

# Difference in Performance And Marketing Strategy Between Foreign-Owned Business And Domestic Businesses In India

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**Abstract:** The objective of this research study is to find out if performance and marketing strategy of firms vary with their ownership. This research is done in two phases. In the first phase, approximately 200 firms were chosen from among 8 major industries/categories in India. The first contextual factor chosen for determining significant differences in the pattern of business performance was ownership – i.e. a comparison between domestic firms and foreign owned firms. The primary parameters chosen for measuring performance was sales, profits, ROI etc. Statistical tools used were regression analysis, factor analysis, T-tests and decision tree analysis. The tests did not throw up any significant difference in performance between these two sets of firms – domestic and foreign owned.

In the second phase of this research, a questionnaire was designed and primary data pertaining to their strategy were collected from top company executives. Minor differences between the two sets of firms were observed on analysis of the data collated. However, overall, the strategic differences cannot be claimed to be significant.

**Keywords :** Performance, Indian Industry, Differences, Marketing Strategy, Foreign Owned firms, Domestic firms.

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## I. Introduction

The business, and hence marketing, environment has changed dramatically in the last few decades. In fact, it is becoming even more turbulent (Reilly, 2007). The business environment in India has become tremendously competitive in almost all industry segments (Krishnan, 2009). Competition has been growing in domestic and international markets and customers have become more demanding and assertive. The decades have seen rapid advances in technology, and government laws and policies have changed continuously to keep pace with the changing environmental factors. Cravens (2000) argued that marketing is a major stakeholder in various areas like new product development, customer management, and value/supply-chain management. Marketing strategy provides concepts and processes for gaining a competitive advantage by delivering superior value to the business's customers. In order to deal with these current challenges, the businesses must have more distinctive and purposeful marketing strategies and they should be effectively implemented (Cravens et al., 2000).

Literature also suggests that companies that compete effectively on time (speeding new products to market, manufacturing just in time, responding promptly to customer complaints) tend to be good at other business attributes. Some of those business attributes include assessment of customer requirements, product quality consistency, and ability to exploit emerging markets, enter new businesses, generate new ideas and incorporate them in innovations (Stalk et al., 1992). Intensive market knowledge (good understanding of customers, competitors and the market environment) is considered to be one of the key approaches to low cost production and efficiency improvement (Dodgson, 1989; Storey, 1994). According to Zairi (1994), the key elements of competitiveness include the "voice of the customer through current and future demands and the voice of the process through establishing the organizational capability to deliver customer wants". In the context of changing customer expectations, technological discontinuities, and increasing environmental uncertainties, business managers have a big challenge of making the right strategic choice and setting their strategic priorities in order to allocate their resources to different functions in an efficient manner for business success. This view is consistent with the views of Bettis and Hitt (1995), who argued that managers must develop new tools, new concepts, new organization and the new mindsets to cope with the turbulent and chaotic environments leading to discontinuous change. Failure to adopt appropriate strategies to deal with competition could lead to the deterioration of business performance (Mia, 1996).

### Research Objective

The research was conducted with particular reference to an emerging market like India. Different firms follow different strategies depending on contextual factors like the size of the firm, the industry/market they are

operating in, the number of years of operation in India, distinctive ownership patterns (domestic or foreign owned) and similar other factors. The research will try to ascertain whether ownership pattern has an impact on the differential performance of these firms. So, the research objectives may be summarized as:

- Ascertain whether there are differences in business performance of firms depending on their ownership pattern.

### **Literature Survey**

A ground-breaking five year study (Nohria et al. 2003) discusses about the must-have management practices that truly produce superior results. One of the fundamentals is to devise and maintain a clearly stated focused strategy. Equally important is to develop and maintain flawless operational execution. It's not what the firm executes but how.

Lot of studies have been carried out across the world on differences between foreign-owned firms and domestic firms. These studies have also included differences in strategic parameters between the two sets of firms.

In a study in USA (Howenstine 1996) it was found that foreign-owned US firms had rates of return which has been consistently below those of other US companies. In a study in Portugal (Mata, 2004), it was found that survival was determined by ownership advantages, size and growth strategies, the internal organization of firms, and by industry characteristics such as economies of scale, and industry entry and growth. Controlling for these characteristics, domestic and foreign firms do not exhibit different chances of survival.

In a similar study in Turkey (Gurbuz et al 2010), it was found that minority foreign-owned companies perform better than domestic ones in terms of operating profitability and perform better than both domestic and majority foreign-owned companies – in terms of return on assets. However, the study also found that majority foreign-owned companies perform worse than domestic companies. The overall results of this study indicated that an extent of foreign ownership improves firm financial performance in Turkey up to a certain level, beyond which additional ownership by the foreigners does not add to firm profitability.

In Czech Republic (Jurajda 2012), it was seen that the impact of foreign investors on domestic acquisitions is significantly positive in non-exporting manufacturing industries or those with low import penetration. However, the impact is small in both services and manufacturing industries competing on international markets.

In a similar study in Ghana (Acquaah 2005), it was found that foreign-domestic joint venture firms emphasize efficiency, cost reduction, and quality improvement more than wholly domestic-owned enterprises. There was no difference in emphasis placed on delivery speed and reliability, and flexibility in production processes by the two sets of firms. Spillover effect of increasing competition forces domestic companies also to emphasize on efficiency in operations and improvements in quality of products they manufacture.

So, there is no conclusive proof that business performance is influenced by ownership.

In a study based in China (Li Caroline et al, 2008) the authors find that foreign firms are more adapt at the dual strategy of high quality at low cost, compared to domestic Chinese firms. Chinese firms are unable to handle the conflicting objectives because of their limited managerial competencies and resources. Foreign firms have sufficient resources and competency to balance efficiency-based expansion and quality-based innovation. Foreign firms have displayed more dexterity in pursuing low-cost strategy compared to the domestic firms. This is in direct contrast to the general expectations and prediction of the authors. One reason for this, conjectures the authors, is that the requirements for cost leadership – namely, cumulative volume of production, capital-labour substitution, vast investments in scale facilities, and the procurement of inputs at lower costs than rivals – is beyond the reach of domestic companies. Again, contrary to expectations, domestic Chinese firms are not in any disadvantageous position in the pursuit of differentiation strategy. This may be attributed to their better understanding of local markets and customers.

In a dissertation (Petkova 2009), it was observed that there is no significant difference in the performance of foreign-acquired versus non-acquired firms in the short run in India; however, there is productivity improvement for foreign-acquired firms over a long time horizon. In China, firm performance is found to neither improve nor deteriorate after foreign buyouts. In another study (Barbosa 2005), it was found that in Portugal there are no considerable differences between domestic owned and foreign owned firms with regard to profitability, while in Greece, the average gross profitability of domestic firms is significantly lower than the average gross profitability of foreign owned firms. Ownership ties do not make a significant difference with respect to performance of firms in Portugal. Results are similar for firms in Greece. Only when firms in the upper quartiles of gross profits are compared, MNCs are found to significantly perform better than domestic firms. MNCs have to compensate for their liability of foreignness that in spite of their technological advantages they cannot persistently outperform domestic rivals. In a study of the Indian pharmaceutical industry (Chibber & Mazumdar, 1997), no difference was found between domestic-owned and foreign-owned firms. The firms were characterized by managerial underperformance and scale efficiencies. Pre-reform, overall technical efficiency

was different in case of private domestic and public sector firms. Difference was significant between private foreign and public sector firms. Difference was not significant in case of private domestic and private foreign firms. Post-reform, there are no significant differences.

### **Research Design**

So the first step was to collate secondary industry data on performance of firms and industries for two distinct sets of firms – foreign-owned and domestic. To this end, secondary data has been analyzed on a large number of firms belonging to several different industries operating in India. The industries were chosen (judgment sampling) on the basis of overall sales turnover (among the top twenty industries in India and individual firm turnover of not less than Rupees 500 crores), presence of foreign owned firms in the sector, years of operation in India (not less than ten years), among the top twenty industries in India in terms of market capitalization, and a judgment on the importance of marketing in the industry. Performances are measured on the basis of parameters like sales or sales growth, profits, assets, ROCE, and various other financial ratios. Statistical tests like tests for difference between two population means, and regression analysis has been used for ascertaining the differences in performance parameters.

An analysis of the growth trends of primarily sales, profits, and profitability was done to ascertain whether there is the existence of a pattern in terms of their distinct performance (for example, whether foreign owned firms are more successful in the fast moving consumer goods category, whereas the difference is not so pronounced in the consumer durable segment etc.). Other variables like profit as a percentage of sales, inventory turnover, ROCE, etc. was also analyzed in some cases. Absolute performance figures were also used where growth trends did not show marked differences.

#### ***Study 1: secondary data analysis***

Secondary data has been obtained from published company results and other sources. The firms are chosen from eight of the twenty largest industries in India. The criteria used for choosing these industries are: size in terms of sales revenue (minimum in 2004), presence of foreign owned firms, profits (minimum in 2004), years of operation in India, and market capitalization. Industries chosen are: personal care products, pharmaceuticals, food products, software, automobiles, telecom, domestic appliances and private banks. Data was collected for 200 companies, based on judgment sampling, in these eight industries and for the years 2004 – 2014 (in some cases, more). Performance of these firms was measured on ten parameters. They are: absolute as well as percentage sales growth, profit, profit growth, growth in liabilities, growth in assets, improvement in inventory, ROCE, and some ratios like ROA.

#### ***Study 2: primary data analysis***

The second step was to ascertain whether there are distinct strategies being conceptualized and implemented by different types of firms, depending on their ownership pattern. The idea is to understand, for example, whether domestic owned firms have different sets of strategies compared to foreign owned firms. Similar data analysis was done for other contextual factors. In some cases, combination of contextual factors such as ownership by domicile and size of the firm was also analyzed. As has been discussed earlier, data was obtained from responses of top executives to the detailed questionnaire administered to them.

### **Analysis and Interpretation**

#### ***First phase: secondary data***

As was enumerated in the research design stage, collection of secondary data was made regarding performance of companies in the last ten years. Firm wise data was collated and tabulated.

These data has been classified to belong to their respective industries, like Personal Care Products category and as Large MNCs / Domestic Companies. Similar collations were done across product categories for approximately 200 companies. These data were represented graphically first in order to ascertain whether differences exist between companies with different contextual factors. For example, it was attempted to ascertain whether there has been a difference in performance between domestic companies and foreign owned companies in the **personal care products** category, in terms of performance measures like sales and sales growth, profitability, etc. For the sake of illustration, industries that are being presented here are on the basis of higher marketing activities taking place in those industries. According to Moorman (2014), B2C Product companies have the largest marketing budgets as a percent of total budgets as well as revenues. These industries also display higher turbulence and presence of higher overall activities. For some or the other reason, these industries display higher profile and are also in the 'lime light' of considerable consumer attention. The industries chosen are personal care products, food industry, and pharmaceuticals.

There is a dominance of FOBs over DOBs in the personal care products category. Sales revenue has grown consistently over the last decade for both types of firms and the gap in actual revenue has only widened in this period. In the food industry, both DOBs (domestic businesses) and FOBs (Foreign-owned businesses) have been performing similarly and that there is hardly any difference between the two types of firms. Sales revenue has been growing consistently over the period of the last decade. It can be seen clearly that the DOBs have grown much faster than the FOBs in the pharmaceutical industry. At current level, DOBs are dominating the industry whereas the FOBs have hardly grown in the last decade. As analyzed earlier, in the personal care products category, there is complete domination of foreign owned companies over domestic companies, in terms of sales and profits (absolute numbers). However, when absolute growth or growth percentages are considered, there seems to be little difference between the performance of foreign owned companies and domestic companies in the last decade or so. The differences, if any, seem to be completely random. The scenario does not change much in the food category. Sales of both the categories are pretty close to each other, but in terms of profits, the foreign owned companies are much ahead of the combined profits of domestic companies (again, absolute figures). When absolute growth and growth percentages are calculated, there does not seem to be much distinction between foreign owned and domestic companies. However, in the profitability stakes, FOBs were ahead of DOBs almost throughout the last decade. In some industries, DOBs seem to be closing the gap. There is an absence of discussions in literature about the possible reason of better profitability of MNCs in the Indian food industry. In a study of the Indian Pharmaceutical Industry (Kaur et al, 2010) it was found that there is no difference in performance between domestic firms and foreign owned firms. Figure 1 in Annexure depicts the performance parameters of these industries through graphs.

In the pharmaceutical industry, domestic owned companies seem to be stealing a march over foreign owned companies, both in terms of sales as well profits. Foreign owned companies have maintained a steady and virtually constant volume of sales and profits, whereas the domestic companies are growing at a pretty brisk pace. However, the profit/sales ratio of both categories of pharmaceuticals firms, remain quite close to each other. Business Wire (New York) in its report (6<sup>th</sup> January, 2006:1) on Indian pharmaceutical industry observed that the pharmaceutical industry in India is characterized by numerous governmental regulations and policy changes, stifling price controls, rigorous controls on formulations, and an absence of international patent protection.

These results show that no pattern seems to be emerging in the performances of domestic and foreign owned firms in India in the last decade or so. Performances seem to be dictated more by industry specific variables, than by contextual factors (or, ownership pattern) of the firms. In order to confirm this kind of a conclusion, t-test on difference between means of FOBs and DOBs was performed on the data collated. The results are presented in Table 1 in Annexure.

It is obvious from the t-test results that there is statistically significant difference in characteristics between foreign owned and domestic companies – in absolute numbers. This result holds good for all other industries. The t-values have been worked out partly by using SPSS and partly manually through the use of equations. Sales and profits have been discussed earlier. What is striking is that FOBs have consistently higher ROCE than DOBs across the industries.

In order to confirm the statistical results further, attempt was made to ascertain whether there are any correlation between the two sets of data (that of FOB and DOB). In order to account for the effect of economic conditions, averages were subtracted from the actual values and then correlation was computed. For example, in the personal care products category, the correlation between FOB and DOB firms in case of sales was 0.942 (significance of 0.000). The corresponding values for profit were found to be 0.791 (significance of 0.000). In case of profit/sales ratio, the correlation was -0.652 (significance of 0.041). From the figures, it can be said that probably the differences between the two sets of firms are related to industry specific factors including the history of development of these industries and government policies. Ownership pattern of firms in a given industry does not seem to play a role in the performances of these firms. However, one sure conclusion may be arrived at - and that is, that there is no difference between the two sets of firms as far as growth percentages are concerned, in the last decade in India.

### ***Second phase: questionnaire***

In the second phase of the study a questionnaire was administered to top executives of firms. The firms are all members of Confederation of Indian Industry (CII), and they were all reached through e-mail. The covering note sent through e-mails to these top executives was given the link to the website hosting the questionnaire (Survey Monkey). This questionnaire is lengthy and discusses at length the various facets of strategy (and not confined to marketing). Total number of responses received was 105, from the approximately 4500 firms/executives targeted.

In the ensuing analysis, focus was more on the following areas: (1) Areas influenced by strategy (Q no. 31); (2) Indirect impact of strategy implementation (Q no. 33); (3) Impact of marketing strategy on business success (Q no. 34); (4) Success factors (Q no. 35); (5) Strategic competitive goals (Q no. 36);

1. *Areas influenced by strategy (Q No. 31)*: The major objective now is to ascertain whether FOBs and DOBs have distinct strategies. Statistical tools used are regression analysis and factor analysis. T-test was performed to ascertain the differences between FOB and DOB, and Decision Tree Analysis was performed to confirm the results. Significant statistical difference was observed only in case of the factor “Decision on marketing expenditures”. DOBs have a mean score of 3.3857 compared to 2.9714 of FOBs. T-value is 2.368 with significance level of 0.020. There is no significant difference between FOB and DOB in any other factor.

Following are the results of regression analysis (backward method) on the total sample (Independent variable of Ownership, and dependent variable of business benchmarks): The factors remaining after the ninth iteration are:

focusing on strong markets, decision on marketing expenditures, product strategies/introduction of new products, and provision of R & D budget.

However, even after the ninth iteration the R-square value is only 0.184.

From factor analysis, the factors identified in FOB and DOB is quite similar. Both the segments are focusing on marketing expenditures and promotion budget as well as strategy. Entering new business areas and introduction of new products is also a priority. So, there does not seem to be much of a difference in the strategies of these two segments. The only major difference is that DOBs concentrate on their sales force, while the FOBs do not. This is understandable as DOBs have a better understanding of the sales and distribution system in India and would thus try to leverage their competitive advantage through better deployment of their sales force. Since the sales and distribution aspects in India is quite complicated, FOBs would naturally like to leverage their product and marketing strength instead of focusing on sales. One another reason would be that most FOBs in India are comparatively new to the environment, whereas DOBs has the natural advantage of knowing their terrain much better. Another significant difference between the two sets of firms is in quality. FOBs place significant importance on quality, while DOBs do not seem to place much importance to this factor.

In the decision tree analysis (Fig. 2), 90% of the firms scored above 1.5 on a scale of 1 – 5 (where 1 is the lowest and 5 is the highest) in ‘provision of R & D budget’. Among these firms, 80% of the total 105 firms scored above 2.5 in ‘promotion strategies and promotion budget’. Again, among these firms, 43% scored below 3.5 and 37% scored above 3.5 in ‘decision on marketing expenditures’. Out of these 43% firms, 17% scored below 3.5 in ‘entering foreign markets’, while 26% scored above 3.5. Of the 37% firms which scored above 3.5, 16% scored below 3.5 and 21% scored above 3.5 in ‘number of products’. However, in all these nodal separations, there is a combination of FOB & DOB. No significant difference between FOB and DOB was observed. The normalized importance of areas influenced by strategy is shown in Figure 3.

2. *Indirect impact of strategy implementation (Q no. 33)*: Factors considered were improvement in quality, reduction in repair, reduction in defects, average mending manpower wage bill, reduction in waste, reduction in defect times, reduction in inventory, reduction in inventory carrying costs, and increased efficiency in production. T-test performed did not show any significant difference between FOB and DOB in any factor of indirect impact of strategy implementation. No significant difference is noticed between FOB and DOB from the outputs of factor analysis as well. Decision tree analysis show that 90% of the firms scored below 4.5 in ‘reduction in defect times’. Among these firms, only 38% were able to score above 3.5 in ‘reduction in inventory carrying costs’.

3. *Impact of marketing strategy on business success (Q no. 34)*: T-test performed displayed some difference between FOB and DOB in the following two factors: “aligned with market drivers” and “competitive advantage”. There are no differences between the two groups in any of the other factors. There does not seem to be much of a difference between FOB and DOB based on the output of the Factor Analysis as well.

4. *Success factors relevant for the success of marketing strategy (Q no. 35)*: The question was divided into two parts: “Relevant” and ‘Practiced’. The response required was either a ‘yes’ or a ‘no’. T-test shows that in case of relevance, there is no significant difference between the responses of FOB and DOB. Almost all respondents, irrespective of FOB or DOB, think that the factors are more or less relevant. In case of practiced, there are significant differences in the following factors: “company has the resources to stay competitive in the market” and “product/service has sufficient customer development support”. In case of the first factor, FOB has a mean value of 1.0857, while DOB has a mean value of 1.2857. T-value is -2.757 with a significance of .007. In case of the second factor, FOB has a mean value of 1.1429, while DOB has a mean value of 1.3286. T-value is -2.252 with a significance of .027. From this we may conclude that FOBs has more resources and has more customer development support. From factor analysis of success factors it was found that the important factors

are that the product/service offered must be able to meet the current needs and wants of the customers and the firm must have adequate resources to build and support its products/services so as to meet the expectations of the customers fully. Only then will the firm be able to generate enough demand for its products/services in the market place. In decision tree analysis, it was observed that almost 78% of the firms scored below 1.0 in 'company has the resources to stay competitive in the market'.

5. *Components of strategic competitive goals (Q No. 36)*: T-test performed show that there is significant difference between FOB and DOB only in case of the following single factor: "Have superior customer service (after-sales and/or technical support)". The mean value of FOB is 4.5429 and that of DOB is 4.1714. T-value of the factor is 2.214 with a significance of .030. There is no significant difference between FOB and DOB in any other factor of strategic competitive goals. Results of factor analysis demonstrate that in the various questions asked to the respondents, every factor has been broken down into various sub parts or components, but there seems to be a pattern developing in the minds of all respondents irrespective of the category they belong to. A bird's eye view of the questions and their responses, for example, shows that focus of all firms are on quality, product, and customers (including awareness). It is further observed that the components and the concentration of the firms on the components are different based on the kind of ownership. While this conclusion may be arrived at, it is also true that the differences are not so striking.

Overall, the objectives and methods of running organizations seem to have a lot of similarities in the Indian context, irrespective of the contextual factors (in this case, type of ownership). The overall environment seems to be having more influence on choice of strategy of the firm, than its own characteristics like whether it is a domestic firm or is a foreign owned business. In decision tree analysis, it was found that almost 70% of the firms scored above 3.5 in 'offer greater customization'. Out of these firms, almost 30% scored below 4.5 in 'have superior customer service'. Only 12% of these firms scored above 3.5 in 'have lower selling prices'.

## II. Conclusion

A few observations and interpretations based primarily on the factor analysis done on the different groups of responses (based on different questions asked) are: No differences were noticed in case of "indirect impact of strategy implementation". The common areas are improvement in quality, lean production, and inventory.

"Areas Influenced by Strategy". In other words, means the major corporate decisions that are taken based on the strategy of the firm. For FOB, the major difference is their focus on quality; whereas, for DOB, the major focus is on sales. This is a major difference in the focus or broad objectives of these two sets of firms. Otherwise, there are commonalities in marketing and promotion strategy, diversification decisions as well as product strategies.

In "strategic competitive goals", FOB's focus is on product conformance to specifications. This is understandable as FOBs will get their products, which has been tested in other markets, from their parent organizations. Their concentration will be to maintain quality standards. As has been seen earlier, DOBs focus on sales as we know that domestic organizations are more focused on immediate results rather than long term goals. DOBs are also focusing on improving quality and design of products. Commonalities are noticed in service standards and delivery parameters, marketing communication, customization and lower selling prices. All these fit in perfectly with applicable marketing concepts in emerging markets like India.

Lastly, we arrive at "impact of marketing strategy on business success". In case of FOBs, impact is more on competition, market drivers & communication, and critical success factors. For DOBs, the areas are stakeholder objectives, corporate governance, and working condition. This aptly suggests that FOB's objectives are more inside-out, while DOBs are more inwardly looking. The areas of interest for DOBs are to, naturally, address their inside issues – which has been already solved for the FOBs by their parent organizations. So, FOBs look for more impact on their market oriented goals, as well as the critical factors which will bring them business success in a foreign market condition.

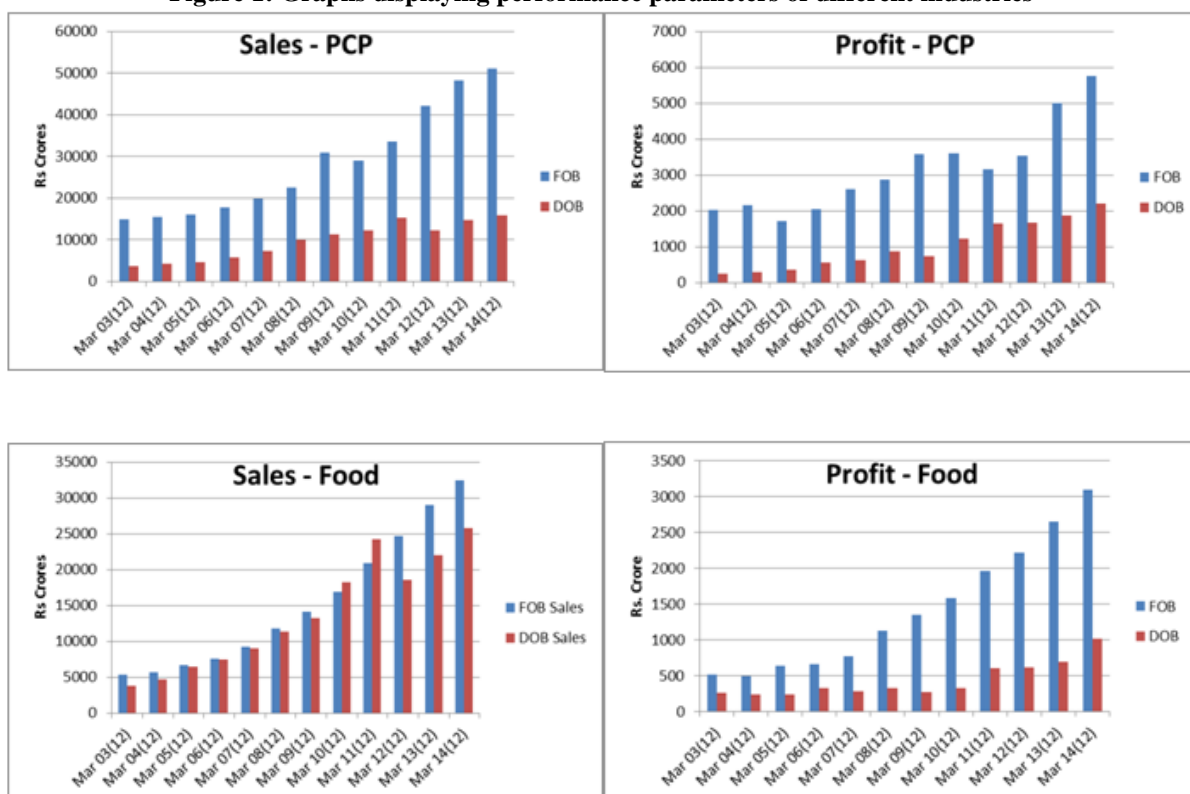
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Appendix

**Figure 1: Graphs displaying performance parameters of different industries**



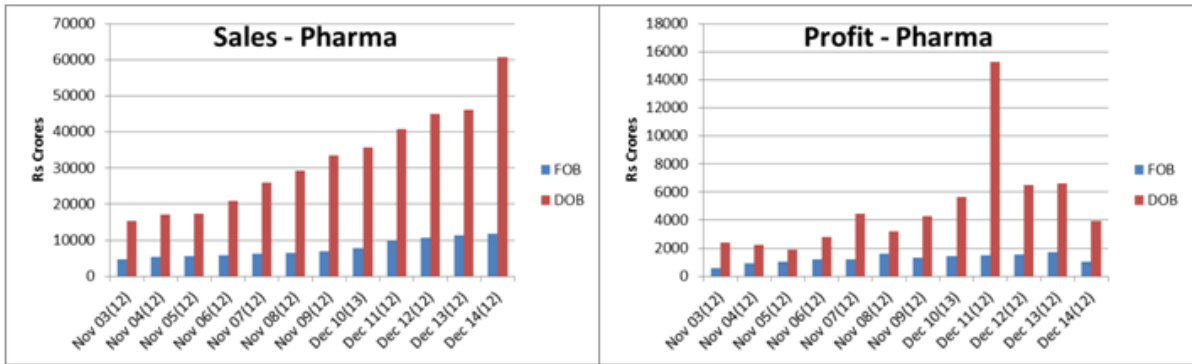
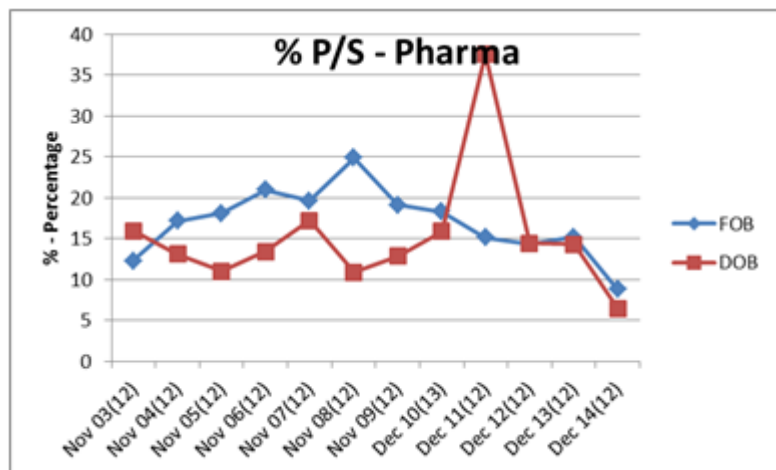
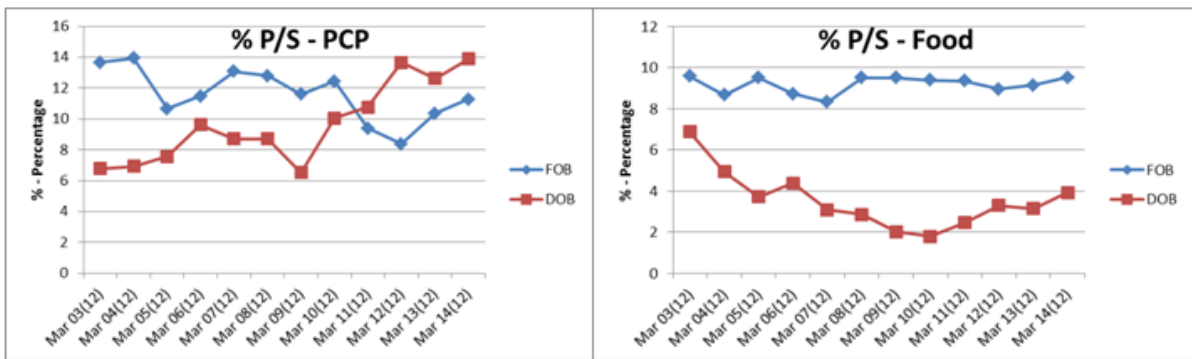


Figure 1 continued



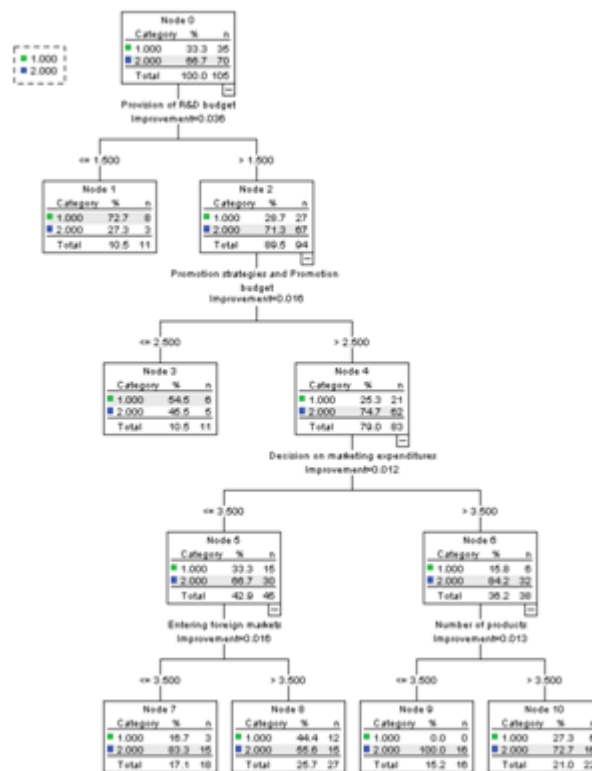


**Table 1:** T-Values and means of the three industries on several parameters (in Rs. crores)

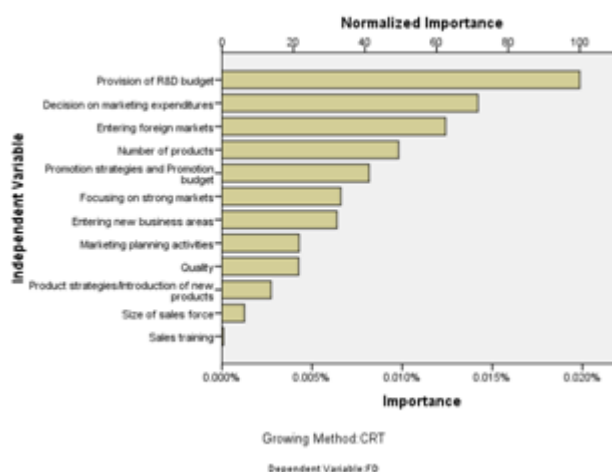
		Sales	Profit	Total Liabilities	Current Liabilities	Current Assets	Inventory	ROCE
Personal Care Products FOB(N)=9 DOB(N)=10	T - Value	5.207	6.736	1.808	8.319	3.349	5.067	2.684
	FOB (Mean)	23672.60	2732.44	3977.40	7238.94	40.49	11.84	62.61
	DOB (Mean)	8697.18	826.91	5683.10	1728.73	1198.10	8.94	45.16
Pharmaceuticals FOB(N)=11 DOB(N)=18	T - Value	6.254	2.9	5.098	4.713	5.976	8.011	7.423
	FOB (Mean)	6924.38	1230.87	5222.57	2195.98	3186.52	7.54	35.23
	DOB (Mean)	28063.93	4876.75	35835.7	8353.59	13229.2	6.34	18.84
Food Product FOB(N)=8 DOB(N)=13	T - Value	0.008	3.879	2.682	1.132	8.757	5.085	16.079
	FOB (Mean)	10924.89	1009.29	3054.76	2484.35	310.38	17.23	42.86
	DOB (Mean)	10949.06	317.69	4931.38	2096.34	2008.69	23.77	13.31

Note: Absolute values of the t-statistics are being reported

**Figure 2: Decision tree analysis**



**Figure 3: Normalized importance of areas influenced by strategy (Q No 31)**



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