is an important facet because it *inter alia* affects the ability of the foreign MNE to become a strategic insider. If the FDI policy and industry regulations continue to favour the local MNE through restricting equity holdings by foreign MNEs or by privileging local MNE assets and resources over those of the foreign MNE (for example through a preference for technology as seen in the case of the telecommunications policy), the foreign MNE would be unable to ratchet up its strategic engagement within the economy thereby perpetuating their ‘outsidership’. Gaining the ability to have a ‘voice’ in domestic policy formation therefore becomes an important asset which alleviates the degree of outsidership as well as addresses the source of the outsidership if the policy issues being debated lead to changes in ownership and control.

As the above discussion has highlighted though- within the co-opetition behaviour followed by local MNEs, their competitive tendencies come to the fore mostly with

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\(^{65}\) From a strategy on ‘how to become a strategic insider’, strategic insidership which signals hold over critical resources like brand and credibility which enable insidership becomes a resource by itself.
regards to the equity issues reflected through debates considering possible changes to the FDI limit and the timing of the IPO. In this regard political insidernesship which provides the ability to manipulate the timing of regulatory changes as well as the overall policy change is critical. Through their embeddedness in the local economy and representation in the national chambers of commerce which are active channels for building consensus and act as the ‘industry’s voice for policy change’, local MNEs are well positioned to do so. It is the foreign MNEs who are under-represented since their minority equity holding does not identify them as domestic stakeholders and if their interests are divergent to those of the domestic stakeholders, the industry associations and chambers are unable to represent them as well. Thus the co-opetition pendulum which was conceptualised in Chapter 5 can be further developed by identifying the issue-areas for the application of co-opetition over policy development.
The local MNEs are incumbent insiders, domestic stakeholders in industry policy development represented through industry associations and national chambers of commerce and have access to the entire political eco system allowing them to maintain relationships with various political parties and the bureaucracy beyond the formal contact with the ruling government. Foreign MNEs on the other hand are hard pressed to find representation outside of their representation by home governments through tier I bargaining. However both tier I and tier II domestic bargaining (which involves local MNEs) affects industry policy. Foreign MNEs can only hope to be represented within tier II bargaining if their interests overlap with strategic groups within the domestic industry. In case of the life insurance industry, strategic group III promoters while not being insiders within financial services of a calibre comparable to strategic group I and
II companies are still able to access the political eco system and have an identity as a domestic stakeholder. In this case, foreign MNEs can hope to complement their tier I bargaining through their collaboration with strategic group III companies (who continue to support FDI) in tier II bargaining. This refinement of the co-opetition pendulum based on issue-areas helps understand the capacity of strategic groups of local MNEs for collaboration or competition with an impact on the development of sector specific policy and regulations.

The possibility of collaboration reiterates the discussion about the political capacity and influence of the coalition of industry interests that find convergence with the government’s strategic agenda as well as the group calculation of interests (Eren-Vural, 2006; Mueller & Lovelock, 2000; Mukherji, 2008). Political influence cannot be taken for granted and needs to be reviewed against government bargaining objectives. Being state owned, LIC of India carries significant political clout and is ideally placed as an ‘insider’. However its failure to prevent liberalization of the industry supports the view that the government first addresses its macro socio-economic concerns (in this case the need to improve industry performance though competitive pricing and new products by developing a private industry and its need to alleviate the balance of payment crisis) and those strategic groups whose co-opetition perspective finds convergence with the government therefore carry greater political capacity on those issues. However, later analysis of the industry policy (non) development regarding government reluctance to raise FDI equity to 49% also suggests the sequential nature of government bargaining objectives and the possibility of non convergence with the same set of politically influential insiders. It reiterates the general orientation of the host government which is inclined to use the significant increase in its bargaining power by granting access to key sectors on its own terms to get better bargains- like retaining a larger share of equity for its host country nationals (Encarnation & Wells, 1985; Fagre & Wells, 1982; Lecraw, 1984). As the interview data highlights, local MNEs have indulged in creating regulatory barriers primarily through manipulating the timing of regulatory change to serve their long term interests (when they find convergence with the government agenda, which could also be compromised due to political imperatives. As their interests in delaying or avoiding the regulatory change seems to be aligned to current
government imperatives, it would support proposition P4\(^{66}\) by proposing further extensions to the same.

P4a: A coalition of foreign and local MNEs strengthens the bargaining power of foreign MNEs by giving them a ‘voice’ in the domestic policy negotiation through local MNEs if the issue in question is convergent with the sequential bargaining objectives of the local MNEs and the host government and

P4b: It is subject to the strategic insidership (political influence in particular) of the local MNEs which determines their potential impact for foreign MNE bargaining power

When as during the initial years, both local MNEs (all strategic groups) and foreign MNEs were aligned on the issue of equity transfers, their combined bargaining power was high- foreign MNEs found a voice within the domestic debate regarding FDI in the industry through their potential JV partners. Their combined interests were also well matched with the GOI’s aspirations for the sector and therefore the FDI policy developed as it did. Now however, only strategic group III promoters seem to support the foreign MNEs’ demand for higher equity. However their insidership within financial services is not as robust as that of the strategic group I and II promoters- dominant stakeholders in financial services; therefore the political influence of strategic group III promoters would be presumably lower. The political influence of that strategic group which finds convergence with foreign MNE interests determines their (local MNEs’) potential impact for foreign MNE bargaining power. At the same time it would seem that there has not been an external or internal stimulus for the GOI to retain its bargaining objective which has now evolved to not supporting higher FDI stakes it would seem (an objective which is supported by the strategic group I and II promoters).

The transition of the bargaining objectives of the strategic group I and II companies from being aligned to foreign MNE interest and thereafter diverging has been influenced by the market imperatives and the structure of their JV agreements. The domestic promoters have revised their bargaining objectives from their foreign promoters within the JV based on market imperatives like the pace of business growth.

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\[^{66}\text{P4: A coalition of foreign and local MNEs strengthens the bargaining power of foreign MNEs by giving them a ‘voice’ in the domestic policy negotiation through local MNEs, leveraging and extending their global structural power within domestic boundaries}\]
Prior to 2008 and the economic slowdown, the insurance industry was growing at a rapid pace and the JV needed on-going infusions of fresh capital\(^\text{67}\). Given that the understanding to sell the additional 23% stake to foreign promoters had been captured in the JV agreements, domestic promoters were agreeable to becoming more equal partners in management of the JV since it eased the capital requirements on behalf of the domestic promoter. However one of the key reasons why the domestic promoters changed their intent regarding 49% was because of the significant delay in the regulation going through which meant that not only had the domestic promoters learnt the business but in the meanwhile, had also ‘discovered’ the market. They had also borne the majority of the losses which the insurance business accrues in the initial years. Subsequently, once the growth in business slowed down and capital adequacy could be maintained on their own (in fact the JVs became over capitalised), domestic promoters (group I and II) were less keen to facilitate the 49% since the time to expiry of clause which obliged them to sell their stakes to their foreign partners was drawing near as was the time when profits would expectedly start flowing in. The domestic promoters who had all agreed to share equity in a 74-26 ratio to gain the ability to enter the life insurance space presumably reneged on their entry bargains (where the stimulus might have been political inability) once they discovered the scope for their business. Furthermore, it was the interplay between their capital requirements and control over management which determined their stand regarding FDI and/ or the IPO now.

The reluctance of domestic promoters to support further FDI publically beyond 2008 is indicative of their disinterest in exercising their considerable political clout in favour of their JV partner. Even if they might not have actually blocked the regulation from going through but they did not facilitate it either. This single move has signalled obsolescence for the foreign MNE based on their entry negotiations with their JV partner.

For GOI, the narrative reveals their attitude towards FDI, where foreign capital has been historically perceived with distrust. The nationalist sentiments from the pre independence era persist even now when it comes to supporting domestic industry over

\(^{67}\) It is important to note that in order to maintain the 74-26 ratio both promoters have to put in capital. While the foreign promoter might be willing to fund additional requirements of capital and have the ability to do so as well, they do need the domestic promoter to accompany their increase in investment as well and of a higher amount to ensure that their stakes are maintained at 26% and 74% respectively.
foreign interests. The failure of the subsequent governments which have enjoyed majority in the Indian parliament, albeit within a coalition where other sectors have been further liberalised suggests the creation of entry barriers by strategic groups within the life insurance industry or at least a lack of political will to push this regulation through (or a combination of both). This disability of the GOI to keep its entry promise 12 years post opening up the sector would mean that the government is also biding its time (in the absence of any internal/external stimulus favouring raising the FDI limit further). It has been able to ensure the transfer of foreign capabilities within the JVs to the domestic promoters who have gained significant market share from the LIC to become market leaders now competing with the LIC. Such actions of the GOI where it continues to renege on its entry bargains are witness to the ‘homegrown conditionality’ (Chaudhry et al., 2004) that it imposes on international and supranational compulsions. The lure of EMs however is sufficient to keep foreign MNEs drawn in despite the challenges.

Just as the local MNEs are motivated to change their bargaining objectives and stand on industry policy based on the market imperatives and their JV agreements, so too does GOI as has been observed within this case study. Early promises by the government served to draw in the requisite foreign investment which further addressed their foreign exchange requirements as well as facilitated the development of a local private sector within life insurance in India. At the same time, the Government was able to get reciprocity for its companies to operate in the IT sector in America. This supports the argument that the government operates within a multi-polar strategic agenda as was conceived through the literature. However the recommendations of the Malhotra committee which advised a foreign equity limit of 40% and the history of the GOI’s policy to allow only minority limits for foreign investors questions their public rhetoric supporting 49%. This figure also seems to be devised without much underlying support since it is inconceivable that the government would allow majority control to rest with foreign MNEs (by allowing 49%) with the domestic promoters share lowered to 26% as stipulated in the Insurance Act currently. The requirement that JV conduct an IPO to allow wider ownership and greater transparency means that either the domestic promoters would only dilute their shareholding to the minimum limit allowed by SEBI for a public offer or if the FDI limit is raised, it would only facilitate FII investment in
the industry and both shareholders might end up with 26% each where the domestic promoter can choose to hold 26% or more (after divesting for the IPO).

Such ambiguities in the regulations hardly inspire faith in the governments’ intent to raise FDI but do seem to support the view that the EM government ably positions itself to play a political double game which allows it to mediate between its international and domestic constraints in a manner which best serve its larger socio-economic agenda. The GOI is known to liberalize in the face of foreign exchange crises in the past and by maintaining the public rhetoric in support of while invoking lack of political consensus for failure to raise the limit, GOI seems to be suitably positioned either ways.

9.3 The non obsolescence of the OBM in EMs based on the case study of the life insurance industry in India

The conceptualization of a triadic interplay over tier II bargaining between foreign MNEs and host governments including the impact of the co-opetition by local MNEs has showcased how the development of industry–FDI policy is much more complex now. Blind application of revised bargaining frameworks need to be adopted cautiously especially keeping in mind the appropriateness of the context. Within this study, the focus on end markets within big leading emerging economies lends a very different angle to bargaining outcomes even though this study could find application in other bargaining contexts at well. Developed country markets too would benefit from this triadic perspective which incorporates the co-opetition effect of the local player. However the contextual and institutional underpinnings of the study and the bargaining outcome would conceivably be decidedly different. Here the co-opetition perspective has been able to discern the issue- areas where local MNEs in EMs collaborate and compete with foreign MNEs, leading to significant impact in the bargaining over sector specific policy development.

As the above discussion regarding the role of strategic insidership in disabling the creation of a level playing field highlights, this case study on the life insurance industry in India would have us suppose that the OBM is not quite irrelevant in the current context yet. While the above discussion has been rooted in the local MNEs’ bargaining objectives as they have got conditioned by the market imperatives and their own JV agreements, the role of GOI in affecting (or not affecting ) the required regulatory
changes cannot be ignored. As has been mentioned by the interviewees, local MNEs are quite strategic in not making things happen. In this case, the failure of the regulation supporting higher FDI limits has been an instrumental factor in how the Indian life insurance industry has developed. Such political insiderness though is difficult to perceive from the outside since a common observation could alternatively be that the industry has no insiderness since it was unable to get the FDI limit through. However within this innocuous refrain lies the crux of policy development in India where we need to question the intent of both the GOI and the local MNEs in pushing such an enabling regulation through. This study therefore proposes the revival of the OBM in line with proposition P5\textsuperscript{68} to better understand bargaining outcomes for foreign MNEs within similar markets. The application of the OBM is hinged on two key conditions— that entry conditions are bargained over and that over time, they obsolesce. The concluding proposition is based on the case study observations, wherein the GOI and strategic group I and II partners have both revised their bargaining objectives with foreign MNEs and this is reflected in the (non) policy development over FDI limits. This single condition wherein the entry expectation of 49% equity has not matured has affected the industry prospects for foreign MNEs and is an indicator of the deterioration in their bargaining power. As the discussion of the life insurance industry in India has demonstrated, the case evidence suggests that both the local MNEs and the government have maintained short term bargaining objectives, conditioned by market imperatives, leading to their adoption of a sequential behaviour in their bargaining with foreign MNEs. Thus the proposition is modified as

P5a: Co-opetition with local MNEs’ suggests the re-emergence of obsolescence for the long term prospects of foreign MNEs within their market seeking FDI in EMs when the government maintains short term bargaining objectives which are continuously reassessed based on its overall socio-economic agenda and

P5b: bargaining objectives of local MNEs (strategic group I and II) and the host government have been conditioned by market imperatives leading to their sequential behaviour which defines their co-opetition in issue-areas

\textsuperscript{68} P5: Co-opetition with local MNEs’ suggests the re-emergence of obsolescence for foreign MNEs within their market seeking FDI in EMs
The development of the FDI policy for the insurance industry was fraught with internal debate over various domestic fractions. Through a consultative process wherein stakeholder views were sought by the Malhotra committee, the FDI limit of 40% was advocated. However the GOI pressed for a 49% limit (backed by foreign MNE interests, including local MNEs). It was the political imperatives of a parliamentary democracy that saw the limit being reduced to 26%. Therefore the entry conditions as proposed by the OBM were ‘bargained’ over. However the interplay was active amongst the various institutional players in the domestic economy and only saw implicit representation of foreign MNE interests. As is clearly indicated through the various interviews though one of the most anticipated ‘bargains’ was the accommodation of the 49% FDI limit, which was promised by the host government and expected by foreign MNEs. It is the failure of this bargain to materialise which signals obsolescence in the first instance for the foreign MNEs versus their entry conditions. In addition, co-opetition within the JV structure also signals obsolescence with respect to the strategic management control that foreign MNEs seek to hold in light of their lack of strategic insidership and relative inability to build the same. In this respect, collaboration with local MNEs only seeks to undermine foreign MNE efforts in the direction.

This illustration of government attitudes and their sequential behaviour influenced by short term bargaining objectives is well aligned to Wint (2005) who suggested that governments in fact are now more likely to renegotiate bargains to seek a fit with national policy goals. This facet of bargaining behaviour by governments is indeed positioned to address transactional aspects of negotiations rather than favour domestic nationals given distrust with foreigners as was earlier evident in the attitudes of LDC governments. Indeed it was only the hostile attitudes during the times that the OBM was developed in, that lent credibility to its application. However Vernon (1971b) himself focussed on the transactional factors that were the cause for obsolescence in the development of the OBM (Wint, 2005). Such sequential behaviour ignites the possibility that entry bargains with foreign MNEs will be renegotiated and in light of the co-opetition with local MNEs are more likely to obsolesce than not.

Concurrently, within this triadic perspective on bargaining, foreign MNEs have also witnessed obsolescence versus their JV partners (strategic group I and II). While the stimulus comes from the failure of regulatory change to materialise, these local MNEs
are practicing co-opetition and now gradually competing with the foreign MNEs over more than just equity control. Through their considerable insidership in the local economy, local MNEs have managed to derail the regulatory agenda in the short term. By manipulating the timing of the policy changes, local MNEs have built up their own long term interests. While their influence over structuring such policy change might be debatable (though amply supported in the interviews) and could also be an outcome of the political imperatives of the government, strategic group I and II local MNEs have effectively structured the development of the JV to now reflect their growing capabilities.

Foreign MNEs have lost out on management control, strategic direction, branding and other key aspects which shape the day to day running of the JV. This is in contrast to their situation within the JV in the early years. Therefore reflecting the triadic perspective, foreign MNEs face obsolescence versus their bargains with both the host government and their local MNE partners. Their failure to strategically engage with the local economy (contingent on their acquiring greater equity stakes) has also hampered their efforts to become a strategic insider. This too signals future obsolescence in their long term prospects since they are now set back in their efforts to build insidership, having lost out on (and continuing to do so) building credibility and legitimacy in the institutional setup with the attention in the JV being captured by their local partners.

Therefore the OBM suitably altered to account for the macroeconomic changes in the global economy, the development of EMs and their local MNEs finds application in explaining the triadic interplay over industry FDI policy in EMs and offers rich ground to consider its revival through future research in other industries and other EMs in the very least.

In conclusion, before appraising the application of these propositions of the OBM for other research contexts, two other aspects of bargaining as perceived in this study bear mention. The word bargaining seems to be a misnomer, a legacy of the past wherein foreign MNEs did ‘bargain’ with host governments. It is this bargaining which has been labelled as the tier II bargaining ala Ramamurti. While there is bargaining in tier I and both tier I and tier II ‘bargaining’ affect the development of industry- FDI policy (as contended here), the use of the word bargaining only seems appropriate to highlight the
symmetry in construct. The tier II ‘bargaining’ is therefore better understood as the triadic interplay conceptualised in this study. Secondly, the positioning of the triadic interplay in the domestic economy over industry FDI policy means that neither are the foreign MNEs able to directly engage with the host government anymore (outside of their representation in tier I bargaining by their home governments and tier II bargaining by allied local MNEs), since it constitutes an internal domestic industry debate and nor are local MNEs (as domestic stakeholders) really capable of ‘bargaining’ with their home governments. Just as local MNEs are incapable of ‘competing’ (within co-opetition) with them. They are more rightly portrayed as carrying political influence which defines their ability to lobby for their strategic interests successfully. To this end, the portrayal of the tier II bargaining as ‘triadic interplay’ - iterative engagements over industry policy seem more appropriate.

9.4 Chapter summary

This chapter concludes the study for understanding bargaining in EMs through a triadic perspective which includes the impact of the local MNEs’ co-opetition with foreign MNEs in their bargaining with host governments over structuring industry FDI policy. In the context of the bargaining framework, the case study of the life insurance industry in India demonstrates how co-opetition (in issue areas) by local MNEs impacts bargaining objectives and eventual outcomes through the development of the industry policy. Both the local MNEs and the GOI are seen to adopt short term bargaining objectives with respect to their bargaining with foreign MNEs, leading to their sequential behaviour. The key for foreign MNEs to attain the level playing field provided by the government lies in their ability to develop strategic insidership. However their operation within JVs wherein the local MNEs are acquiring greater management control (by competing within co-opetition) leads to a perpetuation of their lack of embeddedness and strategic non engagement.

Independent variables like market and political imperatives and the local MNEs’ strategic insidership which gives it the ability to manipulate the timing of regulatory change has allowed it to structure favourable long term strategic interests. With the failure of entry bargains to materialise and shift in the co-opetition equation, foreign MNEs face obsolescence in their market operations in EMs. A revival of the OBM
would enable foreign MNEs to better strategise for EMs by bearing in mind its classic propositions.
Chapter 10: Conclusion

This final chapter sums up the contributions from this study in section 10.1 including the implications for management (10.1.2). Thereafter it acknowledges the limitations of the research design and data in section 10.2 and concludes by offering suggestions for future research which can build on the findings from this study in 10.3.

The portrayal of bargaining as a triadic interplay over industry FDI policy through the co-opetition perspective stressing the issue area approach that local MNEs adopt within their alliance with foreign MNEs has added to our understanding of how bargaining has evolved in the specific context of EMs. This study has referred to the bargaining literature, adopted the institutional perspective for developing the concept of strategic insider and the resource dependency perspective for understanding co-opetition by local MNEs. There are three key contributions of this research. Developing a triadic perspective for bargaining in EMs including local MNEs, the understanding related to co-opetition and strategic insidership in bargaining involving local MNEs and therefore the basis for considering a revival of the OBM in other similar bargaining contexts. In particular, this study has applied the co-opetition strategies pursued by local MNEs to the bargaining context within the triadic perspective that the research has positioned itself in. This is a unique application and combination of two diverse streams of literature- on bargaining and co-opetition, which seek to build understanding given the specific research context. Besides the effort to address an existing research gap by building a triadic bargaining framework specifically for EMs that adopts a co-opetition perspective, this study is also credited with leveraging existing concepts like the issue – area approach, whose knowledge helps in better defining and understanding the co-opetition followed by local MNEs in EMs.

10.1 Contributions of this study

This study has benefitted from an interdisciplinary approach where many divergent literature streams have been juxtaposed and brought together conceptually to further understanding on bargaining. The contextualisation of the study foremost bears mention. The bargaining framework which has been developed here has been conceived
specifically for mature, foreign multinationals who are now actively seeking EMs for their end products. In the last decade, many revisions and extensions have been extended for the traditional bargaining model. By referring to the extant understanding, this research has developed a bargaining framework for EMs, the new locus of IB activity which is increasingly the focus of academic research but has not been singled out within the bargaining literature as yet. My effort here is to do precisely that by rooting it firmly within the existing research. By focussing on EMs, I address recent calls in academia to explicitly consider EMs, their local MNEs and the significant importance of the research context. The triadic conceptualisation of bargaining in EMs including local MNEs is a step in that direction.

As the research question of this study states, the research objective was to discern the impact of the emergence of co-opetition by local MNEs on the bargaining power of foreign MNEs in their bargaining with host governments leading to the structuring of the industry – FDI policy. The conceptualisation of this triadic interplay over industry FDI policy rooted in the literature and borne out through the empirical data finds strong support for the institutional characteristics of EMs which have influenced the context of bargaining through the conceptualisation of the EM government, its bargaining objectives and the nature of the foreign MNEs’ engagement with local MNEs.

Furthermore, the literature on local MNEs elaborates their distinguishable characteristic of forging alliances- their ability for linkage, leverage and learning which underlines their penchant for co-opetition. This feature of the local MNEs and indeed their very development is a product of their origin in EMs and has been institutionally conditioned. Bearing in mind the nature of the context for bargaining- the EMs, the co-opetition behaviour of such local MNEs is found to significantly impact the outcome of industry FDI policy development. This is influenced by both the tier I bargaining between bilateral and supranational institutions and the government as well as the tier II bargaining which is the triadic interplay contingent on the local MNEs co-opetition behaviour. Therefore the triadic perspective of bargaining in EMs has implications for both foreign MNE strategy and policy development. The explicit consideration of their role leverages this impact. However as the literature on bargaining has already acknowledged through the differences between actual and potential bargaining power, the influence of local MNEs in shaping the bargaining objectives of the key players is
implicit in the translation of the actual bargaining power of both the foreign MNEs and the host government, dependent on the alignment of the local MNEs.

Furthermore, this case study has revealed how the co-opetition by local MNEs follows an issue – area approach. The foreign MNEs’ alliance with local MNEs structured as a JV has led to influencing the future long term prospects of the foreign MNE by affecting their relative resource dependency. The local MNEs’ co-opetition is rooted within the JV and is conditioned by the quality and nature of their strategic insidership. This influences the development and emergence of their competitive qualities when the local MNEs are from allied fields. Thus while local MNEs continue to collaborate in areas affecting the JV prospects and thus apply their combined bargaining power with the government especially over regulatory issues, they are competitive with their foreign collaborators over equity ownership issues. The foreign MNEs suffer from the political liability of foreignness relative to the ‘insider’ local MNEs’ over equity issues, thereby losing their voice in the domestic industry debate when their interests diverge from their local partners. This lack of insidership by foreign MNEs’ and their collaboration with local MNEs for their existing insidership, imbues existing insiders with a potential resource- their existing insidership; thereby leading to a perpetuation of lack of insidership for foreign MNEs, since they fail to develop their own local identity. This is the origin of the obsolescence for the foreign MNEs’ relative long term business prospects.

Secondly, as mentioned above, the consideration of local MNEs as a bargaining player and potential alliance partner in foreign MNE operations in EMs and in bargaining for industry policy has long term implications for the foreign MNEs’ ability to successfully embed in the local economy. The emerging literature relevant for foreign MNE operations in EMs with a focus on empirical results from China suggests that foreign MNEs should shift their focus from being merely a foreign investor to becoming a strategic insider. This is institutionally demanded and strategically recommended. Luo (2007b) suggests co-opetition as one of the means to do so. Local MNEs too are known for practicing co-opetition with foreign MNEs to develop superior assets and resources which mitigate their lack of FSAs. By observing the interplay between potential (foreign MNEs) strategic insiders and incumbent (local MNEs) strategic insiders through their co-opetition in EMs, the study offers revealing insights. Co-opetition
facilitates resource transfers for local MNEs fulfilling their objective for collaborating with foreign MNEs. For the foreign MNEs too, such collaborations offer immediate gains through access to local market knowledge, business networks and facilitate leverage of a locally credible brand. Such collaboration would be perceived to assuage the lack of insidership by foreign MNEs and initiate their efforts at becoming a strategic insider. However it is the competition from local MNEs (within their co-opetition) for whom home markets are key to their continued global success and who recognise the inherent latent market potential within them supporting future growth that underpins the perpetuation of the foreign MNEs’ lack of insidership.

As incumbent strategic insiders, strategic groups of local MNEs (from allied fields) are endowed with superior political resources which allow them to engage with the government and various parts of the political eco–system in a manner which facilitates setting up entry barriers by them. The use of regulatory delays to maintain their superior bargaining position within JVs by local MNEs (as seen through the case study) is an instance of their use of political capital. The political liability of foreignness that foreign MNEs suffer from suggests the perpetuation of their lack of insidership by preventing them from accessing the domestic political eco system to facilitate favourable policy (non) development in issue–areas where they are divorced from their local alliance partner–the local MNEs’ strategic interests and intent (typically issues which relate to changes in equity and its impact on control). Consequently, other insider abilities that local MNEs are endowed with like local credibility, brand name and distribution access (sector specific resources) become the source of their sustained bargaining power vis a vis foreign MNEs.

Building insidership is a function of time and engagement with the local environment. Whilst this can be achieved by foreign MNEs over a period of time as successful examples show (who are unmistakably recognised as Indian companies now), if local MNEs are able to restrict the foreign MNEs’ strategic engagement through growing dominance with their JVs (the fulcrum for the co-opetition) facilitated by using political resources for favourable policy development, foreign MNEs would continue to severely trail behind their local competitors in the development of strategic capabilities. Thus the source of the foreign MNEs lack of insidership stems from their desire to become an insider, which encourages their collaboration with local MNEs. Local MNEs by
practicing co-opetition are able to leverage their incumbent insidership as a means to forge JVs. Subsequently, after gaining through resource transfers from the foreign MNEs, they use their existing insidership particularly with respect to their access to policy makers to perpetuate the foreign MNEs’ lack of the same. Thus co-opetition for local MNEs presents a winning solution through which they are able to safeguard their home market (by restricting foreign MNE access and engagement) and ensure their continued dominance of the same. This then is the uneven playing field in EMs despite foreign MNEs getting national treatment.

Finally, the above understanding leads us to revisit the propositions of the OBM in the context of the triadic perspective to bargaining involving co-opetition by local MNEs within their home markets in EMs. In this respect, the strategic role played by the host government in facilitating favourable policy (non) development by the local MNEs cannot be ignored, both through their acquiescence to the same and in their position as the ultimate authority within the national boundaries. The discussion of the mediatory role that governments often play while addressing both- their international and domestic policy constraints and their encouragement to domestic capability development through preference for home champions and infant industry protection suggests that EM governments perceived through the actions of the GOI maintain short term bargaining objectives. The development and experiences of the life insurance industry in India since inception suggests that governments have wilfully reneged on their entry bargains with the foreign MNEs (alongside suggestions that the GOI never intended the foreign MNEs to eventually have anything more than 26% equity; this argument is also supported in the bargaining literature like Lecraw (1984)). Along with the above understanding regarding perpetuation of lack of foreign MNEs’ insidership, this suggests obsolescence for foreign MNEs both in the consideration of their entry bargains and their bargaining within JVs suggesting short to medium obsolescence in their business prospects. The sequential behaviour that both the government and the local MNEs have adopted, reflected through the ambivalence in their bargaining

69 Equity ownership is desired by both the MNE as well as the host government. For the MNE, ownership allows it to protect its ownership advantages and internalize them thus protecting its competitive advantage (Lecraw, 1984). On the other hand, host governments insist on or encourage local equity participation to fulfil multiple agendas. They want control over pricing and intracompany trade, remittances and reinvestment of profits and capital. It also allows them to fulfil their development goals by ensuring that there is possibility of maximum spillovers so that the local economy benefits from technology transfers and the diffusion of other such expertise via the local alliances (Lecraw, 1984).
objectives supports the OBM to suggest its revival in this particular context, since it is inherently true to the dynamism in bargaining power suggested by Vernon which lead to the players revisiting existing bargains and their eventual obsolescence.

Thus this research suggests the application of the OBM to the EM context by considering triadic bargaining including local MNEs through the adoption of the co-opetition perspective based on an issue area approach. This study also challenges the blanket assumption currently in place that liberalization and enactment of supranational agreements indicate the absence of entry bargaining. As the triadic perspective and this study show, entry bargains still occur- however their structural composition has been modified. With the focus on industry FDI policy now, the bargains are conducted between a multiplicity of domestic stakeholders including local MNEs which forms the tier II bargaining and which acts alongside tier I bargaining in shaping industry FDI policy. Therefore, the propositions of the OBM find resonance in the industry specific experience that this study is based on. The research suggests that this lights the possibility that the OBM be revisited in the context of other EMs, indeed other developed markets as well and other industries as a first step towards potential revival to guide MNE strategy.
## 10.1.1 Propositions offered by this study

### Table 5: Propositions offered by this study

<table>
<thead>
<tr>
<th>Ex Ante Propositions</th>
<th>Ex Post Propositions</th>
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<tbody>
<tr>
<td><strong>P1</strong> The bargaining outcome between EM governments and foreign MNEs over industry FDI policy depends on the co-opetition strategy adopted by local MNEs</td>
<td><strong>P1a</strong> The bargaining outcome between EM governments and foreign MNEs over industry FDI policy depends on the co-opetition strategy adopted by local MNEs from allied fields (as evident from the actions of strategic group I and II), who follow an issue-area approach</td>
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<tr>
<td><strong>P2</strong> Local MNEs’ strategy of co-opetition in EMs is rooted in their resource dependence on foreign MNEs</td>
<td><strong>P2a</strong> The JV with foreign MNEs is the fulcrum for the local MNEs’ strategy of co-opetition in EMs</td>
</tr>
<tr>
<td><strong>P3</strong> the development of the competition–collaboration equation within the local MNEs’ co-opetition depends on the degree of their continued reliance on the foreign MNEs’ capabilities</td>
<td><strong>P3a</strong> The development of the competition–collaboration equation within the local MNEs’ co-opetition depends on the quality of their strategic insidership with respect to the industry in question</td>
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</table>
| **P4** A coalition of foreign and local MNEs strengthens the bargaining power of foreign MNEs by giving them a ‘voice’ in the domestic policy negotiation through local MNEs, leveraging and extending their global structural power within domestic boundaries | **P4a** A coalition of foreign and local MNEs strengthens the bargaining power of foreign MNEs by giving them a ‘voice’ in the domestic policy negotiation through local MNEs if the issue in question is convergent with the sequential bargaining objectives of the local MNEs and the host government and **P4b** It is subject to the strategic insidership (political influence in
particular) of the local MNEs which determines their potential impact for foreign MNE bargaining power

P5 Co-opetition with local MNEs’ suggests the re-emergence of obsolescence for foreign MNEs within their market seeking FDI in EMs

P5a Co-opetition with local MNEs' suggests the re-emergence of obsolescence for the long term prospects of foreign MNEs within their market seeking FDI in EMs when the government maintains short term bargaining objectives which are continuously reassessed based on its overall socio-economic agenda and

P5b bargaining objectives of local MNEs (strategic group I and II) and the host government have been conditioned by market imperatives leading to their sequential behaviour which defines their co-opetition in issue-areas
10.1.2 Implications for management from the foreign MNE’s perspective

The findings from this case study carry great implications for foreign MNEs seeking to enter EMs for setting up long term operations. Whilst the relative returns in these growing economies are very attractive and offer continued growth in the future, foreign MNEs need to continue to bear in mind their high risk, changing policy and unfamiliar institutional environment. The impact of these has been underestimated. The failure of their entry bargains to materialise and the deterioration in their business prospects questions the suitability and sustainability of their strategic planning for such nascent industries where regulations are still in the process of being set up. In this regard, revisiting the OBM and the classic propositions that it offers might be more advisable. This case study suggests that the OBM should be revisited in future research so that it may be conclusively revived for application in EMs where such triadic interplays over industry FDI policy occur. This is not to suggest that the study does not have implications for all markets where such triadic interplays occur. The empirical studies referred to in the literature also support the presence of and therefore relevance of the co-opetition behaviour of local MNEs which facilitates this obsolescence.

Foreign MNEs need to structure strategy for EMs which requires them to form strategic alliances with local MNEs by actively considering the very real possibility that their entry bargains might deteriorate. They need to hedge their bargains as they might stand to face obsolescence versus both their alliance partners as well as the government. EM governments are greatly empowered now. As the propositions from this study suggest, they operate by continuously reassessing their bargaining objectives to ensure their long term objectives for their economy. Therefore foreign MNEs need to be cautious within their engagement with such governments and actively engage with them to ensure adequate representation of their stakeholder interests as well as to ensure their convergence with the government agenda by adapting their own strategic plans. This requires them to become a strategic insider in the domestic economy. The coalition of industry that is ubiquitous in their home markets and at regional and supranational forums needs to be materialised for EMs as well. This has been captured through the suggestion of setting up foreign chambers of commerce which unites all foreign MNEs
rather than their lobbying ability being dispersed through action channelized through their respective embassies and trade forums, each acting in isolation.

The manifold benefits of becoming a strategic insider have been underlined within this study. It goes on to demonstrate the strategic importance of becoming an insider, especially in the face of co-opetition with local MNEs. It bears to consider the example of Unilever, a foreign MNE which occupies an insider position in the Indian economy. As their example demonstrated, only by engaging with the GOI and adapting their business operations to suit GOI objectives were they able to avoid regulations which sought to limit their equity ownership and therefore strategic control over operations. Becoming an insider requires long term commitment to the economy and a real time ground presence which is aimed at building legitimacy and credibility. As has been amply discussed, ownership and management control are not only desirable by any multinational they are also imperative to ensure continuous strategic engagement with the economy to become isomorphic with it. However foreign MNEs also need to remove their blinkers regarding the ‘strategic’ level of equity, the failure of which inhibits their engagement with the institutional environment. Given co-opetition by local partners and their incumbent insidership, foreign MNEs have to consciously and continuously engage in the development of their own local identity and legitimacy from the start.

Space and scope of the research questions did not allow for a more fleshed out discussion of the process of becoming a strategic insider. However the experience of foreign MNEs within JVs in the life insurance industry suggests that only a few limited foreign MNEs are actively establishing a ground presence in the Indian market which is independent of their existence in the JV. By ensuring representation of the parent company through a local presence, such foreign MNEs are actively engaged in building relationships with local stakeholders and promoting their own global brand alongside and beyond the JV image. Whilst this might seem inconsequential to the success of the JV operations, such foreign MNEs seem to be better positioned to accede to the position of a strategic insider. The value of building business networks which are reliant on relationship building and establishing the ‘connect’ cannot be underestimated for business development in such institutional environments.
10.2 Limitations of this study

As with all research, this study also suffers from its share of limitations. An honest acknowledgement of the same is presented here to add to the dependability and transferability of the results from the empirical study which has shaped the contributions from the research. The limitations are those stemming from the research design, the research context and the data.

The bargaining framework is conceptualised for EMs with dominant local MNEs. While a comparative case study design was seriously considered, practical considerations regarding time and the ability to research an industry context in depth precluded the inclusion of another industry. Thus the results could not be gauged in the context of another industry within the same market. Such a comparison would have added to the robustness of the results and facilitated their refinement and advancement. The decision to restrict the breadth of the study to a single industry to facilitate depth of understanding regarding industry specific issues was well borne out. Given the various strategic group actions in a dynamic setting which impact decision making, a longer longitudinal perspective might have been more revealing. The need to restrict data collection after a time also restricted the ability to discern further implications emergent from this data. This indicates a need to revisit the same industry context again since the key insights of the OBM are hinged on its dynamism, more so with the transient focus on industry policy. The single industry context however did require concentrated attention since the outcome variable was policy development which is ambiguous to trace with respect to stakeholder influence. The nature of the life insurance industry though allowed a thorough examination through various perspectives which could be captured extensively within the time and budget constrains of PhD research through establishing intensive access with its limited number of players.

The scope of the research was also well defined to begin with. However as the interviews progressed, many *emic* issues emerged which often diverted the focus of the study. Attempts to keep the issues within management (and in sight of the research question) might have diluted their thorough pursuit within the thesis and led to shallower perceptions. However the data collected suggests room for greater
engagement and understanding which should be undertaken to do it justice and build on the foundation laid by the research question.

The above limitation needs to be reviewed in the context of the industry chosen – the life insurance industry. The study has acknowledged the impact of certain industry specific factors which are always a constrain within industry level studies and in fact prevent the generalization of results from such studies. However the empirical studies within the literature give reason to suspect the same within limited reason (in the context of other industries). Whilst there is much to learn from a single case study and it likely narrows down the explanatory variables even from an atypical case, the dynamics of the life insurance industry which have shaped the contributions from the study might find limited application or resonance within other industries and markets because of the uniqueness of their issues and industry structure.

Furthermore, only two policies, the FDI equity limit and its entanglement with the IPO norms could be discussed in detail. The empirical research had originally singled out atleast two more policies for discussion. However the depth of issues which shaped these two policies and *inter alia* the industry development and MNE interaction limited the ability to explore other policy developments in full detail. To some extent this was an outcome of the focus to understand the nature of co-opetition which as was revealed follows an issue- area approach even with respect to policy.

I am also conscious that the mode of data collection through interviews presents its own complications with respect to the veracity of the accounts they present. Whilst interviews was the only means of approaching the research questions and needed to be the first step towards exploration of the issues, they have given room for caution. The sensitivity regarding the nature of issues being probed was evident within the interview experience. The comfort of the interviewees was evident in their discussion of the issues and ranged from veiled restrain to a no holds barred account. However triangulation of the data and my experience through the course of conducting the interviews was imperative to being able to sift between the personal bias and perception that at times clouded the narrative. Interviewees also relied on ‘anecdotal’ evidence. However as some of the factual information, other interview accounts and public reports verified, this seemed to be a misnomer in most cases to reduce responsibility for revealing
‘inside’ information by passing it off as anecdotal. This does not however preclude the possibility that some of the information might have been anecdotal.

The interviews also relied on retrospective accounts which dated back to 10 years in some cases. Whilst most individuals were comfortable relating to recent events and could even recall turning point events, some of the interviewees who were present since before inception of the industry and had key information regarding bargaining before the industry was formally opened up were less able to present a full account which might have presented some missing variables or added to the layered discussion. Some key individuals who were identified through the snowballing technique could not be followed up with due to time constraints and the effort to keep the number of interviews in check. Most of the interviews were really long since the interviewees took their time to warm up to the issues under discussion and had a lot to say. Also whilst the interview guide was based on a few basic probes, they were broad themes and had much to be elaborated on within the industry context. Therefore the study failed to benefit from additional insights which could have added to the depth of understanding given the growing volume of interview data.

I do believe that hindsight while acknowledged as a limitation in most cases also facilitates perception. This study did rely on hindsight since it was relying on information over a period of time. However my own experience during the analysis and after suggested that I was only able to uncover aspects evident from the data after sufficient gap which allowed me to dwell on its implication after engagement with the literature. With more time, am sure that the quality of the analysis and its insights could be further refined. This though is not contingent on a fixed period of time becoming available and requires an on-going engagement.

10.3 Avenues for future research

This research has been exciting for me. I have been fascinated by its ability to present and include many differing perspectives. The writing up of the thesis itself suggested many more possibilities for angling the discussion which had to be overlooked to remain true to the focus of the research.
At the onset, research is required along similar lines for other industries within the same EM context to firm up the explanatory ability of this study. Thereafter, the bargaining framework developed here needs to be applied in other EMs which adhere to the structural and institutional conditioned outlined in the thesis. This would underpin the ability of the study to contribute to the broader IB research outside the narrow domains that have structured the empirical study. To this effect, this study could also offer basic insights for building research for other developed and transition markets where similar triadic interplays are in force.

With respect to the OBM, while the study suggests obsolescence for foreign MNEs within the short to medium term as can be perceived on the basis of the data, given the findings, it would be interesting to pursue this further and study the long term implications for foreign MNEs especially within the constrains of the twin strategic choices that have been made by foreign MNEs in terms of their choice of JV partners. Furthermore, recent events in the industry too have drawn attention to the need to extend the time frame incorporated within the empirical study and return to the industry context to study it anew in light of the implications from the research. This portents to be a promising exercise. For example, the recent exit of some foreign MNEs suggests impact of foreign MNE’s home market environment in shaping their decision to do so. However it follows from this study that they might have recognised the obsolescence in their current business environment as well. Therefore follow up studies in the same industry and amongst other industry contexts would test the propositions further and refine their insights suggesting their endurance and applicability while suggesting other possible conceptualisations as well like the impact of home environment. As has been demonstrated through the literature, many such triadic conceptualisations are possible. The facilitating role of industry and trade associations in policy development (and therefore bargaining) including membership of foreign MNEs and their ‘voice’ within is another suggested triadic perspective which needs to be pursued.

Some of the themes which emerged from the study like the perception of becoming a strategic insider from a strategy perspective to now closely resemble a resource need further research. This would require a more focussed study based on institutional theory. Also other perspectives which are approached from the local MNE stand point or the government would also add to the robustness of the propositions developed herein
which take a foreign MNE perspective and are therefore limited by their perception. Lastly, in the very least the bargaining perspective to development of industry-FDI policy seems promising in its ability to juxtapose many divergent and dispersed perspectives beyond the traditional domains pursued within IB studies. This would for example include incorporating the specific insights from the IPE and the political science literature.
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Appendix 1. Literature documenting sources of MNE bargaining power

Table 6: Sources of MNE bargaining power (adapted from (Moon & Lado, 2000))

<table>
<thead>
<tr>
<th>Sources of bargaining power</th>
<th>Description of characteristic</th>
<th>Study (Authors)</th>
<th>Measurement and relationship with bargaining outcomes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Firm specific resources/assets (FSA)</td>
<td>Size of the subsidiary</td>
<td>(Fagre &amp; Wells, 1982)</td>
<td>Size was measured through subsidiary sales and assets. Only assets over the $ 100 million level were significantly associated with high ownership.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(Lecraw, 1984)</td>
<td>Assets were positively correlated with ownership, bargaining success and control</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(Poynter, 1982; Poynter, 1985)</td>
<td>Size was measured through number of subsidiary employees. Intervention was found to be significantly higher when the number of employees were more than 75</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(Bradley, 1977)</td>
<td>Size was measured through subsidiary assets and expropriation rate increased as assets increased</td>
</tr>
<tr>
<td>Parent size</td>
<td>Ownership levels here are seen to impact the bargaining outcome measured through the expropriation rate. However it could be interpreted that since elsewhere, ownership itself is seen as a bargaining outcome (Fagre &amp; Wells, 1982; Lecraw, 1984), the two variables (ownership and expropriation) could co-vary as measures of the same construct (i.e. bargaining outcome) (Moon &amp; Lado, 2000).</td>
<td>(Bradley, 1977)</td>
<td>Negative relationship. Partially owned subsidiaries faced higher expropriation than wholly owned subsidiaries did.</td>
</tr>
<tr>
<td>Intra-firm transfers/</td>
<td></td>
<td>(Fagre &amp; Wells, 1982)</td>
<td>Positive significant correlation between sourcing and ownership</td>
</tr>
<tr>
<td>Category</td>
<td>Description</td>
<td>Source(s)</td>
<td>Notes</td>
</tr>
<tr>
<td>--------------------------------</td>
<td>-----------------------------------------------------------------------------</td>
<td>---------------------------------------------------------------------------</td>
<td>-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>sourcing</td>
<td>(Poynter, 1982; Poynter, 1985) Negative significant correlation between sourcing and intervention</td>
<td>(Lecraw, 1984) Negative significant correlation with ownership, positive correlation with control and insignificant relationship with bargaining success (measured through flow of resources and sales)</td>
<td>(Bradley, 1977) Found no expropriation of plants that sell more than 10% of their finished goods to the parent companies (where sourcing was measured as % of export to parent)</td>
</tr>
<tr>
<td>Advertising</td>
<td>(Fagre &amp; Wells, 1982) Advertising intensity was positively related to ownership level</td>
<td>(Lecraw, 1984) Relative advertising intensity was positively correlated to ownership level, bargaining success and control</td>
<td></td>
</tr>
<tr>
<td>Research &amp; Development / Technological Intensities</td>
<td>(Fagre &amp; Wells, 1982) Only high level technology was found to have positive correlation with high ownership</td>
<td>(Poynter, 1982; Poynter, 1985) Was negatively correlated with intervention</td>
<td>(Lecraw, 1984) Positive significant correlation with ownership, bargaining success and effective control</td>
</tr>
<tr>
<td>Product diversity</td>
<td>(Fagre &amp; Wells, 1982) Positive strong relationship between product diversity and ownership levels</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Export intensity</td>
<td>(Poynter, 1982; Poynter, 1985) Non–linear relationship was found</td>
<td>(Lecraw, 1984) Export was positively correlated with actual ownership, bargaining success and effective control</td>
<td></td>
</tr>
<tr>
<td>Staffing policy</td>
<td>(Poynter, 1982; Poynter, 1985) Non linear relationship was found</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Political behaviour</td>
<td>This was perceived as the corporate political responsiveness of the subsidiary</td>
<td>(Poynter, 1982; Poynter, 1985) Only the firm’s policy towards initiating contact with government had a significant negative relationship with intervention level</td>
<td></td>
</tr>
<tr>
<td>Industry level factors</td>
<td>Country appropriability regime</td>
<td>Country level factors</td>
<td>Host country cultural context</td>
</tr>
<tr>
<td>-----------------------</td>
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</tr>
<tr>
<td>Industry competition</td>
<td>Following a resource based view of the firm, were seen as moderating factors in maintaining sustainable bargaining power stemming from FSAs (Moon &amp; Lado, 2000)</td>
<td>Strategic importance of industry</td>
<td>Host country cultural context</td>
</tr>
<tr>
<td>(Kim, 1988) Relationship with intervention was moderated by the level of industry competition. Was significant in stages of intense competition</td>
<td>(Lecraw, 1984) Negative significant correlation with ownership</td>
<td>(Bradley, 1977) Extractive and infrastructure industries accounted for the largest proportion of expropriation</td>
<td>(Moon &amp; Lado, 2000) In some cultures, opportunistic practices may be more easily tolerated than in others. However the lack of convergent research findings regarding systematic differences in cultural tendencies affecting the degree of resource transfer and appropriability makes it premature to specify the nature of the moderation effect.</td>
</tr>
<tr>
<td>(Kim, 1988) Competition has a positive effect on intervention</td>
<td>(Lecraw, 1982) Generally, high completion was correlated with low ownership levels with a few exceptions</td>
<td>(Bradley, 1982; Poynter, 1985) Significant negative correlation with intervention level</td>
<td>(Moon &amp; Lado, 2000) Countries which are at a higher level of economic development will have an increased bargaining power, as their capacity to learn and absorb foreign firms’ technology and other knowledge based assets through local firms become expanded.</td>
</tr>
</tbody>
</table>
Appendix 2. The evolution of the policy environment in EMs like India

This following discourse will help appreciate the shifting motivations for EM governments and their evolving relationship with their own business groups. This has implications for foreign multinational operations in EMs as well as helps understand the bargaining context. In the 1980s and 1990s the then Newly Industrialising Countries (NICS) had adopted a spate of measures including aspects of their industrial policy to ensure that they were able to get out of the vicious circle of foreign dominance of their home markets and develop indigenous capabilities with an emphasis on upgrading technological capabilities. This led to the successful emergence of their own home grown champions which are now flourishing in the global economic space as established MNEs like Samsung, which is the largest South Korean chaebol, having successfully made the transition from being a OEM (original equipment manufacturer) for western brands to an OBM (original brand manufacturer) and a formidable competitor to foreign MNEs.

These governments were fairly restrictive towards FDI pre liberalization which was seen as only a means for acquiring industrial technology that was unavailable through licensing agreements and capital goods imports (Nagaraj, 2003). Capital requirements were fulfilled through bilateral and multilateral loans with long maturities. This preference for external finance and a general avoidance of technical and financial collaborations was indicative of the government’s desire to promote and protect the growth of domestic industry even at the cost of slow technological development.

India had a similar policy orientation vis-a-vis foreign capital. Most foreign companies were forced to divest their holding to less than 40% in favour of an Indian partner; majority or full foreign ownership was only allowed in exceptional cases (such as those involving 'sophisticated' technology). The GOI under FERA clearly announced its expectations from foreign capital. The underlying argument was to counter the growing monopolistic power of foreign multinationals in India who were stifling competition in the domestic market and competing with local firms for scarce capital. Technology, which was the single biggest factor to allow FDI was also under the scanner as most of it was perceived to be either obsolete or of minor importance to the development process (Negandhi & Palia, 1988).

Through GOI’s investment in creating an asset base in the post independence era and by domestic firms acting as subcontractors for western prime consultants, local design engineering and project management consultants, there was an expansion of scientific and technological infrastructure and manpower development which accumulated considerable expertise which was now capable of production of simple technology goods. However these capabilities were still in a nascent stage of development and required infant industry protection to protect them from the competition from their more advanced western counterparts (Kumar, 1998).

The IB environment though was a pervasive factor in dictating the strategic outlook of both multinationals and host governments and lead to changes in the bargaining position of both (Negandhi & Palia, 1988). In the 1970’s, the bargaining position of the GOI changed positively due to growth in alternative channels for acquiring both capital and technology. The rise of domestic entrepreneurs and dependence on state owned enterprises all led to the host governments determination to follow its ideological stand
of promoting domestic growth even at the risk of foreign capital flight. The multinationals left in droves, refusing to comply with dictatorial government policies or stay for the limited market potential.

It was only in the 1980’s decade, when beset by chronic balance of payment problems, oil price shocks and the failure of domestic industry to deliver following an import substitution model (Kumar, 1995) that the GOI decided to initiate the economic reforms of 1991. The negative government attitude towards FDI had now changed from control to a positive one of management (Gopinath, 2005). For the multinationals, this change of policy also coincided with their growing interest in re-entering EMs which had in the interim developed latent market potential. Thus, once the liberalization process was initiated, foreign MNEs were poised on the side lines, lobbying through their influence centres at home and via international trade forums, eager to get a foot in the door.
Appendix 3. Networks in EMs

Within the emergent global economy, a variety of networks proliferate reflecting the firms’ embeddedness in social, professional and exchange relationships with other organizational actors (Granovetter, 1985; Gulati, 1998). With the ubiquitous growth of strategic networks that connect firms through multiple networks of resource and other flows, EMs present a particular challenge for foreign MNEs. Networks are an important organizational feature of the capitalist Asian markets. In contrast to the Western economies, East and South East Asian firms are more interlinked and cooperative. Business groups which typically dominate these networks and the economic landscape of sectors in which they participate in and the relative economic power of such networks (Chen & Hamilton, 1996) makes EMs in Asia institutionally and competitively very different for foreign MNEs.

It is thus argued that insidership to these networks is a necessary but insufficient condition for successful business development (Johanson & Vahlne, 2009) in EMs. Such embeddedness facilitates the firms’ business conduct within inter-firm networks (Granovetter, 1985; Uzzi, 1996) and can be more broadly defined than just its social relationships or structural embeddedness to include institutional, cultural, and political elements (Zukin & DiMaggio, 1990) as well. Since firms need to manage their socio-political market as much as their business market, this requires them to forge relationships with political actors and makes them directly or indirectly interdependent (Boddewyn, 1988; Hadjikhani & Ghauri, 2001; Ring et al., 1990). This relationship based on trust, commitment and legitimacy is perceived to be of mutual interest with political actors seeking to increase social welfare while business firms try and maintain support and stability in their business environment (Hadjikhani et al., 2008). Firms are embedded in social networks with other actors and their ‘network can be seen as a resource in itself’ (Andersson, Forsgren, & Holm, 2002:980). Through the social network, the firm gets access to resources and capabilities outside the organization. The network is created through a path-dependent process which makes it idiosyncratic and difficult to imitate and consequently, the resources which are accessible through the network are also relatively inimitable and nonsubstitutable (Gulati, 1999; Gulati, Nohria, & Zaheer, 2000a).

The network perspective specifies that three dimensions of multinational organizations: extra-firm, inter-firm, and intra-firm networks must be addressed simultaneously (Yeung, 1997). This study concentrates particularly on the extra-firm social and the inter-firm business networks. To illustrate, political connections at the highest level according to a study, enabled Hong Kong entrepreneurs and business firms to tap into extra-firm networks and to penetrate local markets in Southeast Asia. It was business connections and personal relationships that were the cornerstones of inter-firm transactional governance structures through which Hong Kong firms established their regional operations (Yeung, 1997). Local EM firms are socially and culturally embedded in networks of relationships, a characteristic of the social organization of EM business; an aspect which is often overlooked in IB research as well as in strategic planning by foreign MNEs (Yeung, 1997). Since they form the ‘institutional medium’-the orientation towards relationships which is historically and socially constructed and varies significantly amongst Asian societies (Chen & Hamilton, 1996), foreign MNEs too need to acquaint and embed themselves within such network to accommodate their long term interests in EMs.
The discussion regarding the relevance of networks in foreign MNE operations has two aspects in the context of EMs. The first one refers to the social embeddedness of the local firms and the cultural and institutional tradition in developing markets of conducting business through the development of close personal relations (Chen & Chen, 2004). The other aspect of networks refers to the distribution and logistics networks which are relatively underdeveloped in EMs and pose a significant challenge to foreign MNEs in the conduct of business. In this regard, local firms are able to exploit their familiarity and experience in dealing with local market infrastructure (Khanna & Palepu, 2010). Both these features become unique to the business processes in EMs and challenge the conventional western thought regarding business operations. To help address their lack of local market knowledge and networks foreign MNEs frequently seek strategic alliances in unfamiliar EMs. Social networks then can also be influential in the creation and success of strategic alliances. The relative structural embeddedness of firms forms some of the key current issues on strategic alliances and their performance. The extent to which two partners are socially embedded can also influence their subsequent behaviour and affect the likely future success of the alliance (Gulati, 1998).

Industry and trade associations as policy networks in EMs

Trade associations at both the national and international level have emerged as a strong lobbying group targeting both home and the host country government. However their effect on the balance of bargaining power has been ignored in the traditional as well as the two tier bargaining model, which have failed to incorporate them in their frameworks with no consideration for collective actions undertaken by MNEs within groupings such as industry associations, clubs, coalitions and the like (Dahan et al., 2006; Ramamurti, 2001). This is a serious shortcoming of the paradigm since they can be potentially powerful organizations especially when gauged against the context of the network perspective for emerging Asian economies where such coalitions can have far reaching influence. Additionally their effect and role in FDI policy formulation should also be acknowledged and investigated not just because they are made up of MNEs but also because they can be important contributors to the domestic policy formulation debate as an industrial lobby, interest group and opinion leaders typically ruled by individuals or dominant coalitions (Boddewyn, 1988).

Business associations are political organizations seeking power and influence (Sinha, 2005). In the specific context on India, despite an enhancement of business power (with globalization), the state continues to shape the nature and extent of business access to the political system which includes facilitating the rise of better organizations when this suits their public policy purposes (Sinha, 2005). Politically focused industry alliances are unique in their structural characteristics (Keillor et al., 1997). Their activities are distinguished by the fact that they represent the combined influence of many entities possessing the same goals, when the individual influence of a firm is not deemed to be substantial enough. While such combinations enable individual firms to draw on a wider range of resources, they may reduce FSAs. Thus an industry alliance achieves an extended resource base at the loss of total strategic control for the individual firm (Keillor et al., 1997).

Trade associations and chambers of commerce are the popular channel for communicating business interests to the government. They act as a facilitator and
promoter of business interests. In India for example, business groups are well represented at the highest level by trade associations like the Confederation of Indian Industries (CII) and the Federation of Indian Chambers of Commerce and Industry (FICCI). With the focus on domestic policy making, it is perceived that foreign MNEs are increasingly trying to access domestic policy networks as well. In this instance, local industry and trade associations and the national chambers of commerce might be representative of their early efforts to develop domestic policy networks in EMs where as in the case of India, the government follows a consultative process and such associations and networks find a ‘voice’ in the policy development process.
Appendix 4. Sample interview guides

(1) Preliminary Interviews- Discussion Questions

- How is the policy environment shaped by the different players?
- Structure of dependency- joint venture (JV) agreements. Equity versus control
- Sequencing of negotiations before and during the JV with the government
- Current key regulatory issues- FDI caps, IPO, Bancassurance, Rural Insurance [ULIPs, Reinsurance]
- Were foreign MNEs looking for partners with political influence
- How did the JV come through?- common networks, backgrounds, history
- What are the bancassurance practices in the west?
- What are the public policy issues? What is the public interest in these issues?
- What are the monitoring mechanisms? Who decides on the regulatory infrastructure?
- What is the possibility of a regulatory capture?
- What are the key strategic drivers that shape the foreign MNEs engagement in EMs?
- How important is it for them to shape the policy?
- What is their non political strategy to benefit from the market environment in EMs
- How is the market shaped and who are the key stakeholders?
- How do they become embedded in the market post entry?
- What do they understand by ‘strategic insider’?
- What are the important policy issues which the government perceives as important for the development of the industry?
- Who decides on the policy agenda?
- Do the MNEs have their own agenda?
- Is there any policy promotion by the MNEs?
- Do MNEs negotiate on the degree of compliance?
- What is the nature of the policies? Are they regulatory or promotory?
- Who decides on the composition of the board?
- Who maintains the integrity of the board?
- What are the objectives of the three parties on the chosen issues?
- Parents versus subsidiaries on policy issues
- What is the negotiation structure? JVs, principals and subsidiaries with government
- Are MNEs compliant or do they actively negotiate a policy package?
(2) Theme based interview guide

- Role and positioning of big insurance MNE’s in the joint venture, in India, in strategy development for India, relationship with reference to increase in equity, policy formation and local networks
- Liaison Offices- entry issues and stakeholders in the discussion period and thereafter
- Insider Status- implanting in the institutional environment, key resources? Through local partners vs wholly owned, employing locals
- Understanding ‘doing business in India’- how do you become embedded? Ownership and entrepreneurs, parent company, expats
- Trade councils versus bilateral trade channels and state- state negotiations
- Internationalization and diversification in Indian economy for home MNEs
- Industry reactions to regulations- proactive vs reactive and distinctions between home and foreign MNE reactions
- Overlap and outreach of industry and FDI policy in terms of stakeholders and influence of players
- Who laid the foundations of the industry and technical expertise development over the years
- Reasons for strategic partnering for both partners
- Choice and survival without the other- both partners
- IRDA- perceptions and technical competence, industry feedback, role
- Regulator and government- influences and independence
- Formation of industry committees- industry voice or with coalition politics opening doors for political influence
- Professionally managed, independently run companies vs family controlled business houses in terms of influence and clout, ethics, reputations, output in GDP and conglomerate structure
(3) Sample theme based interview guide for regulators and policy makers
(government perspective)

The involvement of other stakeholders- the local MNE

Economy overview/ Insurance sector

- What is the public interest that the government is seeking to protect in Insurance?
- What are the public policy issues regarding FDI?
- What is typically the foreign MNE involvement and through which channels, when the decision to open up a sector of the economy is being considered?
- When decisions were being taken to open up the economy, who were the key groups of stakeholders that were consulted?
- How are these stakeholders identified and invited to the discussion table?
- Do you identify domestic MNEs as a strategic group within the domestic industry?
- Are the capabilities of domestic MNEs different to those of domestic industry (in terms of control over output and productivity) and thus are they able to have stronger representation at the discussion table? E.g. the strategic leaders in related industries like ICICI
- Do you think the dialogue on opening up a sector is dyadic? Who are the primary actors? If you had to propose a third key interest group, who would it be? Does the internationalization of Indian MNEs have an impact on FDI decision?
- With the heavy presence of foreign capital, do you think they influence sector specific policy? Who are they other participants in the industry specific dialogue between the regulators and the domestic companies? To what extent does the size and outreach of operation matter in the domestic companies’ ability to be a stronger voice? Does the government actively consider this?
- Does the coalition of industry interests or JV partners (foreign + domestic) strengthen the bargaining power versus the government?

Regulatory Infrastructure

- Who decides on the regulatory infrastructure and its appointments? Does the industry have a say?
- Is there a possibility of regulatory capture?
- Can foreign MNEs influence (directly or indirectly) the above?
- What is the role of the government in setting up industry policy?
- Who decides the policy agenda?
- Do the MNEs have their own agenda?
- In practice do MNEs also put their own issues on the table?
- Do they negotiate the degree of compliance or the issues themselves?
- Are foreign MNEs compliant or do they actively negotiate a policy package?

Newly evolving sectors – MNEs which are just coming in now versus have now been established (especially because of the degree of equity ownership allowed)
What is the change or the key differences between the nature of the relationship between the new and established foreign MNEs with domestic companies?

Are foreign MNEs able to embed themselves in the institutional environment of the Indian economy and how?

Are they able to achieve an ‘insider’ status without the help of domestic partners?

How can foreign MNEs become a strategic insider in an economy like India

**Liability of foreignness**

- Is there a liability or positivity associated with foreignness of the MNE in terms of the business environment?
- How can the foreign MNE leverage its foreignness in the regulatory space? Also reduce its liability?

**Liability of outsidership**

- What are the key networks that foreign MNEs need access to in the local economy?

*The outreach of MNEs in structuring the development of newly evolving sectors*

**Issues for discussion**

- Is there a difference in the kind of dialogue between the government and the foreign MNEs now versus the 80s?
- Is there an overlap between industry policy and FDI policy?
- Do you think foreign MNEs are now engaging in dialogues where industry policy is being discussed? Is this facilitated by their insider status or the fact that they are now coming in for the long run?

**Policy networks**

- Is there a prevalence of policy networks in India?
- Globally?
- Does the government engage with such policy networks to seek recommendations?

**Channels of communication**

- How do foreign MNEs join the discussion table before establishment and after establishment in host economy?
- Is there a difference in the channels of communication that are used to interact with the regulators?
- To what extent is it necessary to have domestic alliances to facilitate a voice in the government?
- Does the government seek out foreign MNEs opinions and how? Is it different to the medium/ degree of interaction versus domestic companies?
Strategic group within newly evolving industries

- To what extent are foreign MNEs able to position themselves as strategic leaders in the newly evolving sector and able to structure the future shape of the industry?
- Is this ability influenced by the size and outreach in terms of networks of the foreign MNE?
- How are they able to bring in and communicate best practices and technical input on products and pricing for example?
- How responsibly do foreign MNEs conduct themselves in emerging markets wherein the government seeks information or input?
Appendix 5. Information sheet regarding interviewees

Legend=
A - JV perspective
B - Domestic company
C - Foreign promoter
D - Regulatory / institutional/ government perspective
E - Trade/ industry organisation
F - Consultancy

Table 7: Details of interviewees

<table>
<thead>
<tr>
<th>Interviewee Code</th>
<th>Position held (past or current)</th>
<th>Organization</th>
<th>Other Experience</th>
<th>Representative Perspective</th>
<th>Additionally</th>
</tr>
</thead>
<tbody>
<tr>
<td>V1</td>
<td>President</td>
<td>Institute of Actuaries, India</td>
<td></td>
<td>D</td>
<td>Involved in regulatory and policy committees</td>
</tr>
<tr>
<td>V2</td>
<td>Head, Life Insurance Consulting India</td>
<td>Milliman</td>
<td>Head, Life Insurance Consulting India- Watson Wyatt</td>
<td>F</td>
<td></td>
</tr>
<tr>
<td>V3</td>
<td>Professor of Risk Management and Insurance</td>
<td>Instituto Tecnológico Autónomo de México, Mexico</td>
<td></td>
<td></td>
<td>Academic</td>
</tr>
<tr>
<td>V4</td>
<td>Chairman of the Prime Minister's Economic Advisory Council.</td>
<td>Government of India</td>
<td>Economist</td>
<td>Academic &amp; D</td>
<td></td>
</tr>
<tr>
<td>V5</td>
<td>Director</td>
<td>Department of Industrial Policy and Promotion (DIPP), Ministry of Commerce and Industry, Government of India</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>V6</td>
<td>Senior Consultant</td>
<td>Towers Watson</td>
<td>Associate Director at Aviva Life Insurance India</td>
<td>Consultant Towers Perrin</td>
<td>-</td>
</tr>
<tr>
<td>V7</td>
<td>Head, Economic Policy</td>
<td>Confederation of Indian Industry (CII)</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>V8</td>
<td>Director and CFO</td>
<td>Max New York Life Insurance Company Limited</td>
<td>Vice President and Global Operating Leader - F&amp;A at Genpact</td>
<td>Head - Financial Planning and Analysis, GE Commercial Finance, UK at General Electric</td>
<td>Assistant Vice President at GE Capital</td>
</tr>
<tr>
<td>V9</td>
<td>Senior Consultant</td>
<td>Towers Watson</td>
<td>Associate Vice President at Bajaj Allianz Life Insurance Company Limited</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>V10</td>
<td>Appointed Actuary / Vice President</td>
<td>Kotak Life Insurance</td>
<td>Various positions at Old Mutual, South Africa</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>V11</td>
<td>Senior Consultant</td>
<td>Towers Watson (Legacy Watson Wyatt)</td>
<td>Head - Corporate Sales at Aviva Life Insurance</td>
<td>National Manager - Worksite Marketing at Tata AIG Life Insurance</td>
<td>-</td>
</tr>
<tr>
<td>V12</td>
<td>Chief Investment Officer</td>
<td>Birla Sun Life Insurance Co Ltd</td>
<td>Vice President (Special Projects), South &amp; South East Asia at DBS Bank</td>
<td>Chief Executive at DBS Cholamandalam AMC</td>
<td>Asst General Manager at Unit Trust of India</td>
</tr>
<tr>
<td>V13</td>
<td>Associate Director</td>
<td>Ernst &amp; Young</td>
<td>Consultant with Watson Wyatt</td>
<td>?? BSLI</td>
<td>?? AMP</td>
</tr>
<tr>
<td>V14</td>
<td>Ibid</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>V15</td>
<td>Managing Director (Products, Market and Distribution)</td>
<td>Towers Watson</td>
<td>Former Managing Director and CEO at SBI Life Insurance Co. Ltd.</td>
<td>Former Deputy Managing Director at State Bank of India</td>
<td>-</td>
</tr>
<tr>
<td>V16</td>
<td>Chairman</td>
<td>Life Insurance Council</td>
<td>Chairman, Life Insurance Corporation of India (LIC)</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>V17</td>
<td>Senior Vice President &amp; Appointed Actuary</td>
<td>TATA AIG</td>
<td>Director &amp; Consulting Actuary Watson Wyatt</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>V18</td>
<td>Country Head – India</td>
<td>Sun Life Financial</td>
<td>Manager - Corporate Planning at Zurich Risk Management Services India Pvt. Ltd.</td>
<td>AOM at Unit Trust of India</td>
<td>-</td>
</tr>
<tr>
<td>V19</td>
<td>Chief Financial Officer and Head Institutional Sales</td>
<td>Birla Sun Life Insurance</td>
<td>In various capacities at the Aditya Birla Group</td>
<td>Chief Financial Officer at Sun Life Financial (Indonesia)</td>
<td>-</td>
</tr>
<tr>
<td>V20</td>
<td>Chief Actuary</td>
<td>ICICI Prudential</td>
<td>Actuary at Standard Life</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>V21</td>
<td>Chief Operating Officer</td>
<td>HDFC Standard Life Insurance Co., Ltd.</td>
<td>In various capacities at the HDFC Group</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>V22</td>
<td>Ibid</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>V23</td>
<td>Director Actuarial</td>
<td>Aviva Life Insurance</td>
<td>Director - Actuarial at AEGON Religare Life Insurance Co Ltd</td>
<td>AVP - Actuarial Services at Max New York Life Insurance Co Ltd</td>
<td>AAO - Actuarial Life Insurance Corporation of India</td>
</tr>
<tr>
<td>V24</td>
<td>Director Finance and Actuarial</td>
<td>Aviva Life Insurance</td>
<td>Director Risk and Internal Audit, Aviva Life Insurance</td>
<td>Senior Manager Price Waterhouse Coopers</td>
<td>-</td>
</tr>
<tr>
<td>V25</td>
<td>Vice Chairman &amp; Managing Director</td>
<td>Sona Koyo Steering Systems Ltd. at Sona Group</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>V26</td>
<td>Managing Director</td>
<td>Housing Development Finance Corp., Ltd.</td>
<td>In various capacities at the HDFC Group</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>V27</td>
<td>Managing Director</td>
<td>Easy Bill Ltd. [ Hero Group of Companies]</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>V28</td>
<td>Managing Director</td>
<td>South East Asia Life and India, Milliman</td>
<td>Managing Director (Asia Pacific), Watson Wyatt</td>
<td>Country Head- India, Watson Wyatt</td>
<td>-</td>
</tr>
<tr>
<td>V29</td>
<td>Senior Advisor</td>
<td>Towers Watson</td>
<td>Finance Director of Life and Pension Business of Canada Life UK.</td>
<td>In various capacities at LIC, India and in the UK</td>
<td>-</td>
</tr>
<tr>
<td>V30</td>
<td>Former (founding)Chairman</td>
<td>The Insurance Regulatory and Development Authority (IRDA)</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>V31</td>
<td>Former CEO</td>
<td>Munich Re India Services</td>
<td>Chief Development Officer Sun Life Ever bright Life Insurance, Beijing, China</td>
<td>Appointed Actuary &amp; CFO, then COO Birla Sun Life Insurance</td>
<td>-</td>
</tr>
<tr>
<td>V32</td>
<td>Director - Risk Consulting, India</td>
<td>Towers Watson</td>
<td>Product Manager at AMP Sanmar Life Insurance</td>
<td>Manager at Birla Sun Life Insurance</td>
<td>Senior Manager - Actuarial Kotak Mahindra Old Mutual Life Insurance</td>
</tr>
<tr>
<td>V33</td>
<td>Secretary General</td>
<td>Federation of Indian Chambers of Commerce and Industry (FICCI)</td>
<td>Economist; chief economist, CII</td>
<td>ICRIER and Asian Development Bank</td>
<td>Economic Advisor, Finance Ministry, Senior Consultant, Ministry of Industries</td>
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</tr>
<tr>
<td>V34</td>
<td>EVP (Actuarial)</td>
<td>DLF Pramerica Life Insurance Company</td>
<td>Associate Director(Actuarial)/Deputy Actuary at Aviva India Life Insurance</td>
<td>AVP - Actuarial services at Max New York Life Insurance Co. Ltd</td>
<td>-</td>
</tr>
<tr>
<td>V35</td>
<td>Chief Actuary</td>
<td>Max New York Life Insurance Co. Ltd</td>
<td>International Actuary, BNP Paribas Assurance, Paris</td>
<td>Consultant, Watson Wyatt</td>
<td>-</td>
</tr>
<tr>
<td>V36</td>
<td>Director-Finance, Risk and Company Secretary</td>
<td>Canara HSBC Oriental Bank of Commerce Life Insurance Co Ltd</td>
<td>Aviva Life Insurance Company India Ltd</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>V37</td>
<td>Managing Director &amp; Country Manager</td>
<td>MetLife India Insurance Company Ltd.</td>
<td>Director - Bancassurance &amp; Business Partnerships at Aviva Life Insurance Co. India Ltd.</td>
<td>Consultant - India Operations at Old Mutual PLC</td>
<td>-</td>
</tr>
<tr>
<td>V38</td>
<td>Assistant Secretary- General (FICCI); Managing Director (Invest India)</td>
<td>Federation of Indian Chambers of Commerce and Industry (FICCI)</td>
<td>Secretary, Department of Industrial Policy, Government of India</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>V39</td>
<td>Senior Advisor</td>
<td>Department of Economic Affairs Ministry of Finance Government of India</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>V40</td>
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<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>
Appendix 6. Snapshots from the Nvivo programme to show progression of the coding scheme

Figure 8: The first set of 52 codes generated from transcribing 7 transcripts in November, 2012.
Figure 9: The redefined codes (50) across all 34 transcripts by the end of the coding period.
Figure 10: The re-arranged codes according to hierarchy. They are grouped according to the OBM- objectives, engagement and outcomes (industry policy) from a co-opetition perspective. The last code was ease of analysis which was an organizational code referring to specific discussions of JVs and industry policy/ regulations.
Figure 11: Analytical coding was extended from Nvivo in stage 1 to excel for a better synthesis across sources and for me to intersperse my insights as comments alongside the relevant text.
Appendix 7. Transition in branding of some JVs within the life insurance industry in India

Table 8: Branding as an indicator of the relevance of incumbent strategic insidership of domestic promoters and the subsequent shift in the balance of co-opetition (a few illustrative examples)

<table>
<thead>
<tr>
<th>Name of the JV earlier</th>
<th>Name of the JV now</th>
<th>Remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Alliance Bajaj Life Insurance</td>
<td>Bajaj Alliance Life Insurance</td>
<td>In 2004, the corporate identity was changed to reflect the new Bajaj Auto logo and bring the Bajaj name first based on research findings from various stakeholders.70</td>
</tr>
<tr>
<td>HDFC Standard Life</td>
<td>HDFC Life</td>
<td>In 2010, with a new logo and shortened brand name, reflecting the HDFC colours, the JV has revamped its identity.71.</td>
</tr>
<tr>
<td>Metlife India Insurance Company Limited</td>
<td>PNB Metlife India Insurance Company Limited</td>
<td>In 2012, after 11 years of operations since 2001 as Metlife India, Punjab National Bank has acquired 30% equity after which the company has been rebranded.</td>
</tr>
<tr>
<td>Max New York Life Insurance</td>
<td>Max Life Insurance Co. Ltd</td>
<td>Was renamed in 2012. New York Life exited the JV and new JV partner—Mitsui Sumitomo was found. Max group did not include their name in the JV branding.</td>
</tr>
</tbody>
</table>

70 [http://www.domain-b.com/finance/insurance/allianz_bajaj_life/20040805_changes.htm](http://www.domain-b.com/finance/insurance/allianz_bajaj_life/20040805_changes.htm)
Appendix 8. Letter to IRDA to solicit information on policy development within the life insurance industry in India

Kallidhi Maheshwar
PhD Candidate (International business)
Manchester Business School
North Street
Manchester
18th July, 2002

Insurance Regulatory and Development Authority
Hyderabad

Re: Case Study on Life Insurance Industry in India: Policy Development

Dear Sir/Madam,

I am a third-year PhD student of International Business at the Manchester Business School in the United Kingdom and with my supervisor, Professor Ma Yamin, I am doing case study research on the life insurance industry in India. I wish to understand the longitudinal development of the FDI policy for the life insurance sector, in particular the debate on opening up the sector to private participation in 2000 including foreign equity of 26% and the subsequent discussions regarding further opening up. I am interested in accessing the viewpoints of the major stakeholders as have been presented to both the IRDA through regular visits as well as through the deposits with the standing committee on Finance, Government of India.

I am also using the development of the bancassurance policy and the IPO norms by the IRDA as a reference point to understand the steps involved in the development of key policies. For example, from conceptualisation through consultation papers to exposure drafts and the comments and feedback received from various companies to finalisation and the final policy.

I have been able to access some of the current information through the IRDA website, but since the archived information is not available there and in case of exposure drafts, they are continuously removed as they mature into the policy itself, I would require the information from 2000 onwards to detail the interaction between the government of India, the IRDA and the foreign and domestic partners of the joint ventures and the LIC over the debate on increasing foreign ownership, the bancassurance policy and the IPO norms.
To facilitate the same, please can you provide documents, which detail the process being followed by the IRDA to instate any new policy right from the point of conceptualisation - the white paper, the consultation paper, the exposure draft, response of various stakeholders and any other communication between the IRDA and the various joint venture companies to express their views and recommendations for and against the policy and its details.

I believe that there are verbatim recordings of the depositions which have been made by various companies like HDFC Life and trade bodies like CII and USIBC, which have been recorded in the report of the standing committee on finance. I would like to access both the report for the various years when the insurance bill amendments were on the agenda as well as get an audio recording or text of the depositions as well.

Therefore please can you provide from 2000-2012 the developments on the following three policies

1. Threshold for FDI equity in life insurance in India
2. Bancassurance policy
3. IPO norms

For each of the above, please could you provide all the documents that contain the interaction and communications between:

1. The Government of India, (ministry of finance, PND etc)
2. IRDA
3. LIC
4. Foreign parent company of insurance JVs in India (e.g. Standard Life, UK or regional office)
5. Domestic parent company of insurance JVs in India (e.g. HDFC Bank)
6. Communication from the insurance JV (e.g. the insurance JV - HDFC Standard life)
7. Trade bodies like CII and FICCI
8. International/ multilateral insurance associations like EIOPA; CEA and ABI
9. Bilateral trade forums like USIBC

Those can be the following documents:

1. Letters
2. Consultation papers
3. Exposure drafts
4. Formal and Informal feedback and response of insurance companies to consultation papers and exposure drafts
5. Reports of the standing committee on finance where the insurance Amendment Act was on the agenda
6. Depositions to the standing committee on finance (with verbatim recordings if possible)
7. Directives from GOI to IRDA
8. Any other communication that is deemed suitable

I am available for communication through my email address Kalindi.maheshwari@postgrad.mbs.ac.uk or on the following mobile number in the UK:
0044 7551879484. I will be in India from 1st to 31st August and can be contacted on 0091 8826434555. Please can you send the documents at my local address in India- Kalindi Maheshwari, B 5/1, DLF Phase 1, Gurgaon, Haryana- 122002. In case of any further details, please can you contact me on my email address above and I will be able to revert swiftly.

I am grateful to the IRDA for their support in my academic endeavour and for providing the material that will enrich the research on the insurance industry in India.

Thanking You
Yours Sincerely

Kalindi Maheshwari
Professor Mo Yamin

[Signature]

18/07/2012