Track 4 FDI in and from Emerging Market Economies

Session Format: Competitive

Learning from failures of Indian investments in Finland

Abstract

This paper contributes to expanding the conversations around investments of multinational companies from emerging economies (EMNCs) in developed countries. The purpose is to invite attention to management processes and business systems in how these combine to affect outcomes. There are very few enterprise level studies of Indian outward foreign direct investments (OFDI) to a developed country, and none at all to Nordic Europe. The paper presents longitudinal studies of the two of the first Indian foreign direct investments in Finland (both failed) to raise working hypotheses that merit deepening studies for the geographical diversification by Indian business groups. Tentative policy implications arising for host and home country and for others treading such paths are also discussed. The paper concludes that the pull for OFDI from emerging and developing economies in investment-scarce developed countries can attract investments from developing countries that lack potential for sustainable growth or shareholder value raising the spectre of adverse selection, besides moral hazards. Inward foreign investments regarded as nectar may be poisonous if the nexus of stakeholders lacks motivations or capabilities to go beyond the lure of para-statal incentives and subsidies that could be one of the key pulls or drivers of such investments.

Keywords: OFDI, India, Finland, EMNCs.

INTRODUCTION

International Business after the rush to BRICS is experiencing the rush from business groups in some of the BRICS to developed countries. The contribution of this paper is to expand conversations around investments from emerging economies to developed countries involving institutional distance for inviting attention to management processes and business systems and how these combine to affect outcomes with attention to unintended consequences. The paper has three aims. First, the valency of Indian outward foreign direct investments (OFDI) is scoped alongside Finland's predicament as an investment-starved destination to examine dimensions of an enormously rich research cornucopia awaiting illumination. Secondly, working hypotheses that merit deepening studies are formulated in this context and longitudinal studies of two of the biggest Indian investments in Finland (one Greenfield and one acquisition) both of which failed are discussed. Thirdly, tentative policy implications for host and home country and for investors and other stakeholders arising from these cases are highlighted to flag the learning from these failures that point to the need for more research.

Emerging economies accounting for over 25 percent of global FDI flows are characterized by institutional environments quite different from developed economies. The trajectory and performance of (OFDI) from developing countries to developed countries invariably involves the bridging of institutional distance, apart from the usual questions about motivations, antecedents, and evaluations about choice of entry modes. This has implications for host and home government policies and for shedding light on the business models being evolved by investors and investing enterprises treading that path. OFDI flows from developing countries at $553 billion comprised 39 percent of all FDI outflows in 2013 but the inflows in developed countries at $566 billion remained at half of the peak levels of 2007 (UNCTAD, 2014). The value of inwards FDI in Europe, traditionally the largest Inwards FDI (IFDI) region was at one-third of the peak levels of 2007. The combined share of North America and Europe accounted for about 30 percent of all FDI inflows in the world in 2013 which was 20 percent lower than the levels of 2007.

Despite evidence of continuing geographical diversification among Chinese, Indian, Russian, Mexican and Brazilian business groups to Europe (Casadesus-Masanell and Ricart, 2010;

Ramamurti, 2012; Amighini, Cozza and Rabellotti, 2014; Bowien and Vives, 2014; Concer and Kassab, 2014, Garg, 2014), Indian OFDI has not received much attention of researchers in India or abroad. The case of Indian OFDI differs significantly from Chinese OFDI largely driven by government support (Deng, 2013) with 82% of Chinese OFDI being accounted for by state-owned enterprises (Davies, 2013) involving orchestrated gusts of tailwind. With the exception of a few teaching cases developed to discuss problems of outsidership and liabilities of foreign-ness, there are hardly any enterprise level studies of Indian OFDI to a developed country, and none at all to Nordic Europe. Therefore, this paper takes the growth story of overseas foreign direct investment by Indian business groups as its point of departure. Despite some successful outcomes, many others have failed in their endeavours. These failures need studying to examine the nature of challenges for management processes inherent in the institutional distance and business models that may explain such failures. OFDI to countries that present a different business environment and considerable institutional distance from the home country call into question whether capabilities to bridge that distance require special attention.

OFDI FROM INDIA

OFDI from India was led by India's private sector (except for a few public sector players in the energy sector) and increased significantly after 2004. The economic reforms of 1991 and Government of India guidelines for Indian OFDI provided for automatic approval of proposals upto $100 million in July 2002 and by 2004, Indian firms were allowed OFDI upto 100 percent (and later even 400 percent with few exceptions) of their net worth. During the period 2004-07, Indian OFDI grew at 98 percent per annum, ahead of growth rates of other OFDI countries such as China, Malaysia, Russia and Korea. Europe accounted for the largest proportion of Indian OFDI. Scholars such as Pradhan (2009) rely on anecdotal evidence to account for the drop in Indian OFDI after 2007, pointing to macroeconomic factors based on official pronouncements of firms taken at face value without examining the microeconomic underpinnings. Nobody has explained why China's OFDI continued to grow after 2008 and India's didn't.

OFDI from India had traditionally been mainly in three kinds of geographical directions: (1) towards other English speaking developed host countries, such as the UK, USA, Australia, New Zealand, Singapore, Hong Kong, (2) other developing countries in the neighbourhood (SAARC), South East Asia, Anglophone Africa and emerging economies, particularly, others in the BRICS nomenclature, and, (3) the United Arab Emirates and Thailand. The recent geographical diversification in Indian OFDI to Hispanic Latin America, Nordic Europe, South Korea, Francophone Africa, enables such new experience to be scrutinized theoretically, empirically and methodologically and compared or contrasted with conventional geographies in this shift from the familiar to the unfamiliar. With the exception of a few OFDI investments in developed countries such as ONGC's acquisition of Imperial Energy in the UK, Tata Steel's acquisition of Anglo-Dutch Corus, Tata Motors' takeover of Jaguar Land Rover (JLR), and Birla Group's investment in Novellis in Atlanta, Indian OFDI mainly targeted developing countries (such as Ranbaxy's pharma venture in Nigeria, Jindal's Greenfield investment in fossil fuel and power in Mozambique, Essar Group's Greenfield iron ore mining project in Zimbabwe, Vedanta's Greenfield mining investments in Africa and the Birla textile joint venture in Ethiopia). The results in developed country OFDI were quite mixed and although JLR and Corus acquisitions eventually succeeded they were persisted with because they couldn't be offloaded (Ford refused to buy JLR when Tatas approached them in exasperation and Corus made a big dent in the balance sheet of Tata Steel for a long time). Even Indian OFDI to Africa such as Bharati Airtel's acquisition of Zain made on the basis of replicating the success of the Indian telecom business model cannot, as on the date of writing this paper, be considered a success and may yet be divested. Banking services for trade facilitation and IT OFDI mainly involved consolidations for scale aggregation and market entry. Services being labour-intensive, such Indian OFDI created or maintained jobs making Indian OFDI attractive in developed countries struggling to create more jobs. (Holtbrugge et.al, 2013). The size of some of the individual Greenfield investments and acquisitions propelled India to second position, after China, in emerging markets' OFDI by 2010. Developed markets accounted for 83% of the value of acquisitions (Sauvant and Pradhan, 2010) and a large proportion of these were distressed firms up for sale in Europe (Garg, 2014, p.12). Contrary to the claims of industry experts like Charlie (2012) that Indian companies are reluctant to invest in Europe, the

fact is that despite the slowdown in the European Union and hiccups in the Eurozone, Indian business groups have continued to invest in Europe. It is precisely this phenomenon that requires deeper understanding.

During the period 2003-2012, Indian business groups invested about $56 billion in Europe of which $ 17.53 billion was in Greenfield projects and $38.47 billion in mergers and acquisitions. The 511 greenfield investments created three times more jobs than investments from any other emerging market country. Most of these Greenfield investments were made in Germany. Every fourth acquisition in Germany was made by an Indian firm. According to the Reserve Bank of India (India's Central Bank), Indian OFDI stock stood at $241 billion in 2013 at a lower GDP per capita level than $10,000 as an exception to the traditional investment development path hypothesis (Dunning and Narula, 1996). Understanding OFDI from India can thus provide a research cornucopia of relevance to OFDI to Europe from other emerging market economies, though not much to China which plays by different rules. Garcia Herrero (2014) claimed that in the recent period Indian companies prefer destinations that are smaller and richer and far away. What makes Indian OFDI prefer smaller and richer far away countries? What are they seeking? What is the experience of such OFDI? This can be inquired into through number-crunching analysis for specific hypotheses but in the absence of hypotheses to examine it is necessary to construct such hypotheses first through longitudinal case studies tracking the OFDI from the beginning.

THE CONTEXT OF OFDI FROM INDIA TO FINLAND

The European Union as a whole received about $248 billion of FDI inflows in 2013. Of this, a substantial portion came to the EU directly from Asia and another part from special purpose entities (SPEs) owned by Chinese and Indian enterprises in locations such as Taiwan, Mauritius, Singapore, Hong Kong, Switzerland, and the EU itself (particularly, the Netherlands, Luxembourg, Austria and the EU tax-havens), with two countries, China and India accounting for over half of all EU inward foreign direct investment flows. The cumulative outwards FDI stock from Mauritius exceeded $300 billion in 2013. Most of this is believed to be money parked in Indian special

purpose entities (SPEs) that prefer Mauritius and Singapore for fiscal reasons.Developing Asia remained the world's biggest magnet for FDI inflows and yet FDI outflows from China and India to other countries remained significant. India's OFDI remained below the radar of UNCTAD analysis because it was routed through SPEs located abroad for a number of reasons. The Indian Rupee lacks capital account convertibility. Also fiscal obligations and disclosure requirements are higher in India than in ASEAN countries such as Singapore and Indian ocean havens such as Mauritius, all of which have double taxation avoidance treaties with India. Further, SPEs located abroad remain concealed and curtained off from prying investigators inquiring into possible economic crimes related to unaccounted wealth and the so-called *havala* transactions where foreign exchange is directly created abroad on the back of domestic underinvoicing and overinvoicing of trade account and current account transactions.

Scholars have paid scant attention to Indian SPEs abroad because of the methodological problems involved in estimating flows into and out from SPEs located outside India. During the period 2000-2013 Indian OFDI led worldwide in greenfield projects in least developed countries and Indian OFDI featured in several greenfield projects and also mergers and acquisitions in EU, including Finland. Only $226.7 billion Inward Foreign direct Investment (IFDI) stock and $119.8 billion OFDI stock could be directly connected to India and the bulk of this came from the private sector. After the general elections in India in 2014, there was a fierce debate on the need to wind up institutions such as the Planning Commission (Down to Earth, 2014) on grounds that business (including international economic relations) would be better served with stronger governance rather than pervasive, intrusive, costly, bureaucratic government machinery to orchestrate investments.

Finland's OFDI stock was $101.3 billion and IFDI stock $162.3 billion in 2013. The latter figure is misleading because Finns and private Finnish entities tend to hold their ownership through entities held abroad (about 60% of Finnish IFDI is held in Scandinavia, notably, Sweden, in entities that have non-resident owners or entities controlling them from tax havens). For instance, 89% of Nokia stock was held abroad since 2002 and more than half of the capital stock in the top 20 private corporate entities in Finland is owned from abroad, though not necessarily by

foreigners. The composition of the Board of Directors in such firms hardly shows up any foreign natural persons other than Finns. Finland was also one of the top ten OFDI countries in 2013 in the transition economies of Europe with $4 billion FDI stock. As regards IFDI during 2007-13, Table 1 indicates the sales value of cross-border mergers and acquisitions in Finland.

Table 1 about here

From Table 1, it may be noticed that the amounts involved fluctuated widely year to year. A closer inspection of the nature of investment flowing from India and Indian entities based on records of the Registrar of Companies in Finland further reveals that firms owned by Indians and Indian SPEs feature among those involved in mergers and acquisitions in Finland. This presented the possibility to explore the following questions:

Q.1 In these cases of Indian M&As abroad, did the value of the post M&A firms increase or decrease by assets and sales values?

Q.2 Was there a difference across businesses attributable to sectors or industries among M&As countable in the answer to (1) above?

Q.3 Is there a discernible difference across foreign ownership among all such M&As of any particular industry in the answer to (1) above?

The first of the three questions above can best be inquired into on the basis of facts in a longitudinal study. The biggest Indian acquisition in Finland was therefore tracked. Had the number of such investments been more, which is not so, it would have been possible to compare performance across sectors/industries. At the moment at the enterprise level this can only be done for all foreign investments grouped together. Only if there were more than one case of FDI in the same industry/sector, it would be possible to compare foreign ownership dynamics controlling for the industry parameters and market conditions.

When we turn to greenfield capital investments in Finland and by Finnish entities abroad, Table 2 is also intriguing.

Table 2 about here

First, it can be noticed that there was a net outflow of investment from Finland, regarded as the most competitive economy in the world (Steinbock, 2011) and considered (in perception surveys) as one of the best countries to do business in. This, in itself, need not be alarming if 'Made by Finland' were more useful for Finland than 'Made in Finland'. However, Finland's balance of payments does not show returns on factor incomes that would justify this claim. This cannot be brushed aside on grounds of climate (Sweden and Norway have the same climate and much more IFDI) or small size of market (Finland is part of the EU-28 internal market and the only Nordic country in the Eurozone). The political earthquakes witnessed in Finland in recent times attest to a shift towards anti-immigration and anti-foreigner sentiment amidst deteriorating public finances, worsening balance of payments, rising retrenchments, contraction in welfare and public services and expanding unemployment. The fractured mandate in the general elections of April 2015 witnessed the rise of the True Finns Regional Party as the second biggest political party after the Centre Party. Evidence of xenophobia had for long been noticed in the pronouncements of the True Finns Party (a radical nationalist party). The previous coalition government led by the Right of Centre, Kokoomus Party increased government debt in a futile bid to kick-start the economy that had been shrinking for two years in a row and which brought little cheer to those concerned about the inter-generational debt burden, slowdown of growth in output, dearth of new employment opportunities and lack of fresh investments in Finland since 2007. Yet, there are Indian greenfield investments in Finland after 2007 to study.

Several questions that can therefore be inquired into concerning the trajectory of these greenfield investments arise:

Q.4 In what proportion of foreign greenfield investments from developing countries in Finland, did firms attain sustainable growth, enhance shareholder value or create employment ?

Q.5 Is there a difference across businesses in the answer to (4) above?

Q.6 Is there a difference across foreign ownership in the answer to (4) above?

The answer to these questions requires datasets to be constructed and rigorous analytical methodologies applied to a large enough sample for results to be significant. The purpose of this paper is to take first steps in this process by raising some working hypotheses based on initial analysis of an exploratory study of the largest Indian Greenfield investment that failed in Finland. By studying the largest Indian acquisition and the largest Indian Greenfield investment in Finland, it is hoped that this paper can flag some important issues despite the proverbial solitary swallow not being conclusive proof of the onset of summer.

POLICY IMPLICATIONS FOR HOME COUNTRY AND HOST COUNTRY

India's direction of trade shifted away from Europe towards UAE, USA, China (including Hong Kong) and Singapore as the top five OFDI destinations after 1991. India continued to maintain special agreements with Singapore and Mauritius to facilitate both inward and outwards foreign investments. India topped the world in growth of stock market capitalization (+22.9%) in the first half of 2014 over December 2013 pointing to the possibilities inherent from the strength of growing Indian multinationals-these and others-that have capital to leverage for both greenfield startups and mergers & acquisitions. Europe, USA, Hong Kong, Singapore and UAE remain the top five destinations for Indian OFDI. Enterprises such as Bharat Forge, Infosys, Wipro, Tata Group, Aditya Birla Group, Havells, Bharti Airtel, Suzlon, Mahindra and Mahindra, Larsen & Toubro, NTPC, ONGC, and Arcelor Mittal are just some of the many Indian and Indian-owned enterprises that have significant foreign commercial presence. Among these, Bharat Forge, Infosys and Wipro have a global position in the top five within their industries (Guillen and Garcia-Canal, 2013). Not all of these have foreign commercial presence in Finland and would have to take note of the experiences of Indian investments in Finland in contemplating any investments there.

The sluggishness in the Finnish economy has brought many Finnish enterprises to the brink of imminent collapse and investor fatigue. This could herald a new wave of mergers & acquisitions as the economy contracts further. "Team Finland" (a bunch of Finnish parastatals) has been sending out business delegations to countries from where distressed firms are seeking fresh capital injections in their bid to resuscitate. The majority of firms in the October 2013 list of the business delegation to India led by Alexander Stubb (then Foreign Minister, and later the Prime Minister since 2014) belong to this category. Many more that did not make the trip are in the same dire straits. Yet, the experience of takeovers of Finnish firms by foreign investors has downsides. Firstly, there is a perception based on anecdotal evidence from takeovers by Chinese and Indian firms that some of these firms have been asset-stripped and driven to extinction. Foreign investors (especially, Indian and Chinese investors) have their own tale to narrate. Thus, it could be quite revealing for some of these cases to be researched to examine the phenomena closely and raise working hypotheses as to what has been happening.

WHAT THE LITERATURE INFORMS US

Hotho (2014) has drawn attention to the explanatory power of national business systems that can be mapped by moving from typologies to taxonomies through configurational analysis of national business systems. It is possible to extend this logic to the differences between two or more national business systems. The dimensions considered taking this approach would include the fragmentation-coordination continuum, the nature and magnitude of community institutions and parastatals supporting business firms, capital market characteristics in terms of debt-equity gearing (Hotho observed that market capitalization to credit ratio in Finland was 4.7 compared with 1.2, the Nordic European cluster average), risk syndication mechanisms, and authority relations. Hotho concluded that the Nordic cluster does not resemble the institutional characteristics of any existing business system.

According to Hotho, the Nordic cluster is not a hybrid combining features of other business systems and is yet distinctive and coherent. The Nordic cluster is characterized by low direct state involvement in business, high trust, a strong public training system, and considerable cooperation and coordination among the actors. This raises the question of the extent to which foreign investors have equitable access for sharing in the benefits of the system faced not only with the liability of foreignness but also the liability of outsidership. This view concurs with Allen (2004) and Sorge (2005) but is different from the findings of Morgan (2007) because Hotho concludes that diverse interests of economic actors require reconciling through inclusion and coordination on the basis of strong informal institutions. Institutional distance has also featured as an important determinant for OFDI in other studies (Mathur, 2012) This enables us formulate some hypotheses:

Hypothesis 1: Foreign investors in Finland have equitable access to the informal institutions that facilitate coordination among economic actors

The choice of control in cross-border acquisitions is influenced by spatial geography (Malhotra and Gaur, 2014). According to Malhotra and Gaur, "*geographic distance hinders acquirers' efforts to assess the true value of the target firm and managing contractual relationships, prompting them to opt for partial control"*. This can be verified by disaggregating findings in the form of hypotheses and by adding to geographic distance, the notion of institutional distance, following on from Hotho.

Hypothesis 2a: Foreign investors in Finland have problems to assess the true value of an acquisition due to geographic distance

The geographic distance itself has a number of dimensions besides the physical distance and limited direct flights in a week (that too only between national capitals) such as visa access to enter the country, time taken to get to people who require to be consulted, frictions of space and time arising from difficulties of synchronizing work week periods etc.

When we add to this differences arising from structures, systems, business processes, norms, beliefs, values and attitudes and factor in differences due to culture and language differences, there can be formidable set of institutional differences that add to the distance.

Hypothesis 2b: Foreign investors in Finland have difficulties to assess the true value of an acquisition due to institutional distance

In a small homogenous national community where insider networks, loyalties, and belonging are well-defined, there can also be challenges for overcoming the liability of outsidership to build and foster trustful relations.

Hypothesis 3: Foreign investors in Finland are challenged to manage contractual relationships

The ways investors could respond to insecurities may invoke questions about authority and power in unpredictable ways affecting the preferences for the kinds of partnership and sharing that are preferred.

Hypothesis 4: Foreign investors opt for a degree of control

Hypothesis 5: Hypothesis 4 may follow Hypothesis 2a/2b or 3

Kuznetsov and Kuznetsova (2014) have raised another interesting possibility to account for derailment of an enterprise, what they call, communication disengagement, a phenomena they observed in emerging markets and which may have reverberations in management processes of Greenfields and M&As of OFDI enterprises from developing countries when they function far from their communities in developed countries. This possibility is supported in the extant literature from the work of Botti (1992), Beugelsdijk, McCann, and Mudambi (2010), Birkinshaw, Brannon, and Tung, (2011), Caprar, (2011), and Gaur and Lu (2007).

METHODOLOGY

Keeping in view the hypotheses developed above, for a first level analysis, two cases of failures of Indian investments in Finland were identified -one acquisition and one greenfield start up. The researcher got acquainted with the investors and their key functionaries at the time the Indian investors appeared on the scene in both cases when it was not known whether they would succeed or fail. This enabled, without prejudice, to note stated intent and hopes and periodic contact with the functionaries further enabled the study to continue in an action research mode. After the collapse, all the records available of these enterprises with the Registrar of Companies were scrutinized, including financial statements, annual reports, statutory notings on management and control, statutory auditor's remarks, changes in Articles of Association and Board of Directors and any infringements or violation of law found in judicial review at the time of collapse. Based on these, certain specific questions were further formulated for the second stage when a deepening of the study inquired into the decline and eventual insolvency/bankruptcy by interviewing the same key actors involved in Finland and in India in an iterative action research mode. Thus, this longitudinal study enabled follow the developments from before the beginning until after the end.

THE TWO CASES

Case 1: BREEZECAN (The actual name of the Company has been disguised)

Breezecan Oy was originally established by five business partners (all Finns) in Oulu, Finland on 13.4.2000 to market electricity produced from renewable sources of energy such as wind in multiples of 1 megawatt. At inception, its assets of about € 1 million were funded from shareholders' capital (2%), parastatal subsidies (12%), and long term debt capital (6 year term) from banks and financial institutions (86%). Its annual wage bill (including statutory pension contributions) was about € 36,000 in Year 2000. KPMG were its auditors. This business has a planned gestation period of about 3-5 years. Half of the debt capital was converted to equity in 2002 by which the control of the company from

then on vested with a consortium consisting of a technology financing firm , an electricity distribution firm and an equipment provider. The Company then took on more long term debt from Finnvera (€ 67,000) and Sampo Bank (€ 56,000). The year 2002 was the first full year of production and the Company entered into agreements with ABB and Metso for the next phase of expansion with a project investment plan of € 675,000. The Company projected 15 MW capacity by the beginning of 2003.

Breezecan Oy reported losses through 2003 and 2004 but it had a stronger balance sheet with assets of € 2.7 million. By 31.12.2004, shareholders' capital stood at € 60,182, with sanctioned subsidies of € 5.5 million. The ownership was reconstituted under the Proventia Group (turnover € 7.54 million). The original founder investors now owned between them only 93,000 shares out of a total of 2,288,090 shares with the remaining shares and control now held by Proventia-led consortium. At this stage, Head Invest Oy, one of the consortium partners was the majority owner in Proventia Oy, thus controlling 58 % of the shares. Ernst & Young were appointed the new auditors.

Breezecan executed a 1 MW project in Oikiluoto and a 3 MW project for a local powerhouse in Vihreäsaari, besides two projects in Portugal. However, grid parity was not achieved and the firm continued to depend on state subsidies channeled through parastatal funds. The firm reported losses of € 3.93 million in 2005 and € 8.67 million in 2006. This was after subsidies of € 10.49 million in 2005 and € 36.6 million in 2006. It opened subsidiaries in Estonia and Spain. And in 2006 business contracts in Czech Republic and Sweden (1 MW) were executed and one contract in China (1 MW) was also made. Two new Estonian projects for 8 x 3MW plus 4 x 3 MW were to be executed by 2008. Now Breezecan was doing well and looking up. Cash flows were positive and the current ratio had improved from 0.79 (2005) to 1.30 (2006). Breezecan employed 91 people in 2006.

During 2006, Breezecan was acquired (on 24.7.2006) by Indian investors from South India through a Venture Capital Firm (which I refer to as Ventures Limited). Two Indian directors joined the Board of Directors. The Company made an ambitious

internationalization plan and sought partnership with TEKES and SITRA for more funding. R&D expenses now mounted to € 1.5 billion (about 10.1 % of the sales turnover). The share value was adjusted downwards to 12.45% of its previous value. An Indian subsidiary was added in 2008 for the manufacture of wind turbine parts in India. A grand strategic vision plan for worldwide marketing was announced in partnership with an Energy Company (which I refer to as Energy Limited) with an investment outlay of € 120 million. A new plant for 160 x 3MW turbines capacity was envisaged in Loviisa in Southern Finland.

In 2008, the turnover increased to € 67.6 million (€ 57.7 million in 2007) reporting losses of € 29.8 million (losses of € 17.6 million in 2007). A loan of € 10 million was taken from the State Bank of India through Ventures Limited. In Autumn 2008, € 27.6 million was transferred to be invested in the Indian subsidiary, lets calls it Parvati. Additional funding of € 37 million was loaned from the three biggest Indian banks. The current ratio improved further to 2.16 in 2008 (1.37 in 2007) but the turnover growth dropped to 17.2 % (52.7 % in 2007). The total number of employees was now shown as 289. In February 2008, two Finnish directors on the Board were replaced by two more Indians. A capital credit line of € 110 million was obtained for the Indian subsidiary. In the 2008 Annual Report, a very rosy picture for Breezecan Oy was projected for 2009 and 2010. The functionaries regarded their main challenge as one of expansion, relocation of employees between sites and new product development based on international business expansion.

In 2009 and 2010, the losses increased substantially on marginally higher sales turnovers. In 2009, there was a loss of € 43 million (on a turnover of € 76.1 million) and in 2010, the loss reported was € 53.99 million (on a turnover of € 82 million). By 31.12.2010, the sharecapital was in the negative (- € 124.27 million) but the books were balanced because of a € 150 million credit line involving Indian banks through the Indian subsidiary. The employment levels worldwide were reported to be 871.(of whom 295 were shown as working in subsidiaries). Ventures Limited was renamed as, lets say, Global Limited. The 2010 accounts carry the signature of only one Finn Director still remaining-the rest being

Indians. New subsidiaries were opened in Denmark and Sweden. The auditors, Ernst & Young, certified that all was well with the accounts. They concluded, on 22.6.2011 with an interesting observation: "*Without qualifying our opinion, we draw attention to the factors described under section Financial Position in the report of the Board of Directors. In this section the management has expressed the existing cash flow forecast and the company's ability to receive additional working capital*"

The Annual Report claimed that the Industrial Development Bank of India (IDBI) had pledged € 52 million as infusion of capital to the Company through Group Companies belonging to the Industrialist owning Ventures Limited. It is noteworthy that there were no shareholders present at all at the Annual Shareholders' Meeting held on 30.6.2011. All shareholders except one were represented by a solitary Finnish Lady authorized to act on their behalf and the remaining shareholder was represented by a man authorized to act on his behalf. This only shareholder other than the lady exercised his right to seek information under Chapter 5 Section 25 of the Finnish Companies Act which could not be fully provided by the Managing Director present at the meeting.

The sales turnover dropped to € 37.8 million in 2011 and further to € 24.04 million in 2012. Losses (- €59.1 million in 2011 and - € 58.78 million in 2012) exceeded the sales turnover in both years. The Danish subsidiary entered liquidation on 1.10.2012 and the Swedish subsidiary was liquidated on 15.3.2013. A sum of € 60 million was transferred from the Company to an investment company in 2012. The annual accounts of 2012 were signed only by four Indian directors on 27.5.2013. For the first time, auditors Ernst & Young expressed a qualified opinion stating: " *We have not been able to obtain appropriate audit evidence sufficiently on the correctness of accounts receivables, accounts payables and provisions in the balance sheets of the parent company and the key subsidiaries. This situation has been generated due to different views of the counterparties on the existence and amount of payment obligation. In the audit procedure for external confirmations significant differences have been found between the views of the debtors and the creditors*."

The auditors further noted that manufacturing operations had stopped and the equity of the parent company was negative. There were insufficient funds to settle debts on due dates.

The District Court of Espoo initiated bankruptcy proceedings on 15.2.2013. The Registrar of Companies rejected the Company's annual report filing on 2.8.2013 as defective.

The questions that arise concern failure of strategy and also raise doubts on related party transactions. The most charitable view would be to attribute the decline and demise to macroeconomic factors after 2008 that affected demand and examine why the Indian investor and the Finnish business system could not resolve the business crisis in a sector that does enjoy state support to renewable sources of energy. The nature of corporate governance and conduct of the actors opens up other questions for consideration, besides the hypotheses raised already.

Q.1 What attracted the investors to acquire Breezecan Oy in Finland?

Q.2 Did the investors lack capabilities to build a worldwide business including an Indian subsidiary's low cost base combined with Finnish sites in Oulu and Loviisa?

Q.3 Was the Breezecan strategy flawed at a point in time or was it Don Quixote all along?

Q.4 Did the macroeconomic factors outweigh microeconomic possibilities or was there scope for better risk management?

Q.5 Did the investors run down the business by neglect or deliberately?

Q.6 Who gained, who lost?

According to the investors' representatives in Finland, they became victims of a business slowdown which they had not foreseen coupled with lack of support from Finnish institutions. According to the Finnish regulatory authorities, the trust placed on the Board of Directors was misplaced and the related party transactions suggest that there was not any

honest intention to continue with the business beyond what loan capital pledged by banks could be siphoned. It is always problematic to separate corporate malfeasance from inability to correct failures of business strategy. The business model cracked for sure and it is also certain that the owners and their key functionaries found the situation way beyond their management capabilities to garner support from host country networks.

Case 2: BIOWORLD (The name of the enterprise has been disguised)

The case of Bioworld has its origins in the Indian investor's presence in Europe as a supplier of automotive parts and machine tools designed and manufactured in Pune. Eyeing opportunities to diversify, the Indian investor, lets call him, Mohan, established the firm Bioworld as a string of three different companies in 2007-one for clinical trials in the Turku Biocity, one for biomaterials in Oulu and one for bioinformatics in Helsinki.

On zero turnover, the Helsinki enterprise made a loss of € 939, 544 in the second year of its operations after a modest turnover of € 8000 in the first year. On a share capital invested of € 20,000, Mohan had secured capital loans from Finnish parastatals (Helsinki University Funds) to the tune of € 3,799,980. His ambitious plans had convinced Finnish officials that here was the answer to their prayers for internationaisation of Finnish biotech, biomaterials and bioinformatics. Mohan was given the equivalent of a knighthood before any business investment had shown results. In 2009, he reported sales of € 233,500 and a loss of – € 599,673. Liabilities in the form of capital credits from Finnish institutions exceeded € 7.18 million by the end of 2009. It seems that there was no business model to begin with because losses continued through 2010 and 2011 until the Company became insolvent on 4.10.2012. But there had been a strategy worked out to buildup University of Helsinki research and link it with India with translational research for cost arbitrage and scale which was abandoned in favour of microcorp acquisitions at megacorp costs. What was to be a small part of R&D investment of University of Helsinki suddenly became commercially judged in a smaller time frame changing the perspective.

The Oulu based sister company went through the same motions on the back of € 200,000 from Finnvera and other Finnish parastatals with accumulated losses of € 78,386, € 93, 317 and € 20,229 in three successive years. The Turku enterprise reported losses at the level of 70 % of its turnover. Nothing remains from these except unanswered questions.

Q.1 How did the Finnish authorities come to nurture unrealistic expectations ?

Q.2 Why did Mohan invest in an unrelated diversification in Finland?

Q.3 Could this have had a happier continuity?

According to Mohan, the roleholders whom he knew and who trusted him and controlled the flow of funds pledged as subventions for the long term that the Bioworld investments required changed and the new incumbents pulled the carpet from under his feet without consulting him or informing him. According to the Fund managers, they panicked because the investor was away in India and the business was floundering.

Onion-peeling iteratively layer by layer after listening to all the concerned protagonists and the documents provided by them revealed some additional information. In January 2012, Mohan had taken contact with the University Fund Managers after charting out a recovery plan for Bioworld in consultation with all concerned pointing to new opportunities that had been negotiated by him with the State Government of Punjab drawing the Punjab Technical University into collaboration with the University of Helsinki. The action plan had been approved by the Board of Directors of Bioworld. A key feature of the plan was to let the investment made by the University of Helsinki funds through another enterprise called 4P to remain and execute the business plan of Bioworld by ramping up capacity of Bioworld through an investment by the Indian state government of Punjab. This involved a merger of the existing parts of Bioworld and integration of all preclinical units into a unified new company. There were new projects committed from the Finnish pharma firm Orion.

The proverbial fly in the ointment was crediting goodwill of € 1.5 million as equity/capital loan to Bioworld in the new merged enterprise called Bioworld Discovery. There arose a controversy over the drawal of funds from 4P for Bioworld which was 100% owner of 4P. It was hoped that the Finnish parastatal technology subsidizing agency TEKES would disburse more funds once deliverables to Orion could be assured by the University of Helsinki augmenting the laboratory capacity at one of the sites, Viikki. But the new functionaries controlling the University of Helsinki funds did not believe that the new merged entity would be able to meet even its annual operating costs. A delay in deliverables by even a quarter could cost € 100,000 cumulatively every quarter. Mohan had offered to provide such shortfall from his own funds. This was neither believed nor accepted. Mohan was expected to arrange for € 2 million for Bioworld and until such time 4P shares would remain pledged to the University of Helsinki Funds. Mohan arranged for € 1.3 million out of this € 2 million and the shortfall was € 650,000. According to Mohan, the capital and infrastructure infusion from the State Government of Punjab was intended to take care of this shortfall completely after which the pledged shares could return to the unencumbered ownership of Bioworld. However, the University of Helsinki Funds did not believe this infusion would actually happen. Mohan offered a supplementary IOU agreement to take care of this contingency but this was not accepted. Mohan then offered the Directors of 4P to be included as Directors in Bioworld if Bioworld would be allowed to control 4P but this was also not acceptable.

There had been an oral understanding that 4P would expand to India for clinical trials and Bioworld had set up an office in India for 4P with 20 biostatisticians which the 4P Directors visited just once in the context of drug development of Ontomine. This office had to be shut because 4P did not wish Bioworld to act on its behalf. Comparisons were drawn by the University of Helsinki administrators to a part of Bioworld which had experienced severe problems requiring 90 % of its shareholders' capital to be written down. But according to Mohan that part had faced customer evaporation which was not the case with other parts of Bioworld.

A significant aspect of the prevailing mistrust had grown because Mohan had wanted the data management of clinical trials to shift to India on grounds that data management, a part of clinical trials could not be separated without losing global competitiveness and clinical trials were growing elsewhere globally than in Finland. Mohan also wanted to strengthen the management team by inducting the clinical services director of Astra Zeneca, the Head of Biostatistics at Orion and the Asia Pacific Manager of Quantiles to strengthen the top management of 4P. The University of Helsinki Funds wanted their own people resulting in a stalemate. Mohan then proposed that the Bioworld collaboration with the Punjab Government could be expanded to cover food and agriculture to deepen the prospective international collaboration but this was also not agreed. Mohan blamed his Finnish partners for accepting the solutions he proposed and then putting spokes in the wheel over implementation right from the beginning circa 2008. The correspondence of Mohan with his Finnish counterparts also revealed the reluctance of the Finnish side to have Punjab researchers visit University of Helsinki on grounds that it would have financial implications which were not budgeted. As a last resort, Mohan offered a fair partition of Bioworld from 4P to be done by the auditors but his hand was forced because there was so much mistrust by then. The cookie finally crumbled when the pledged funds to Bioworld were pronounced to be loan funds (debt) rather than a capital loan (equity) based on local laws behind Mohan's back to free 4P from Bioworld and let Bioworld be declared bankrupt. According to Mohan, he and other Board members had been kept in the dark about the existence of the loan agreement itself.

Conclusions

The hypotheses raised and the questions arisen from the cases are quite intriguing. In the case of Bioworld, Mohan seems to have been privileged to achieve insider status in informal networks without which Bioworld could not have been born. Yet, either because he lacked a robust business model or despite having one because he could not dance in step with the business systems, failed to survive let alone grow. In the case of Breezecan Oy, the Indian investor never integrated within the Finnish system and functioned from the

periphery through increased control. The use he made of Finnish parastatals, Tekes and Sitra matched his appetite for similar extractions from the Indian banks and financial institutions-all for a cause that did not sustain. Was it geographic distance? Or was it institutional distance? Or was it simply the 2008 macroeconomic downturn? Or were there other motives for the actors involved or reasons or factors that need to be considered?

In view of the above, this narrative does not really end here. But a beginning has been made to deeply examine these cases of Indian OFDI to Finland. And this start of the journey has already raised more questions than it has answered. A tentative conclusion is that the pull for OFDI from emerging and developing economies in investment-scarce developed countries can attract investments from developing countries that may not have potential for sustainable growth or shareholder value raising the spectre of adverse selection, besides moral hazards. Inward foreign investments regarded as nectar may be poisonous if the nexus of stakeholders lack motivations or capabilities or trust to go beyond the lure of para-statal incentives and subsidies that could be one of the key drivers of such investments.

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Table 1: Sales Value of Finnish firms acquired in cross-border transactions (in $ mln)

Year	Sales Value
2007	8571
2008	1163
2009	382
2010	336
2011	1028
2012	1929
2013	35

Source: Tilastokeskus, Finland and World Investment Report 2014

Table 2: Capital Value of foreign Greenfield capital investments (in $ mln)

Year	**In Finland**	**By Finland outside Finland**
2007	1269	13189
2008	2415	11071
2009	1208	3628
2010	1692	4351
2011	2153	5891
2012	1691	4795
2013	2461	6751

Source: Tilastokeskus, Finland and World Investment Report 2014