Indian State-Owned Multinationals in the Oil & Gas Industry: Prospects and Challenges

1Dr. S. Veeramani,2Ms. Mariam Jamaleh
1. Asst. Professor At Centre For Management Studies, JMI
2. Research Scholar At Centre For Management Studies, JMI
Corresponding author: Dr. S. Veeramani

Abstract: Despite The Negative Role Attached To Public Sector Enterprises (Pses) In Emerging Economies, Few Of These Enterprises And With The Help Of Their Home-Country Governments Have Grown To Be Strong And Competitive Multinationals(Mnes). More Than Half Of State-Owned Mnes Headquarters Are In Developing Countries Which Test Various Theories. But At The Same Time State Being Owners Of Companies Being Underestimated The Same Observation Believed To Be Outcome Of Liberalization. India being Emerging Economy Is A Home To 4% Of These Somnes (State Owned Multinational Enterprises). This Phenomenon Has Captured The Attention In Recent Literature On International Business As The Internationalization Of Public-Sector Enterprises Constitutes A Growing Share Of FDI Flows. India Will Overtake Japan To Become The World’s Third Largest Oil Consumer Behind The US And China By 2025. Currently, The Country Meets More Than 80% Of Its Energy Requirements Through Imports. Against The Backdrop Of These Facts The Importance Of The Foreign Investments By Indian Pses (Public Sector Units) Working In The Oil & Gas Industry To Secure The Country’s Energy Requirements Is Greater Than Ever. The Objective Of This Study Is To Explore The Development Path Of Five Indian Multinational Pses Who Have Been The Highest Foreign Investors During The Last Ten Years. Where And Why They Went Abroad? And How They Differ From Other Indian Mncs Operating In The Same Field Are The Questions We Will Attempt To Answer. The Research Methods Primarily Used Are Case Study Methods Through Testing The Theories Of FDI (Foreign Direct Investment) On The Basis Of Descriptive Research Methods.

Key Words: State-Owned Mnes, Emerging Economies, Oil & Gas Industry, FDI Flows.

I. Introduction:


State Owned Tncs Are Defined As Enterprises Comprising Parent Enterprises And Their Foreign Affiliates In Which The Government Has A Controlling Interest (Full, Majority, Or Significantly Minority), Whether Or Not Listed On A Stock Exchange (UNCTAD, World Investment Report, 2011). The Main Purpose Of State-Owned Enterprises Is To Be In Service Of Domestic Needs. Thus, Researchers Are Questioning Whether Or Not The Internationalization Of These Soes Is Going To Impact Their Purpose. (Vernon, 1979) Was Among The Firsts Who Addressed The International Aspects Of Soes Operations. He Also Pointed Out The Hybrid Nature Of These Enterprises As They Combine Market Orientation And Socio-Political Goals.

The Number Of SO-Mnes Has Jumped From 650 In 2010 To 1500 In 2016. The Share Of SO-Mnes With Headquarters In Developing Economies Remain Over Half Of The Total Number During The Same Period, The EU Comes Next With Over Third (UNCTAD, 2017).


The Oil Sector Was One Of The First Sectors To Become Global In Terms Of Trade And Foreign Direct Investment Flows. This Contributes To The Importance Of Analyzing The Development Of

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Multinational Oil Companies In Providing Better Insights Of International Business. State-Owned National Oil Companies Control The Majority Of Worldwide Hydrocarbon Resource Endowments, As Well As Many Of The Major Oil And Gas Infrastructure Systems. Although Moving Along Different Trajectories, All Nocs Have Transformed Themselves From State-Dominated And Bureaucratic Entities That Rely On A Monopolistic Position In Their Home Country And Are Only Accountable To The Government To At Least Partly Private-Owned Entities With Corresponding Modifications In Their Governance Mechanisms. Some Of These Enterprises Have Expanded Their Operations Globally-Both Upstream And Downstream. (Goldstein, 2009)


This Paper Aims To Discuss The Emergence Of Indian SO-Mncs In Light Of The New Approaches Suggested In The Recent Literature That Is Attempting To Explain The Phenomenon. Second section Provides A Review Of These Approaches. Third Section Applies The New Concepts To The Indian Case. Fourth Section Attempts To Analyze The Degree On Internationalization Of Indian Nocs. Last Section Concludes.

Research Design:

This Paper Is An Attempt To Capture The Idiosyncratic Features Of The Internationalization Of Indian Psus In The Oil And Gas Industry By Analyzing The Evolution Of The Five Leading National Oil Companies And Their International Operations. IOCL, BPCL, GAIL And OIL.1 Adopting The Inductive Approach, We Depend On Observations To Find Patterns And Explanations To Those Patterns. Our Chosen Method Can Be Called As Narrative Description With Elements Of Comparison.

First, To Develop An Understanding Multinational State-Owned Enterprises, The Authors Conduct An In-Depth Review Of Literature On The Recent Phenomenon. Then, Reflect On That To Build A Conceptual Framework Of The Indian Multinational Soes In The Oil And Gas Industry.

Second, Authors Follow (Hassel, Hopner, Kurdelbusch, Rehder, & Zugehor, 2003) Approach To Analyze The Degree Of Internationalization Of Our Sample. Two Dimensions Of Internationalization Will Be Observed, The Production Activities Of These Firms Abroad Which Can Be Referred To As The Real Dimension Of Internationalization, And The Orientation Towards International Capital Markets Which Can Be Referred To As The Financial And Corporate Governance Dimension Of Internalization. The Latter Dimension Can Be Measured Using Three Variables, Namely, Foreign Ownership As A Percentage Of Total Ownership, The Number Of Listings In Foreign Stock Exchange, And The Presence Of Foreign Board Members.

Data: We Collect Data On Five National Oil Companies Which Featured In The Top 50 List Of Largest FDI Investors During The Period 2007 Till 2017, The Five Companies Are: ONGC, IOCL, BPCL, GAIL And OIL. We Also Collect Data On Two Private Oil Companies; Reliance Industries And Vedanta Ltd. The Data Were Collected From RBI Website Along With These Companies’ Reports And Financial Statements.

II. Literature Review:

Whether Called Government-Controlled Enterprises (Gces), State-Owned Enterprises (Soes), Or Public-State Undertakings (Psus) As In India, All Terms Refer To A Hybrid Entity That Is Market-Oriented With A Socio-Political Agenda. These Entities Is To Be Distinguished From State That Are Not Legally Separated From The Government And Have Budgets That Are Part Of The Public Budget.


1 Oil and Natural Gas Corporation, Indian Oil Corporation Limited, Bharat Petroleum Corporation Limited, Gas Authority of India Limited, Oil India Limited.
2 A type of share that gives special voting rights and the ability to block key strategic decisions, especially takeovers by other shareholders.
The Rationale Is Often Industrial/Regional Policy And/Or The Supply Of Public Goods (Often In Utilities And Infrastructure – Such As Energy, Transport And Telecommunications). Soes Are Not Pools Of Investable Capital As Such, But They May Finance Investments Via Their Earnings, Fiscal Appropriations From The Governments, Or From Debt Markets At A (Possibly) Distorted Low Cost Of Capital. In Some Sense, There Is Greater Scope For Financially Less-Constrained Investment, And With Strategic Objectives Very Much In Mind.”

Soes Has Been Presented As Inefficient Bureaucratic Entities With Poor Management And Incoherence In Both Strategy And Resource Allocation Decisions, The Noticeable Success Of Somncs In The International Arena Starts To Challenge The Long History Of Stereotyping Soes As A Heavy Burden On The Public Budget.

It Is Important To Develop A Theory Of International Business On The Foreign Investments Made By Soes As This Will Help Extend The SOE Literature And Also The Non-Business Internationalization Argument (Cuervo-Cazurra, Inkpen, Musacchio, & Ramaswamy, 2014).

The First Question To Be Addressed In Order To Build A Theory On The International Aspects Of Soes Is: Why Do They Become International And Conduct Business In Other Countries Which Contradict The Common Sense About Soes Main Purpose Of Serving Their Home Country’s People And Increasing Their Welfare? The Answer Might Be Belong To The Non-Exclusive Following Group Of Theories:

1- Resource-Dependence Theory: Soes Create Independent Cash Flow Streams Through Their International Business; This Allows Them To Enjoy A Sort Of Source Independence From Their Home Governments. The First To Suggest That Was (Vernon, 1979). However, Till Recently There Was No Empirical Evidence In The Literature To Support This Hypothesis. (Choudhury & Khanna, 2014) Argue That Creating An Independent Cash Flow Stream By Licensing High-Quality Foreign Patents To Multinationals Might Be An Alternative/Complementary Mechanism To Privatization That Allows Soes To Achieve Resource Independence.

2- Resource-Security Theory: Soes Are Not Only Concerned With Wealth Maximization. They Are Also Responsible For Economic And Energy Security. This Is Particularly True In “Strategic Assets” Or Industries Specific To The Extraction Or Treatment Of Natural Resources. Statistics From The World Oil Industry Confirm These Assumptions; Soes Control An Estimated 90% Of The World’s Oil And Gas Reserves And Are Responsible For Approximately 75% Of The World’s Oil And Gas Reserves Production. The Important Question To Be Answered Is Whether Soes Invest In Natural Resources For The Long Term To Secure Future Access To Them, Or Do They Need These Resources For Short-Term Security Just To Be Exploited For Consumption? (Brass & Chakrabarty, 2014) Address This Question Using The Exploitation Vs. Exploration Framework, And Suggest That Long-Term Resource Security Is Of Immediate Importance To Soes To Protect Their Home Country’s Future.


The Group Of Multinational Soes Or Soes In General Isn’t A Homogenous One. We Can Distinguish Between Different Type Of Soes Based On Their Origin. These Differences Will Lead To Different Goals And Eventually Different FDI Strategies. (Cuervo-Cazurra, Inkpen, Musacchio, & Ramaswamy, 2014) Present A Typology Of Soes, They Draw On The Differences In Soes Origin; The Enterprise Was Created By Government From The Beginning Or A Product Of Nationalization Of An Existing One. They Also Suggest A Classification Based On The Ownership Root Of The SOE Enterprise, Whether The SOE Descended From The Nationalization Of Domestic Privately Owned Firm Or That Of Foreign Owned One. They Believe These Differences In Ownership Root Have Different Implications For The Internationalization Pathways And Aspirations That Characterize The SOE.
Drawing From Sociological Perspective On The Institutional Theory, (Li, Cui, & Lu, 2014) Illustrate How Field-Level Diversity Among Soes Would Lead To Differing Firm-Level FDI Strategies. Local Soes Follow FDI Strategies To Achieve Development Goals Set By Local Governments While Central Soes Adopt FDI Strategies That Will Serve A Broader National Policy. This Diversity Is Also Reflected In The Legitimization Challenges Faced By Central And Local Soes In Home And Host Countries.

Is Internationalization Beneficial To Soes? (Benito, Rygh, & Lunnan, 2016)Seem To Think So. They Argue That Soes’ Previous Domestic Focus And Their Government-Related Firm-Specific Allow Them To Utilize From The Internationalization Better Than Other Private Enterprises. Their Empirical Evidence Suggest More Positive Effects Of Internationalization On Soes Performance In Three Situations: Majority State Ownership, Previous Affiliation To The Government Administration, And In The Case Of Market-Seeking Internationalization.

Are They A Level-Field Players? According To (Christiansen & Kim, 2014), As The Foreign Soes Are Operating Based On A Normal Commercial Criteria This Is A Win-Win Situation. However, If They Enjoy Unfair Advantage Then The Losers Will Be The Private Competitors. Whether Or Not A Significant Domestic Production In The Concerned Sector Is Taking Place In The Host Country Will Decide If Host Authorities May Or May Not Be Hostile And Protective. The Same Report By OECD Finds Soes To Be More Profitable Than Their Rivals In The Private Sector. This Reflects A Generally Higher Concentration In The Markets In Which They Operate, And Means That Multinational Soes Benefit Largely From Home Markets Where Competitive Pressures Are Weak.

Reflection on India:


Historical Background: From Monopoly To Partial Privatization Prior To 1991 India Had An Elaborate Regulatory Framework Popularly Known As The “License Raj” That Involved Restrictions On Who Could Invest, How Much, In What, And Where. Government Majority Ownership Of Firms Was Justified By Concerns That The Private Sector Would Not Undertake Projects Requiring Large Investments With Long Gestion Periods. Starting In The Late 1960s There Was A Period Of Rapid Nationalization Of Firms In All Sectors, So That By The Mid-Seventies The Public Sector Accounted For One-Fifth Of GDP And Two-Thirds Of The Total Fixed Capital Invested In The Economy. Deregulation Started In The Mid-Seventies But It Was Not Until 1991 That Most Of These Restrictions Were Removed. The Most Significant Deregulatory Measures Affecting State-Owned Firms, Dereservation And Liberalization, Were Implemented In This Year. Dereservation Reduced The Number Of Sectors Reserved For The Public Sector From Seventeen To Four. Only Arms And Ammunition, Atomic Energy Production, Mining Of Minerals Related To Atomic Energy, And Railway Transportation Remain Closed To The Private Sector (Gupta, 2005).

**Indian State-Owned Multinationals In The Oil & Gas Industry: Prospects And Challenges**

Table 1: The Real & Financial Dimension Of Indian Oil Companies (State-Owned And Private)

<table>
<thead>
<tr>
<th>Company</th>
<th>Foreign Employment</th>
<th>Foreign Assets</th>
<th>No Of Host Countries</th>
<th>IFRS</th>
<th>FPI Shareholding</th>
<th>Foreign Stock Exchange</th>
</tr>
</thead>
<tbody>
<tr>
<td>ONGC</td>
<td>-</td>
<td>29.7%</td>
<td>17</td>
<td>-</td>
<td>5.9%</td>
<td>Nil</td>
</tr>
<tr>
<td>BPCL</td>
<td>-</td>
<td>-</td>
<td>6</td>
<td>-</td>
<td>22.17%</td>
<td>Nil</td>
</tr>
<tr>
<td>OIL</td>
<td>-</td>
<td>-</td>
<td>8</td>
<td>-</td>
<td>3.48%</td>
<td>Nil</td>
</tr>
<tr>
<td>GAIL</td>
<td>-</td>
<td>-</td>
<td>4</td>
<td>-</td>
<td>16.35%</td>
<td>London SE</td>
</tr>
<tr>
<td>IOC</td>
<td>-</td>
<td>-</td>
<td>18</td>
<td>-</td>
<td>6.8%</td>
<td>Nil</td>
</tr>
<tr>
<td>Reliance Industries</td>
<td>-</td>
<td>-</td>
<td>2</td>
<td>-</td>
<td>24%</td>
<td>Luxembourg SE</td>
</tr>
<tr>
<td>Vedanta Ltd</td>
<td>-</td>
<td>-</td>
<td>3</td>
<td>-</td>
<td>23%</td>
<td>NYSEE</td>
</tr>
</tbody>
</table>

**Table 2: OFDI Flows During The Period 2007 Till 2017**

<table>
<thead>
<tr>
<th>Oil Company</th>
<th>OFDI (In Million Dollars)</th>
</tr>
</thead>
<tbody>
<tr>
<td>ONGC</td>
<td>3019.018</td>
</tr>
<tr>
<td>OIL</td>
<td>2950.659</td>
</tr>
<tr>
<td>BPCL</td>
<td>2826.028</td>
</tr>
<tr>
<td>GAIL</td>
<td>1127.993</td>
</tr>
</tbody>
</table>

**Why Indian Nocs (National Oil Companies) Needs To Go Global?**

(Choudhury & Khanna, 2014) Provide the only empirical evidence available on resource-dependent theory from the Indian economy. Their sample includes 42 Indian state-owned laboratories. The empirical analysis documents how these labs leveraged an important aspect of the patent reform: their high-quality foreign patents to multinationals to achieve partial resource independence. Similar to state-owned R&D labs, Nocs couldn’t be privatized as they were part of the strategic sectors. Eventually, they had to seek alternate mechanisms to generate cash flows and seek resource independence.

The Indian Nocs going abroad are not only securing resources independence for themselves, they are also securing resource security for their country. As India becoming one of the largest consumers of oil in the world, it is a strategic necessity for the Indian Nocs to invest abroad to secure the country future share of oil.

The global presence of Indian Nocs clearly support the expropriation risk mitigating theory. The theory explains that being agents for their government, the state-owned Mncs will be able to operate where the other privately owned Mncs might avoid because of expropriation risk. The Indian Nocs are running projects in the most unstable less democratic nations, their rivals in the private sectors like Reliance Industries and Vedanta Limited clearly avoid investing in such places. E.G. Reliance Industries invests in Myanmar and USA. Vedanta Ltd operates in Sri Lanka and South Africa. Indian Nocs aren’t a homogenous group too. They have different origins and operate on different field-levels. Three of our five sample Nocs, namely, ONGC, OICL, and GAIL, were created by the government of India, while the two others (BPCL & OIL) had been created by foreign companies then were nationalized afterwards. These varieties in roots of ownership have an important bearing on their subsequent internationalization path. (Cuervo-Cazurra, Inkpen, Musacchio, & Ramaswamy, 2014) present the case of Gazprom and Aramco. Both are Nocs with multinational interests, but they have different ownership origins. While Gazprom is a state-owned by birth, Aramco was originally founded as the US-based California Arabian Standard Oil Company and later nationalized. They argue that ARAMCO’s origin as a foreign-owned company, allowed it to enjoy a head start with respect to technology and has made the company more reluctant to globalize rather it has focused on setting up and managing joint ventures to extend its own value creation opportunities at home. In contrast, Gazprom, the government-created company, was very ardent proponents of global expansion. Similarly, the global expansion of the Indian Nocs created by the government is greater than that for the two Nocs with foreign origin except for GAIL which was incorporated recently compared to the other four.

It is true that after 1991 many economic activities which were formerly reserved for the public sector like the oil and gas industry have been opened up to the private sector but this doesn’t mean that the market is now competitive and all players are competing fair and square. The fact is that the presence of sois is still predominantly felt in these enterprises’ domestic economy but it is of broader,

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3 No records of foreign employment share in any of the companies' financial statements

4 Only ONGC prepares its segment-wise statements in term of domestic and foreign (assets, liabilities, and revenues)

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Global Consequence?  Though The Indian Nocs Are Expanding Globally And Their OFDI Flows Have Been Growing Steadily During The Last Decade, Their Presence Is Still Shy And Their Size Isn’t Big Enough To Allow Them To Compete Against Other Giants In The Oil And Gas Sector. The Merger Plan Which Has Brought Together Two Of The Most Important Nocs In The Indian Market Can Be Seen As A Step Forward, Considering That Will Create A Larger In Size, More Integrated And Fiercer Giant Which Is Going To Be Able To Compete Abroad Stronger Than Before.

The Big Merging Plan


- ON 19TH Of July 2017, The GOI Announced The Acquisition Of HPCL By ONGC. ON 1ST November 2017, The Union Cabinet Approved ONGC For Acquiring 51.11% Stake In HPCL.
- As A Result IOCL, The Second Largest NOC In Term Of Market Capitalization, Is The Only NOC In The Top Five That Wasn’t Included In The Plan. Maybe Because It’s Well Capitalized And The Most Integrated Among Them All. The Mergers Will Create New And Stronger Competitors For IOCL.

  The Degree Of Globalization: The Trans-Nationality Index Calculated By UNCTAD Depends On Three Ratios: Foreign Assets To Total Assets, Foreign Sales To Total Sales And Foreign Employment To Total Employment. But (Hassel, Hopner, Kurbelbusch, Rehder, & Zugehot, 2003) Suggest A Broader Analysis To The Degree Of Internationalization Which Will Include Two Dimensions:

1. The Real Dimension Measures The Foreign Share In Employment, Sales And The Number Of Countries In Which The Firm Operates Aimed At Measuring The Physical Dispersion Of Economic Activities Of Mnes Around The World;


Following Hassel Approach, We’ll Look At Differences And Similarities Among The Group Of Five Nocs. Then We’ll Compare Them To Their Rivals In The Private Sector.

Global Presence: Though The Four Nocs Were Incorporated During The Same Period, IOCL And ONGC Come Ahead With Projects In 18 And 17 Different Countries Respectively. While Both OIL And BPCL Lags Behind With 8 And 6. The Reason Behind That Might Has To Do With The Difference In Their Origin While ONGC And IOCL Are Purely Created By The GOI, They Might Be More Eager To Go Abroad To Compensate For The Technological Lag That OIL And BPCL Didn’t Have To Worry About As Much Due To Their Foreign Origin.

The Private Oil Companies Like Vedanta And Reliance Industries Seems Reluctant To Go Abroad With Projects In Three And Two Countries Respectively. Rather They Are More Focused On Strengthening Their Position In The Indian Market And This Makes Sense Considering They Were Only Allowed Into The Oil And Gas Industry Recently.

Foreign Sales: We Were Only Able To Get These Figures For ONGC As It Is The Only One Which Prepares Its Segmented Financial Statements In Term Of Domestic And Foreign Operations. Its Foreign Assets To Total Assets Ratio Is 29.7% Which Is Almost The Same As Petronas, Malaysia With 29.6% But Smaller Than CNOOC, China With 39%, And Too Much Smaller Compared To That Of SHELL 84.74% (UNCTAD, The Top 100 Non-Financial Tncs Ranked By Their Foreign Assets, 2015). Other Two Ratios: Foreign Sales To Total Sales And Foreign Employment To Total Employment, Which Are Used To Calculate The Trans-Nationality Index Aren’t Available For ONGC, Or Any Other Indian Oil Company.
Foreign Employment: Judging By The Nationality Of The Board Of Directors All Indian Oil Companies: The State-Owned And The Private Ones Don’t Have Foreigners On Their Board Of Directors, Only Directors Of The Indian Nationality. Although It’s Noticeable That, The Private Ones Have More Directors With Foreign Education.


Foreign Share Of Stocks: None Of The Indian Oil Companies Has Foreign Owners Among Its Promoters But They Do Have Fpis. The Shareholding Of FPI Is Less Than 7% In Each Of ONGC, OIL And IOCL. In Contrast It Is 22.17% In BPCL And 16.35% In GAIL. Fpis And Other Foreign Bodies Hold Almost 23% Of Vedanta Ltd Shareholding And 24% In Reliance Industries.


III. Conclusion:

The Presence Of Above Discussed Five State Owned Multinational Enterprises (SO-Mnes) Both In Domestic As Well As In International Poses Great Hope As Well As Challenges. The Decade Of Data Gives Mixed Observations As Why State Have To Own Some Enterprises If The Performance Of The Same Dragged To Weak. The Post Washington Consensus’ Situation Reduced The Power Of State To Go Against The Heaviest Odds Posed By The Private Sectors. Despite Huge Criticism On These Five Cases, They Put Their Growth Bar At Par With Private Firms Of Other Emerging Economies. India Predominately A Welfare State Model Influenced By The British Legacy. Has The Obligation To Serve Its People Of All Walks Of Life. SO-Mnes Are In Democratic Sense Owned By People Who Forms Government By Their Will. The Socio- Economic Obligations Of State Owned Enterprises Huge When Come To Private Sectors That Have No One.

While The Nocs Have Secured More Resources Than Their Rivals In The Private Sectors And Covered Places On The Map The Others Can’t Reach Or Afraid Too. The Latter Seem To Be Preparing To Compete Internationally In Future, Their Attempts To Approach The International Capital Markets By Getting Listed On Prestigious Foreign Exchanges Is One Example Of Their Preparations. Probably The Nocs Where Able To Skip These Steps Because They Have Been Depending On Their Government’s Financial Support But As This Becomes More Scarce Each Day, They Have To Reach International Markets Not Only For Their Oil Resources But First For Their Financial Ones. The Recent Merger Plans, Though Might Be Criticized On The Basis Of Securing A Competitive Market, Are Expected To Create More Integrated And Credible Nocs Out Of The Existing Ones.


India Being Largest Consumer Base Which Includes Oil And Gas Has Great Potential For The Public Sector To Sustain Their Presence In Domestic Against Heavy Odds From Private Players. The Global Presence Boosts Their Performance Which Needs To Be Further Studied With Suitable Data. The Wtos, And Liberalization Demand On The Member States Is Another Dimension To Review Their Trade Policies Which Has Adverse Thought On Existence Of Public Sector. The Authors Believe That There Is Huge Scope For Further Research On The Proposed Issues Which Can Add Appropriate Literature To The Research In International Business.

References

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