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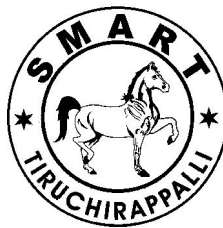
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A STUDY ON ENTRY METHODS IN INTERNATIONAL MARKET FOR SERVICE SECTOR BASED INDIAN PUBLIC SECTOR UNDERTAKINGS

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Abstract

Public Sector Undertakings (PSUs), in India, are the entities, which have the status of being government-owned companies. Deciding about entry methods in international market, is the most crucial decision, which a PSU has to make. Studies have been carried out, in the field of international business and PSUs. However, there is an absolute dearth of studies, regarding preferable entry methods of service sector based, Indian PSUs, in international market. This paper analyzes possible entry methods, into various international regions, by service sector- based, Indian PSUs, through primary and secondary data analysis. The judgmental sampling method was used in the study. With the help of descriptive analysis, the measure of central tendency (mean, median), dispersion (standard deviation), minimum and maximum scores, were estimated. Preferential mapping was also used, in the study, to identify the preferences of the respondents.

Keywords: PSU, Service Sector, International Business, Entry Methods, International Markets, Preferential Mapping, Judgmental/ Purposive Sampling.

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1. Introduction

Public Sector Undertakings (PSUs), in India, are the entities, which have the status of being government-owned companies. Internationalization of activities is unavoidable these days, in order to sustain. There are a number of decisions involved, when a PSU decides to enter international market. Deciding about entry methods, in international market, is the most crucial decision, which a PSU has to make. Studies have been carried out in the field of international business and PSUs. However, there is an absolute dearth of studies, regarding preferable entry methods of service sector-based Indian PSUs, into international market. This research paper has four dimensions; first is international business, second is Indian PSU, third is service sector- based firm and fourth is possible entry modes. International business comprises all commercial transactions (private and governmental, sales, investments, logistics, and transportation), that take place between two or more regions, countries and nations, beyond their political boundaries (**Wikipedia, 2017**).

In accordance with the Companies Act, 2013, the PSUs refer to any company in which not less than fifty one per cent of the paid-up share capital is held by the Central Government, or by any State Government or Governments, or partly by the Central Government and partly by one or more State Governments, and includes a company which is a subsidiary company of such a government company. Based upon sizes of PSUs, they can be of Maharatna, Navratna, or Miniratna category-I and II types (**Department of Public Enterprises, 2016**). The service sector, also called the tertiary sector, is the third of the three traditional economic sectors. The other two are the primary sector, which covers areas such as farming, mining and fishing and the secondary sector covers manufacturing and making things (**Wikipedia, 2016**).

There are a variety of ways in which a company can enter into a foreign market. No one market entry strategy works for all international markets. Direct exporting may be the most appropriate strategy, in one market while in another, you may need to set up a joint venture. There will be a number of factors, that will influence choice of strategy, including, but not limited to, tariff rates, the degree of adaptation of product required, marketing and transportation costs. While these factors may well increase costs, it is expected that the increase in sales will offset these costs (**Tradestart, 2017**). In this research paper, preferred entry methods, for service sector-based Indian PSUs, in various international regions like Africa, Middle East, Western Europe, Central and Eastern Europe, Asia, Australia, North America, Latin America and the Caribbean, have been discussed, through secondary data information and primary data analysis.

2. Review of Literature

As per **Blomstermo, et al., (2005)**, there is a growing interest in researching the internationalization process of service firms (**Aharoni, 1993; Li, 1995; Nachum, 1999; Roberts, 1999; Aharoni and Nachum, 2000; Andersson, 2002; Ochel, 2002; Bouquet et al., 2004**) and in the last decade, research on how service firms enter foreign markets, has accelerated. Increasing competition in the global markets, has thrown more challenges and opportunities, to both private and public sector companies world wide. However, few businesses have recognized the full scope of performance improvements, that globalization makes possible. Developing sustainable strategies, for capturing these opportunities, appears to be still a far cry for public sector companies of developing countries. The Public Sector Undertaking (PSU) companies need to grow from their base and explore global markets in the manufacturing, marketing, services, and consultation sectors. Opportunities, in global

markets, are abundant. But some firms look on to them, with myopic vision while others develop a strategic vision to gain long term sustainable growth as well as competitive advantage. Different levels of global market management are used, for cutting costs and creating value that the company can use, in each phase **(Institute of Public Enterprise, 2013)**. Foreign market entry modes (Participation Strategy) differ, in degree of risk they present, the control and commitment of resources they require and the return on investment they promise **(Wikipedia, 2012)**. The choice of foreign market entry mode is critical and related to control. Control is crucial as it ensures achievement of the ultimate purpose of the organization. Also, control is the single most significant factor, that determines risks and returns, the amount of relational friction between buyers and sellers and ultimately, the performance of the investment abroad **(Barkema et al., 1996; Barkema and Vermeulen, 1998)**. Control, over foreign market entry mode, allows service firms to supply timely and good quality services to international clients, which protects reputation. Therefore, research, concerning control and entry mode for internationalization of services, is important. According to **Peinado, et al., (2007)**, despite the importance of the service sector in world markets and the growth of foreign investments in this area, during the past decade, the research on services in an international context is still limited, compared with research that focuses on the manufacturing sector. Moreover, in the current dynamic and competitive environment, entry mode choice is not a decision, based only on efficiency and value-based considerations but also on other aspects as well, such as strategic motives of internationalization or the firm's competitive position in the global environment. In addition, the high costs of integration, stipulated by economic theories, may not be strictly true for

many service firms. These issues have been examined in this paper, by introducing these new considerations into the entry mode analysis, with the aim to provide evidence of which of the underlying principles, observed in the service sector, can be modified to the specific characteristics of services. Industrial characteristics should be viewed as facilitators of or as restrictions to international commerce. In addition, managers should also consider that for many service firms, the switching costs may be comparatively small because valuable assets rest more on human capital than in physical assets. Therefore, their entry mode decisions should be guided, by considerations other than only cost minimization reasons.

3. Statement of the Problem

Our knowledge is deficient on areas like which foreign market entry modes service firms apply and similarly, on target market selection. Next, it is also important to investigate if there are systematic differences, within service industries, in foreign market entry mode selection. There have been studies, carried out in the field of international business, PSUs and service sector separately in the past but it is difficult to find a study, combining working of service sector-based Indian PSU and international business. There is absolute dearth of any previous studies, carried out in the field of finding and devising policies, for entry of service sector-based Indian PSU into international market. A study was, therefore, required, to analyze the preferred entry modes, for Indian service sector-based PSUs, in various international regions.

4. Need of the Study

This study could be a primitive and original effort, to analyze the preferred entry modes for Indian service sector-based PSUs, into various international regions, which will help in understanding the entire dynamics. The study

also explores the most preferred and efficient entry modes, in relation to specific types of PSUs, across various international regions.

5. Objective of the Study

The objective of the study was to study the perception of the senior executives, working with service sector-based public sector units in India, employees of international organizations and related experts in the field of international business, with respect to various possible entry methods, in international market, for service sector-based Indian PSUs.

6. Hypothesis of the Study

The following hypothesis was tested in the study.

NH-1: There exists significant relationship between the preferences of executives, for different entry methods, in international markets and different geographic regions.

7. Research Methodology

7.1 Sample Selection

This research study was exploratory in nature. The sample size was 120. The primary data were collected, from the 120 executives who were, directly or indirectly, associated with the service sector PSUs in India. The primary data were also cross-sectional in nature. The judgemental sampling method was used, to find the perception of senior executives of the service sector PSUs and other employees/experts of international organizations, dealing with Indian PSUs.

7.2. Sources of Data

In this study the survey method was used, to collect the primary data, with the help of questionnaire, designed for the purpose of the study. The secondary data were collected from different journals, books and websites.

7.3 Period of the Study

Primary and secondary data were collected, during the period, May 2016-December 2016.

7.4 Tools Used

In the study, descriptive statistics (mean, median, standard deviation, minimum and maximum) scores were estimated. The preferential mapping was used, to study the preferences of the respondents. MS Excel and SPSS 21 were used for the purpose of data analysis.

8. Analysis of Data

In the research study, the stakeholders were asked to provide the responses against the different questions, mentioned in the questionnaire. The frequency distribution of responses, provided by the 120 respondents, is shown in **Table-1**. The result of the frequency distribution indicated that majority of PSUs preferred Joint Venture method of entering the international markets. This was followed by direct ownership and the direct exports in the international business. Minimum preferred methods, adopted by the PSUs, were found to be licensing and franchising methods of international entry. Joint venture was the more preferred method, for international entry, due to the reason that they could share ownership and control the local company of a country. Joint Venture (JV) was preferred to reach more geographic and technological market areas while diversifying investments and risk. The foreign firm might lack the financial, physical or managerial resources, to undertake the venture alone.

Table-2 shows the results of the discriminant analysis. The Eigen value of the first function was found to be 0.598, which could explain 91.3 percent of the variation. The Eigen value of the second function was found to be 0.034, which could explain 5.2 percent of the

variance. Thus function 1 and function 2 explained 96.5 percent of the total variance of the responses. The canonical correlation, which explains the strength of the relationship between different types of entry in international market and the different global regions, as explained by the functions, is also indicated in the Table. The canonical correlation of the first function was found to be 0.612, followed by 0.181 for the second function.

The Wilks Lambda Measure indicates the badness of statistical fit of the preferential mapping, using the discriminant analysis. The results of the Wilks Lambda are displayed in **Table-3**. The results indicated that the Wilks Lambda of the first and second function, were 0.592 and 0.945 respectively and they were found to be significantly low.

The preferential mapping, plotted with the help of coordinates, estimated for the first and second function, was based on the discriminant analysis. The results of the function coordinates are reported in **Table-4**. These coordinates demonstrate, both positive as well as negative values of the coordinates. The first column represents the names of the attribute vectors (various methods of international entry here). The second column indicates the coordinates of the function, one which lies on x axis of the preferential mapping. The third column indicates the coordinates of the function 2, in the direction of y axis. The square root of the addition of the squares of the two coordinates, provides the length of the attribute vector, in the preferential mapping diagram.

The results of the **Table-5** indicate that all the six factors, on the basis of X & Y coordinates, can be divided into four quadrants. The factors of direct export and direct ownership were brought into the first quadrant, as both X and Y coordinates were positive. The factor of indirect export, licensing and franchising, came into the second quadrant as X coordinate was

found to be negative and Y coordinate was positive. None came into the second quadrant, then followed by joint venture, in the fourth quadrant. The preferential analysis also calculated the coordinates of different countries, considered in the study. According to **Table-4 and 5**, Asia was preferred for direct export and direct ownership. Middle East, Western Europe and Latin America and Caribbean were preferred for indirect export, licensing and franchising while Australia and North America were not preferred under any mode. Africa was preferred for joint venture. Since significant association was found between the geographical regions as well about the method of international entry, it can be concluded that the Null Hypothesis (NH-1) is accepted.

The frequency distribution, from the collected responses, was estimated and results are shown in **Table-6**. In the case of joint venture, as an entry method in international market, it was found that the maximum number of respondents i.e. 87.5 percent agreed, ten percent were neutral and just 2.5 percent disagreed. Therefore, it can be concluded, from the frequency distribution, that majority of executives, selected in the study, were in favor of joint venture method of entering into international market.

The descriptive statistics analyzed the responses, by mean, standard deviation, skewness and kurtosis, estimated from each statement and the results of descriptive statistic are shown in **Table-7**. The results of the descriptive statistics indicated that majority of responses, against the different methods of entering into international market, recorded a skewness level to be slightly negative and kurtosis was found to be mostly leptokurtic, for almost all the statements (except in the case of direct export and licensing), which indicated that majority of responses were on the agreement side, with the presence of variation from the

responses. The result indicated that joint venture, as a method of going to international market, was found to be having the highest mean score of 4.27, with the standard deviation of 0.95. It indicated that many executives suggested that joint venture was the most effective method of going international.

Table-8 lists all Maharatna PSUs and identifies the service sector based operations. There are seven Maharatna PSUs in India, out of which around two have service sector-based operations. As indicated by the Table, it was found that the two service sector-based PSUs such as Bharat Heavy Electricals Limited and NTPC Limited, preferred joint venture route, in order to enter into international markets. These are big Maharatna PSUs and therefore, they made their entry into foreign market, based on their size and went to cash on huge business opportunities. Getting involved in huge business opportunity, can lead to profit and loss also could be in the high magnitude. To avoid possible exposure while going for big opportunities abroad, these companies had opted for joint venture route as they wanted to gain and learn from the foreign companies' experience, that were already operating in those foreign markets.

Table-9 lists all Navratna PSUs and identifies the service sector-based operations. There are 17 Navratna PSUs in India, out of which around eight have service sector-based operations. Navratna PSUs are not as big as Maharatna PSUs but still they are of decent size and they are not small either. Majority of Navratna PSUs, as indicated in the Table, opted for joint venture method of entry into the international market. Five of them opted for direct ownership method and only one PSU i.e. Power Finance Corporation Limited opted for the licensing method. Contrary to Maharatna PSUs; Navratna PSUs ventured into direct ownership mode of international market also. As per **Joshi (2005)**, degree of control was

maximum in direct ownership mode of entry and JV mode came second. Degree of risk was slightly subsidized in JV mode. As per the Government structure of PSUs, they prefer to have high degree of control and hence the inclination towards direct ownership mode. Yet they are also quite commercial in their operations these days and they have to minimize degree of risk also. Hence the choice of JV mode as this gives them high degree of control, clubbed with adequately reduced degree of risk. Therefore, for entry into international ventures, PSUs go for JVs so as to initially learn from the established players, in a particular market, in order to reduce risk in their operations.

Table-10 lists all Miniratna Category-I PSUs and identifies the service sector-based operations. Table also lists various entry methods into international market and entry methods utilized by various service sector based Miniratna PSUs. Out of the total 56 Miniratna Category-I PSUs in India, around 23 have service sector-based operations. The Table indicates the list of 23 Miniratna Category-I PSUs in India, along with the entry method adopted by them, for entry into the international market. The Table indicates that out of 56 Miniratna Category-I PSUs, eighteen opted for joint venture method of international entry, which indicated that majority of Miniratna Category-I PSUs preferred joint venture method, for going into international market. Six of Miniratna Category-I PSUs opted for direct ownership method and only one Miniratna Category-I PSU i.e. WAPCOS Limited, opted for direct export method. Other methods, as mentioned in the list, were not opted by any Miniratna Category-I PSU. Miniratna Category-I PSUs are small PSUs, though on the growth path. Their risk taking capacity is as such limited. Therefore, joint venture mode of entry for them was a safe bet.

Table-11 lists all Miniratna Category-II PSUs and identifies the service sector-based

operations. Table also lists various entry methods into the international market and entry methods, utilized by various service sector-based Miniratna Category-II PSUs. Out of a total 17 Miniratna Category-II PSUs in India, around 12 have service sector based operations. Nine opted for joint venture method of international entry, which indicated that majority of Miniratna Category-II PSUs preferred joint venture method, for going into the international market. Four of Miniratna Category-II PSUs opted for direct ownership method. Other methods, as mentioned in the list, were not opted by any Miniratna Category-II PSU. Miniratna Category-II PSUs are smaller PSUs than Category-I PSUs. Their risk taking capacity was even more limited. Therefore, they have no other choice than joint venture mode of entry as being safe is their main motto of operations. Any other method of entry carried the risk of sending their financials into risk, by taking any wrong decision or by taking excessive risk.

9. Findings of the Study

Indian PSUs are divided into three categories, based upon their size i.e. Maharatna, Navratna and Miniratna. From the secondary data analysis, it was observed that all these Indian PSUs have preferred joint venture to the foreign territory and direct ownership was the second preferred route. Primary data analysis also indicated maximum respondents choosing JV as the preferred entry option and direct ownership as a distant second choice. Results obtained, through analysis of secondary data and primary data, confirmed the results. When various regions of the world were analyzed, with respect to entry modes, it was found that Asia was preferred for direct ownership and direct export. Middle East, Western Europe and Latin America and Caribbean were preferred for indirect export, licensing and franchising. Australia and North America were not preferred under any mode. Africa was preferred for joint venture.

10. Conclusion

Based on the analysis, carried out in this study, it is recommended, to use JV with established players, as the entry mode to international market, by the Indian PSUs. Global publications e.g. ease of doing business in a particular country and the Government of India publication e.g. Country Risk Index etc. need to be seen, before making a decision about entry strategy, in international market. Africa and Asia are the most preferred regions, for international business, for service sector-based Indian PSUs. In Africa, JV mode and in Asia, direct ownership or direct export modes, are preferred.

11. Scope for Future Research

This paper was based on limited data base and it needs to be studied further. Considering the facts and findings, a design of an extensive research can be developed, with a bigger data base, to make it even more useful. It is recommended to the policy makers that all the possible methods of international entry, should be analyzed, on the basis of cost and benefit analysis. Further, as recommended by most of the selected executives, the joint venture method is the most efficient method for Indian service sector-based PSUs, to enter into international markets.

12. Limitations of the Study

The study was confined to collected responses of 120 executives only. Hence the findings may not hold good for all the PSUs in general. The secondary data, collected for this study, may suffer from the limitations such as limited availability of data. The data were restricted to a recent period only. The primary data of the study were based upon the practical inputs of employees of Indian PSUs and it was not be possible to personally meet and interact with officers, located outside India. Also PSU employees did not feel comfortable in openly sharing their thoughts/ information/data, as they wanted to maintain confidentiality.

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Table-1: Entry Methods Adopted by the Firms

Entry methods in international markets by Indian service sector based PSUs	Frequency
Indirect Export	4
Direct Export	7
Licensing	2
Franchising	2
Joint Venture	110
Direct Ownership	11

Source: Primary Data using SPSS21

Table-2: Eigen Values and Canonical Correlation

Function	Eigen value	% of Variance	Cumulative %	Canonical Correlation
1	0.598	91.3	91.3	0.612
2	0.034	5.2	96.5	0.181
3	0.013	1.9	98.4	0.112
4	0.005	0.8	99.3	0.074
5	0.004	0.7	100.0	0.067
6	0.000	0.0	100.0	0.018

Source: Primary Data using SPSS21

Table-3: Wilk's Lambda

Test of Function(s)	Wilks' Lambda	Chi-square	df	Sig.
1 through 6	0.592	495.431	42	0.000
2 through 6	0.945	53.188	30	0.006
3 through 6	0.977	21.575	20	0.364
4 through 6	0.990	9.631	12	0.648
5 through 6	0.995	4.502	6	0.609
6	1.000	0.294	2	0.863

Source: Primary Data using SPSS21

Table-4: Standardized Canonical Discriminant Function Coefficients

Factor	Function					
	1	2	3	4	5	6
B2_Indirect_Export	-0.529	0.218	-0.152	0.589	-0.381	0.650
B2_Direct_Export	0.497	0.022	0.994	0.390	0.047	0.216
B2_Licencing	-0.255	0.505	-0.034	0.431	0.650	-0.858
B2_Franchising	-0.134	0.277	0.456	-1.063	-0.189	0.436
B2_Joint_Venture	0.428	-0.398	-0.214	0.092	0.784	0.522
B2_Ditrect_Ownership	0.332	0.688	-0.898	-0.167	-0.055	0.130

Source: Primary Data using SPSS21

Table-5: Functions at Group Centroids

Country	Function					
	1	2	3	4	5	6
Africa	1.535	-0.239	-0.040	-0.071	0.016	0.002
Middle East	-0.302	0.055	0.064	-0.012	0.094	0.035
Western Europe	-0.403	0.034	0.203	-0.021	-0.053	-0.002
Central and Eastern Europe	0.010	-0.238	0.073	0.133	-0.029	-0.006
Asia	1.004	0.388	-0.016	0.047	-0.023	-0.006
Australia	-0.640	-0.016	-0.149	-0.044	-0.120	0.015
North America	-0.610	-0.007	-0.158	0.069	0.075	-0.010
Latin America and the Caribbean	-0.596	0.019	0.024	-0.106	0.044	-0.029

Source: Primary Data using SPSS21

Table-6: Frequency Distribution of the Statement Measuring Institutional Factors

Factor	Strongly Disagree	Disagree	Neither disagree nor agree	Agree	Strongly agree
Indirect Export	3 (2.5 %)	2 (1.7 %)	32 (26.7 %)	77 (64.2 %)	6 (5 %)
Direct Export	1 (8 %)	4 (3.3 %)	31 (25.8 %)	46 (38.3 %)	36 (30 %)
Licensing	0 (0 %)	6 (5 %)	25 (20.8 %)	59 (49.2 %)	28 (23.3 %)
Franchising	3 (2.5 %)	7 (5.8 %)	17 (14.2 %)	50 (41.7 %)	43 (35.8 %)
Joint Venture	3 (2.5 %)	0 (0 %)	12 (10 %)	48 (40 %)	57 (47.5 %)
Direct Ownership	3 (2.5 %)	5(4.2 %)	24 (20 %)	52 (43.3 %)	36 (30 %)

Source: Primary Data using SPSS21

Table-7: Descriptive Statistics

Factor	Mean	Std. Deviation	Skewness	Kurtosis
Indirect Export	3.6500	0.81633	-2.287	8.348
Direct Export	3.9492	0.88528	-0.501	-0.113
Licensing	3.9237	0.80762	-0.454	-0.161
Franchising	4.0000	1.06904	-1.553	3.283
Joint Venture	4.2750	0.95233	-2.360	8.202
Direct Ownership	3.9167	1.03374	-1.455	3.424

Source: Primary Data using SPSS21

Table-8: Entry Methods Adopted by Maharatna PSUs

Sl. No	PSU	Sector	Indirect Export	Direct Export	Licensing	Franchising	Joint Venture	Direct ownership
1	Bharat Heavy Electricals Limited	Service					Yes	
2	NTPC Limited	Service					Yes	

Source: Primary Data using SPSS21

Table-9: Entry Methods Adopted by Navratna PSUs

S.No.	PSU	Sector	Indirect Export	Direct Export	Licensing	Franchising	Joint Venture	Direct ownership
1	Container Corporation of India Limited	Service					Yes	Yes
2	Engineers India Limited	Service					Yes	
3	Mahanagar Telephone Nigam Limited	Service					Yes	Yes
4	National Buildings Construction Corporation Limited	Service					Yes	
5	Power Finance Corporation Limited	Service			Yes			Yes
6	Power Grid Corporation of India Limited	Service					Yes	
7	Rural Electrification Corporation Limited	Service					Yes	Yes
8	Shipping Corporation of India Limited	Service					Yes	Yes

Source: Primary Data using SPSS21

Table-10: Entry Methods Adopted by Miniratna Category-I PSUs

S.No.	PSU	Sector	Indirect Export	Direct Export	Licensing	Franchising	Joint Venture	Direct ownership
1	Airports Authority of India	Service					Yes	
2	BalmerLawrie& Co. Limited	Service					Yes	
3	Bharat Sanchar Nigam Limited	Service						Yes
4	Bridge & Roof Company (India) Limited	Service					Yes	
5	Central Warehousing Corporation	Service						Yes
6	Dredging Corporation of India Limited	Service					Yes	
7	Housing & Urban Development Corporation Limited	Service						Yes
8	India Tourism Development Corporation Limited	Service					Yes	
9	Indian Railway Catering & Tourism Corporation Limited	Service						Yes
10	Indian Renewable Energy Development Agency Limited	Service					Yes	
11	India Trade Promotion Organisation	Service					Yes	Yes
12	IRCON International Limited	Service					Yes	
13	MMTC Limited	Service					Yes	
14	NHPC Limited	Service					Yes	
15	North Eastern Electric Power Corporation Limited	Service					Yes	
16	Pawan Hans Helicopters Limited	Service					Yes	
17	Projects & Development India Limited	Service						Yes
18	Railtel Corporation of India Limited	Service					Yes	
19	Rail Vikas Nigam Limited	Service					Yes	
20	RITES Limited	Service					Yes	
21	State Trading Corporation of India Limited	Service					Yes	
22	Telecommunications Consultants India Limited	Service					Yes	
23	WAPCOS Limited	Service		Yes			Yes	

Source: Primary Data using SPSS21

Table-11: Entry Methods Adopted by Miniratna Category-II PSUs

S.No.	PSU	Sector	Indirect Export	Direct Export	Licensing	Franchising	Joint Venture	Direct ownership
1	Broadcast Engineering Consultants (I) Limited	Service					Yes	
2	Central Mine Planning & Design Institute Limited	Service						Yes
3	Central Railside Warehouse Company Limited	Service					Yes	Yes
4	Ed.CIL (India) Limited	Service					Yes	
5	Engineering Projects (India) Limited	Service						Yes
6	HMT (International) Limited	Service					Yes	
7	HSCC (India) Limited	Service					Yes	
8	M E C O N Limited	Service					Yes	
9	Mineral Exploration Corporation Limited	Service					Yes	
10	National Film Development Corporation Limited	Service					Yes	
11	National Small Industries Corporation Limited	Service					Yes	
12	P E C Limited	Service						Yes

Source: Primary Data using SPSS21