

*Original Article*

# Directions of Transformation within the Indian Economic Space Since the Economic Liberalization of the 1990s: Focusing on the Locational Behaviours of Large Enterprises

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This paper examines the nationwide arrangement of management and sales divisions in large businesses which rapidly deployed during the economic development which started with the economic liberalization in India in 1991. The findings are as follows: Mumbai has the highest number of headquarters of large enterprises. However, the proportion of large companies in Mumbai is substantially lower than that of Tokyo in Japan. Nationwide companies in India generally follow a conventional division of national space into four regions (east, west, south, and north) and locate regional offices in Delhi, Mumbai, Kolkata, and Chennai or Bangalore (Bengalure), respectively. After that, state offices are set up in each state. Under the state branches, smaller sales establishments are located by districts. Due to the hierarchically located management and sales offices of large companies, hierarchical differentiation among cities will be strengthened across the country.

**Keywords:** Headquarters, Branch office, Large company, Hierarchical network, India

## Introduction

Considering that the agricultural sector and small businesses still play an important role in India's economic development, it is necessary to examine their locations and their locational factors to understand the configuration of the Indian economic space (Okahashi, 2015). On the other hand, the ratio of foreign direct investment (FDI) stock in India to the Indian GDP reached 13.6% in 2015 (United Nations Conference on Trade and Development (UNCTAD), 2016). In 1995, the ratio was only 1.5%. This dramatic increase in FDI was very surprising (Hino, 2005). Furthermore, in suburban areas of Indian megacities, i.e. those that have populations over ten million including

suburban areas, agglomeration districts of offices can be found (Hino & Une 2015; Nakajima, 2006). Many of these offices are occupied by large foreign and domestic companies in various industries or business services.

The latter phenomena suggest that the locational behaviours of large enterprises, including foreign companies, are thought to have become a driving force behind the transformation of the Indian economic space following the economic liberalization which started in 1991. Based on this recognition, the author has examined the location of headquarters and branch offices of large enterprises and the spatial pattern of foreign direct investment in India to date.

The purpose of this article is to highlight the directions of transformation of the Indian economic spatial structure mainly based on the findings and interpretation of the author's previous studies (Hino, 2004, 2005, 2007).

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### Concentration of headquarters

Figure 1 shows the distribution of the headquarters of 1,000 major companies including subsidiary companies of foreign enterprises in India in 2011. Thirty three percent were headquartered in Mumbai, and 18 % in Delhi (Hino & Une, 2015) while 6–7 % were headquartered in Chennai, Kolkata, Hyderabad, and Bangalore (Bengalure). Even Ahmedabad and Pune each had a 3–4 % share. These results included those headquarters located in suburban areas. For example, the number of headquarters in Delhi included 35 in Gurgaon, 22 in Noida, five in Faridabad and one in Ghaziabad.

The aforementioned proportions of these eight megacities accounted for 85 % of the 1,000 major companies. From this figure, it can be said that big enterprises in India are highly concentrated into these eight megacities. The concentration of big companies in Mumbai is especially prominent. This is why Mumbai is called India's commercial capital.

Comparing the aforementioned proportions to those of 2002, it can be confirmed that the total proportion of these eight megacities increased by 7 %,

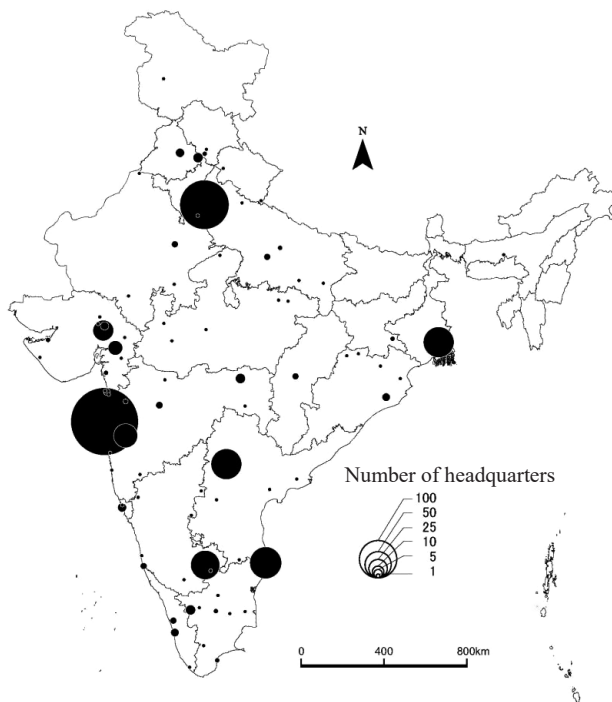


Figure 1 Distribution of headquarters of top 1,000 companies  
Data source: Delhi Information Bureau (2011)

mainly due to the increase of Mumbai's proportion: In 2002 it was 29 %. However, this does not mean that much relocation of headquarters to Mumbai occurred between 2002 and 2011. Rather, in Mumbai, it may be that comparatively many new big enterprises appeared. Moreover, only Kolkata decreased its share of headquarters from 6 % to 5 % during that period.

On the other hand, Mumbai's 33 % share in 2011 was substantially lower compared to that of Tokyo in Japan, which was around 48 % in 2013. In general, in the case of federal states such as the U.S.A. and Germany, the concentration ratio of headquarters of big companies in the most populous city is low. India is classified as this type of country. Moreover, there are large cultural differences between states in India, for example in the languages they use. Therefore, it seems to be difficult for large companies to move headquarters from home cities to other big cities compared to the case of Japan, where many companies that had been headquartered in Osaka relocated their head offices to Tokyo during the post-war economic growth.

Management functions of big companies need the support of various producer services, such as financial services, consultancies and advertising for their operations. Therefore, the accumulation of big companies' headquarters in megacities brings about a simultaneous agglomeration of the necessary producer services. Furthermore, the development of producer services in big cities gives the advantages of external economies to headquarters of big companies located nearby and also plays the role of incubating new companies. Through these mutually beneficial relations, the accumulation of headquarters of big companies in megacities can also be said to promote their rapid growth in India.

Figure 2 shows the distribution of affiliated FDI companies in India by city from 1992 to 2002 (Hino, 2005). The spatial pattern was very similar to that of the headquarters of large companies shown in Figure 1. Indeed the share for the same eight megacities was 81 %, which was almost the same as that for headquarters of big companies (85 %). However, it was not Mumbai but Delhi that had the largest number of affiliated FDI companies at 20 % and 29 % respectively. This suggests an elevation in Delhi's status in the economic sector.

The third ranked city in the number of affiliated FDI companies was Chennai with 10 %. There was

however almost no difference between Chennai and Bangalore, which had 9%. On the other hand, Kolkata had only 3.5% FDI, which was smaller than that of Hyderabad at 5%. Although the decline of Kolkata's economic status is widely known domestically, the situation is the same for FDI.

Questionnaire surveys were administered by 27 Japanese and ten American companies entering India in order to examine the factors influencing the location of headquarters (Hino, 2005, Table 1). According to the survey, "[c]onvenience of contacts with industry groups and trading companies" and "[a]ccessibility to markets" were recognized as the most important factors when foreign companies chose the location of their headquarters in India. After these, three other factors were regarded as important in choosing the location of the head office: "Quality of infrastructure such as transportation and communication", "[s]ecuring administrative and professional talents" and "[g]ood condition of environment".

On the other hand, "[c]onvenience of contact with the administrative offices of central government" was not so important in deciding their location. In Japan, this factor was a major reason why big companies

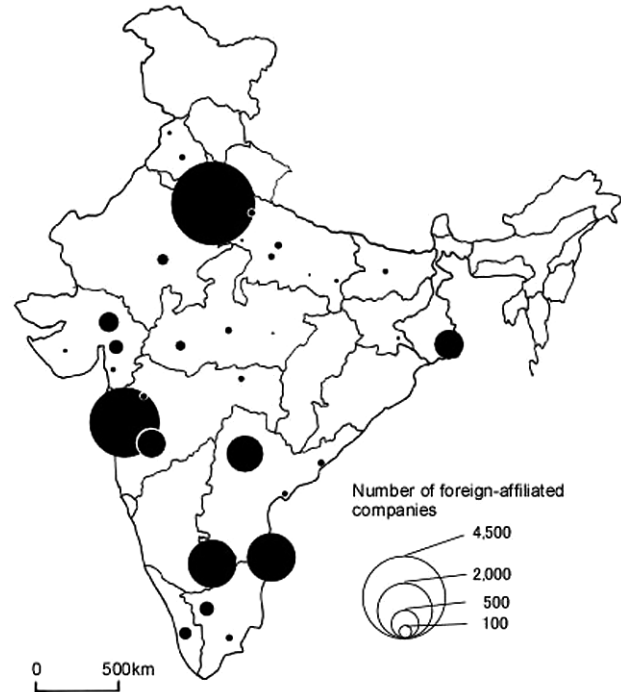


Figure 2 Distribution of foreign direct investment (1992–2002)  
Data source: Indian Investment Centre (1993–2003)

Table 1 Factors influencing headquarters' location among Japanese and American companies

Location factor	Number of respondents					Total
	First	Second	Third	Fourth	Fifth	
Convenience of contact with the administrative offices of central government	4	1	3	0	4	12
Convenience of contacts with industry groups and trading companies	18	6	3	1	1	29
Accessibility to markets	7	10	4	0	2	23
Quality of infrastructure such as transportation and communication	1	4	6	10	6	27
Accessibility to related companies	1	0	1	1	4	7
Agglomeration and quality of supporting services	0	4	3	5	4	16
Convenience of international trade	0	0	0	1	0	1
Securing administrative and professional talents	4	6	5	8	3	26
Availability of office	1	2	3	1	2	9
Securing administrative and professional talents	1	2	9	7	6	25
Government incentives	0	2	0	1	1	4

Data source: Hino (2005)

located their headquarters in Tokyo. This seems to reflect an important difference in the relationship between business and national government between the unitary state and the federal state.

Moreover, in the above questionnaire survey, respondents (general managers) were asked to rank the six largest metropolises on the location factors shown. As a result, Delhi and Mumbai were evaluated as the top or second city by a majority of respondents. As far as Japanese affiliated companies were concerned, the evaluation of Delhi was higher than for Mumbai. In fact, most Japanese affiliated companies have located in Delhi's metropolitan areas. Bangalore and Chennai were ranked as the third or fourth best cities. It suggested that Bangalore was relatively favored by foreign companies, while Kolkata was ranked lowest on every criterion by most respondents. According to this result, it could be forecast that the status of Kolkata in the hierarchy of Indian main cities would decrease in the future because it was difficult to raise the above evaluation in the short-term.

### Forming hierarchical networks

Many big companies in India operate on a national scale. To systematize business activities, they divide and configure the national territory. The configuration patterns of the national territory by companies have similarities beyond the differences of their business types (Hino, 1996). This is because the national territory is not segmented and reconfigured irrespective of the system of administrative regions within the country. Statistical data necessary in business activities are collected according to the division of existing administrative regions. If people did not recognize the same territorial boundaries, confusion would accompany their communications necessary to coordinate activities. In this respect, the system of administrative regions is the only one that divides the national space most distinctly and hierarchically. Therefore, spatial configurations by companies are related to the administrative regions' hierarchical system.

In India's case, we can assume that state divisions are established as area divisions, which companies use when systematizing their business activities on a national scale. As Hino (2004) writes, there is a conventional division of national space into four regions: east, west, south, and north. These can be

traced back to the formation of the national land and the deployment of base cities established during the British colonial era: Delhi and North India, Mumbai and West India, Kolkata and East India, and Chennai and South India. The British High Commission Offices (which correspond to embassies and general consulates) are deployed corresponding to the above regional division. The Japanese embassy and general consulates are situated in the same fashion.

Figure 3 shows the sales bases of motorcycle manufacturer H (headquartered in Delhi) and its assigned territories as of 2002 (Hino, 2004). This company was a joint venture between a Japanese auto manufacturer and a local motorcycle manufacturer. It held the largest share of sales within the country at that time. As Figure 3 shows, the company established its sales network on a national scale over a short period. A number of dealers were organized under the sales offices, and sold the company's products throughout the country. If we look at the spatial organization of the sales bases, we can see that the country was divided into the above four conventional regions from 1985 to 1987, and regional offices were deployed in each region (i.e. Delhi, Pune, Kolkata, and Bangalore). Company H established its western regional base in Pune, which was a rare choice. In general, Mumbai

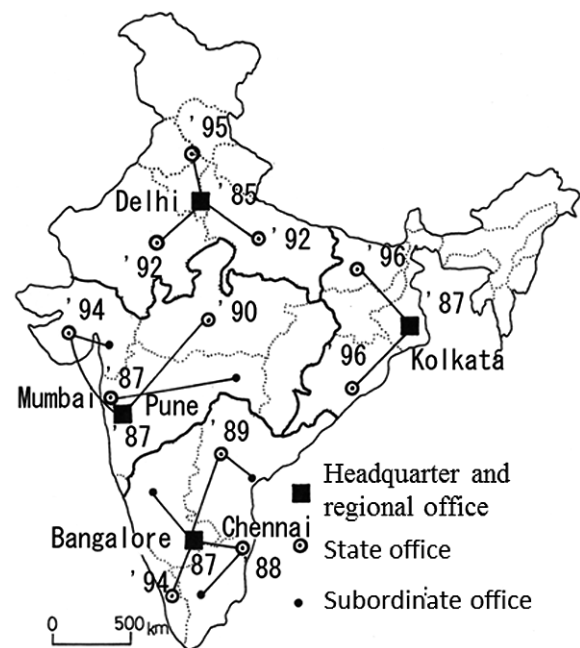


Figure 3 Distribution of selling bases of company H  
Data source: Hino (2004)

was chosen as the location for regional offices in the western region. In addition, although Bangalore was chosen as the site of the regional office in the case of company H, Chennai also generally became a candidate for the location of regional offices in the southern region. After locating such regional offices, state offices were set up in each state. Moreover, in states with a large market size, such as Maharashtra, Gujarat, Tamil Nadu, and Karnataka, states were segmented into multiple areas to locate subordinate branches.

Figure 4 shows the sales network of company H within the state of Karnataka (Hino, 2004). The branches of the manufacturer were located in Bangalore and Hubli-Dharwar, and the state was divided broadly into the south and north. Under the state branches, marketing staff were located in large districts. Many dealers dispersed within the state were supervised by the branch offices and marketing personnel.

From the above explanation, it can be said that a hierarchical city network corresponding to the system of administrative regions was being formed through the formation of a nationwide sales network of large enterprises.



**Figure 4** Distribution of selling bases of company H in Karnataka  
Data source: Hino (2004)

## Concluding remarks

If we assume that large companies will have more economic power in the future in India, Mumbai's status as the country's center can be thought to be maintained by accumulating the headquarters of large companies. However, it is difficult to forecast that Mumbai could get a monopoly on the concentration. Delhi is tending to enhance its status as an economic power due to its relatively large foreign direct investment. Therefore, a bipolar system of national spatial structure is anticipated.

Other megacities are expected to continue to provide certain services nationwide through the accumulation of a certain number of large companies. Moreover, they have the potential to increase their status in the Indian urban system through global networks of multinational companies. However, they will be characterized as regional centers by their agglomeration of regional offices. In addition, the competition between Chennai, Bangalore and Hyderabad for the status as the regional center in the south will continue due to the differences in companies' selection criteria for their choice of headquarters' location.

Moreover, hierarchical differentiation between cities will be strengthened by the hierarchical location of branch offices on a nationwide scale. In the process, there is the possibility that sub-regional centers will appear as a new level in the hierarchy of cities in some states, for example Hubli-Dharwar in Karnataka state.

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