Foreign Direct Investment Decision-Making Motives for Multinational Enterprises: A Study of Eight Firms in an Emerging Economy

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Abstract

Foreign direct investment (FDI) is a key element of the global economy, which is an engine of employment, technological progress, productivity improvements, and, ultimately, economic growth, especially within emerging countries. As an emerging country, India has attracted the attention of multinational enterprises in recent years. This study aims to explore a variety of foreign direct investment decision-making motives of multinational enterprises which have entered the market in India. Qualitative research methodology was incorporated in this study to investigate different FDI decision-making motives by means of interviews with the representatives of eight companies who hold enterprises in India in which the study findings regarding the various entry modes, location choices, strategies, opportunities and challenges faced by multinational entities in the Indian market were explored.

Keywords: Foreign Direct Investment, India, Strategy, Qualitative Research, Multinational Enterprises.

1. Introduction

In the last couple of decades, attitudes toward inward foreign direct investment (FDI) have changed substantially, with most countries liberalizing their policies to attract investments from foreign multinational enterprises (MNEs). Countries anticipate that foreign MNEs will increase employment, exports, or tax revenue, or that some of the knowledge exhibited by the foreign companies may spill over into the host country's domestic firms (Blomström, Kokko, & Mucchielli, 2003; Hill & Revusgilquejo. 2011; Luo & Tung, 2007). As a result, governments in emerging countries have decreased various entry barriers while opening new sectors to foreign investment.

Among these emerging countries is India, which has been a source of attraction for many investors; it had followed a closed-door policy for foreign investors by imposing regulations and barriers for trade until an economic reform was introduced in 1991 that focused mainly upon liberalization, privatization, and globalization (LPG) policy, which opened the Indian economy to both domestic and foreign investors. Many multinational enterprises (MNEs) entered the Indian market when the entry barriers, high import and custom duties were lowered. Many sectors of the Indian industry were opened to foreign investment, except for those relating to defense, atomic energy, railways, and cigarettes. The opening of the Indian economy has contributed immensely to the development of the country; currently investors view it as an attractive destination for their investments. India has attracted FDI equity inflows of USD 30,004 million as of September 2020, as per data released by the Department for Industrial Promotion and Policy, Government of India (http://dipp.nic.in).

The FDI impact upon the Indian economy, the FDI decision-making processes have been studied by numerous researchers (Kukovetz. 2002; Malhotra, 2014; Sahgal, 2011; Bajpai & Sachs, 2000), revealing that there is a dearth of research examining the FDI decision-making motives of foreign MNEs. Also lacking are qualitative studies which explore FDI decision-making motives from the point of view of MNEs' representatives. Thus, the purpose of this study is to investigate the India-specific characteristics which have influenced the FDI decision-making process of the incorporated eight MNEs.

2. Literature Review

2.1 Drivers of Internationalization by MNEs

Making an investment decision outside one's national boundaries is a strategic decision by a firm; several views examine extension decisions made by firms. According to the literature, a firms' decision to invest in a foreign country is determined by three different forces: firm resources, industry conditions and institutional environment. These three forces are based upon three views: resources, industries, and institutions.

According to the resource-based view, a firm is considered to be a bundle of resources, skills and capabilities (Wernerfelt, 1984); the performance of the firm will ultimately be determined by the accumulation, consolidation and utilization of the available useful and/or rare resources. According to this view, the firm-specific differences in terms of resources which can form a competitive advantage shape firm strategy (Barney, 1991; Zou et al., 2003). This perspective focuses upon the internal factors of firms (Gao et al., 2010). On the other hand, the industry-based view developed by Porter (1980) suggests that firm strategy is determined by the industrial factors within which the firm operates. Namely, competitiveness within a particular industry influences the strategy and performance of a firm (Peng et al., 2008). Using the industry-based view, competitive strategies are formulated in relationship to the environment within which the industry competes. According to the institution-based view, a firm’s tactics and performance are not only dependent upon their resources and industry but also upon the environment within the institution. Institutions can be categorized as either formal or informal institutions that guide societal transactions in the areas of politics, law, and society (Gao et al., 2010). According to this view, the institution defines the rules of the game and sets the regulations, structure and practices which must be followed by the organization (North,1990; Scott, 1995). The institution-based view highlights the relationship between an institution and its organizational setup, as well as the role played by this relationship for the choice of strategy (Gao et al., 2010; Venzin, Kumar, & Kleine, 2008; Wu & Chen, 2014).

2.2 Global Market Entry Methods of MNEs

There are several ways in which a foreign company can enter a new market. These can be classified as either nonequity or equity (FDI) ways, according to the capital which the company puts at risk. While some nonequity ways consist of exporting, licensing, franchising, and turnkey projects, equity vehicles include joint ventures, greenfield investments, mergers and acquisitions, and international portfolio investments (Carpenter & Sanders, 2006; Buckley et al., 2007). *Exporting* is the quickest and easiest way for a firm to penetrate foreign markets (Gao et al., 2010). It is advantageous in terms of cost, as there is no need to establish manufacturing operations in the host country, therefore lower business risks than other modes of entry are involved (Cavusgil et al., 2014). *Licensing* is an agreement whereby a licensor gives the rights to intangible property to another entity, which is known as the licensee, for a specified period; in return, the licensor receives a royalty fee from the licensee. Intangible property includes patents, inventions, formulas, processes, designs, copyrights, and trademarks. *Franchising* is long-term licensing, in which the franchiser not only sells intangible property to the franchisee, but also ensures that the franchisee abides by strict rules as to how it conducts business. The franchisee must give a percentage of its revenue in the form of a royalty payment. *Turnkey projects* are contractual projects, wherein the contractor agrees to handle every detail of a project for a foreign client, including the training of operating personnel. After completion of the contract, the foreign client is handed the “key” to a plant that is ready for full production - hence, it is termed “turnkey”.

2.3 Foreign Direct Investment

This work is focused upon the flow of economically important international capital, FDI. FDI is defined as the private capital flow from a parent firm to a location outside of the parent firm's home nation (Jensen, 2003). A foreign investment can be considered as an FDI, if it is large enough to give the parent firm some amount of control over the management of the enterprise—usually more than 10 percent (International Finance Corporation, 1997). FDI can be expressed in several ways. *Joint venture* can be a good entry mode in a new market in which the foreign firm joins hands with a host country firm. Most commonly, a typical joint venture is based upon a 50/50 venture, with each of the two parties holding a 50 percent ownership stake and contributing a team of managers to share control of the operation. Another form is *greenfield investment.* With this type of investment, the parent company opens a venture in a foreign country by constructing new operating facilities from the ground up. When a firm's competitive advantage is based upon technological competence, this is a preferred entry mode, since it gives tight control over operations in different countries. As a result, a firm does not share it's profits with this type of investment.

Merger is a legal expansion by two companies into one entity, whereas an *acquisition* occurs when one company takes another over, and completely establishes itself as the one new owner. Lastly, *International portfolio investment* is passive foreign ownership of securities across a country's border, such as stocks and bonds, for the sole purpose of generating financial returns. In this mode of entry, the foreign investor has no control over the day-to-day activities of a firm.

2.4 Foreign Direct Investment Theories

International product life cycle theory

International product life cycle theory, as developed by Vernon (1966, 1971), suggests that international trade is based upon the evolutionary process occurring within the development and distribution of products to various markets around the world. In this theory, each product and its manufacturing technologies have three stages of evolution: introduction, maturity, and standardization. Throughout these stages, a trade cycle emerges whereby a product is produced by the parent firm, after which it's foreign subsidiaries reproduce it and, finally, it can be produced anywhere in the world, through establishing the lowest possible costs (Vernon, 1966, 1971). This theory illustrates that the product goes through different stages until maturity; a product will evolve from a within a developed country into a developing country as it enters the mature stage with less costly production in the developing countries. According to this theory, technology is a key factor in creating and developing new products, while market size and structure are influential in determining the extent and type of international trade (Morgan & Katsikeas, 1997).

Uppsala internationalization model

This model, which takes its name from the work of the Scandanavian researchers who are collectively referred to as the Uppsala School (e. g. Johanson and Vahlne, 1977; Johanson and Wiedersheim-Paul, 1975), suggests that the process of internationalization is based upon an evolutionary and sequential build-up of foreign commitments over time (Morgan & Katsikeas, 1997). According to this model, there is a four-step sequence leading to international production in a foreign country. Firstly, firms initiate production for the domestic market, followed by entering the cross-border market by exporting, following which sales outlets are set up abroad pending the establishment of foreign production facilities.

In this model, two kinds of knowledge are distinguished: first, objective, and then experiential, which can only be acquired through personal experience. Experiential knowledge can produce more business opportunities and is a driving force in the internationalization process as it can be understood from the statement that "internationalization is based on learning through the development of experiential knowledge about foreign markets, which is gained so as to reduce their 'psychic distance'" (Johanson and Vahlne 1977) (p. 30). However, this model has been criticized by many researchers because of its simplicity, that it is too firm-focused, and, more importantly, for omitting the environment and its applicability, which is limited to small firms with equally small productions (Millington & Bayliss, 1990).

Oligopolistic reaction theory

One of the macro theories which explain the reason for FDI is oligopolistic reaction theory (Knickerbocker, 1973). When only a few large firms exist in a particular industry, imitative behavior can be witnessed. The basic idea of this theory is "Follow the leader behavior". There is interdependence between the major players in the market: what immediate impact can one firm have upon its major competitors, forcing them to respond in kind? By reducing prices, one firm in an oligopoly can create a sudden impact upon its major competitors, forcing a response in kind. Knickerbocker (1973) argued that this type of imitative behavior characterizes FDI. The oligopolistic market is like a game of chess, whereby players try to match each other's moves in order to hold each other in check.

Eclectic paradigm

The eclectic paradigm of FDI, or OLI model which was developed by Dunning (1979) is characterized as a paradigm, since it integrates other important theories that explain the internationalization process of organizations. Thus, the eclectic paradigm is often considered to be the most comprehensive FDI theory. The eclectic paradigm specifies three conditions that determine whether an organization will be internationalized via FDI: (O) ownership advantages, (L) location/host country specific factors and (I) internalization advantages. Firms gain ownership advantages with access to an asset or process that provides advantages or improvements over already existing firms in the foreign market. These can be physical assets such as patented products or production processes, or a more intangible asset such as global brand name recognition. Multinational firms tend to invest abroad in order to exploit their firm-specific advantages in foreign markets and thereby secure higher returns. Firms may also have a tendency to invest abroad because of advantages derived from location. Due to the expense of high transportation costs in attempting to serve foreign markets through exports, firms often establish production facilities within these countries. The high costs may be related to the physical nature of the goods with added policy factors such as tariff rates, import restrictions, or issues of market access that make physical investment advantageous instead of serving the market through exports. The richness of a foreign country's natural resources or the high quality combined with the low cost of its labor force may be important location-related advantages that encourage local investment. The concept of internalization advantage is the most complex factor among the OLI conditions, since it captures the firm-specific motivations for a firm's decision to produce a product within the organization itself in a foreign location, instead of simply providing the technology needed for the production process and the blueprints for the product to a local firm through licensing procedures (Jensen, 2003). Benefits are derived from the internalization of foreign-based manufacturing, distribution, or other stages in the value chain, which give full control to MNE, ranging from production to marketing, and preventing unintended dissemination of the firm's proprietary knowledge as well as the ability to reduce buyer uncertainty regarding the value of products offered by the firm. Further, Dunning and others have refined the paradigm and expanded it by way of a cultural component and strategy considerations (Woodcock et al. 1994; Dunning & Bansal, 1997; Narula, 2010).

Based upon the literature above, the following research questions were considered:

1. What is the best entry mode of MNEs to enter the Indian market?
2. Does the business climate of the host country affect the internationalization expansion decision of MNEs?
3. What motivates MNEs to do business in India?
4. What is the internationalization process of MNEs in terms of their decisions regarding location choice, entry mode and firm strategies?

3. Research Design and Methods

The research methodology incorporates qualitative data analysis based upon case studies in order to determine underlying patterns in the collected qualitative data. In this section, the research design, data collection methodology, and the results of the qualitative analysis are examined. Further details and results are provided in this section.

3.1 Research Design

Research design is very essential for an empirical study in order to connect the collected data to the study's research questions, and ultimately lead to the conclusion. Research design assists the researcher in a logical way to link the collected data with the research questions and helps to generate answers to the set questions. It lays down the steps from data collection to data analysis (Yin, 2009). A research design serves as the blueprint for the study. It is differing from the research method of the study, which is related to the methods of data collection and analysis.

In this study, the research strategy is a case study method which has its own research design (Yin, 2009). Therefore, the research design of this study is embedded within the case study method; meaning that the design components can be explained within the method itself. Therefore, it is appropriate to begin with the rationale behind the choice of case study research as our method of inquiry.

The case study method is most appropriate for these "how" and "why" questions. However, these questions do not indicate the study topic in our research. (Yin, 2009) recommended having some propositions for the research design to help determine the relevant data. This eliminates any irrelevant data which may be acquired during the collection phase of the study. According to Yin (2009), the purpose of the study must be identified, even if, in some cases, the propositions are unknown.

This study is well supported by international business theories and strategic management concepts. Therefore, the existing literature concerning these perspectives provides a useful base with which to define the scope of our study and further to develop the correct data collection instruments (e.g., interview questions).

The study will search for the drivers, the motives, and the processes of the internationalization of developed and emerging firms. We will develop a model describing the foreign investment decision-making process of MNEs. Case studies are appropriate for inductive theory-building research (Eisenhardt & Graebner, 2007). The case study method is the most appropriate with which to develop a model describing the internationalization of MNEs.

For this study, we examined eight cases of MNEs investing in the Indian market. It was an appropriate number for our study in order to collect a relevant and adequate volume of data to attain our expected conclusions. If that is not the case, since the case study method offers flexibility, additional cases can be added to the study (Vissak, 2010).

3.2 Methods of data analysis

Even without a methodological compulsion, the use of multiple cases from various investigators for data analysis has been recommended by some researchers. These additional investigations help to increase the perspective and creativity of the research, enhancing confidence in the findings and improving the quality of the research (Eisenhardt, 1989). The authors contacted other researchers who are expert in this field; they provided additional information and direction as to how the data could be analyzed. The researchers helped to triangulate the investigators in our study, thus enhancing the confidence and quality of our research (Patton, 2002).

First, we developed each case study report by analyzing each one independently in order to discover their pattern. In each case, we attempted to locate the answers to each research question by defining the objective, mission & vision of MNEs, the entry mode taken, the choice of location, the drivers and motives to enter the Indian market and the resulting strategy that was adopted, as well as the opportunities and challenges they each faced within the Indian market. Second, the QDA miner software was employed as the analysis tool for coding the textual data, as well as locating the patterns and relationships between the assigned codes. The analysis results of this second step were assessed, and a resulting discussion of the internationalization of our case study firms was provided. Following the analysis of each case manually, and also through using the QDA software, databases were connected to the various sources to form a chain of evidence linking the findings, so that the data was established. This chain of evidence was necessary in order to construct validity which increased the quality and authenticity of the research.

3.3 Methods of Data Collection

For the case study method, a protocol is followed for data collection, especially for multiple case studies (Yin, 2009). In order for the study to be reliable, rules and various procedures are mentioned in the protocol. Hence, a case study protocol was developed in order to guide the researcher in the data collection and analysis phases of this study. The protocol includes an outline of the study, the procedures to be followed, and the pertinent interview questions. During the data collection phase, the case study questions, and sub-questions were kept in the back of the mind of the researcher as a way in which to focus upon the topic being investigated. According to the protocol, the questions were arranged in different order in order to target various data points and different emphasis.

Case study research explores different data sources such as papers, interviews, archival data, survey data, and observations (Chetty & Campbell-Hunt, 2004; Eren-Erdogmus et al., 2010). For this study, we have mainly relied upon personal interviews and documentation.

Personal interviews are an effective data collection method with which to collect rich and empirical data; they can be a primary source from which to understand the strategic decision-making processes. Personal interviews are used as a primary source for qualitative research by many international business researchers (Fletcher, 2001; Meyer & Thaijongrak, 2013). Internationalization is a strategic decision; these types of decisions are made from the top level of the firm, so that our interviews were conducted with managers directly related to the decision-making process. The performed validity as well as the reliability are listed in Table 1.

Table 1: Validity and reliability

Construct Validity	□	Use Multiple Source of Evidence	Data collection
		Establish Chain of Evidence	Data collection
Internal Validity	□	Address rival explanations	Data analysis
External Validity	□	Use replication logic	Research design
Reliability	□	Use case study protocol	Data collection
		Develop case study database	Data collection

As a method with which to cross-check and add data, documentation was used as a secondary data source. In case study research, documentation is the method most commonly used (Chetty & Campbell-Hunt, 2004); its main importance is to corroborate and augment evidence from other sources. In our study, four sources were obtained for documentation: (i) documents directly obtained from the firms, (ii) press reports (e.g., news, executive interviews), (iii) documents retrieved from official company web pages (e.g., annuals and periodicals), and (iv) publications (e.g. cases, articles, books).

Before visiting the companies, the last three sources were systematically researched by the investigator and classified in the firm's case study database. This created significant background information about the firm, generating further questions for the interview. Following the interviews, the managers were asked to provide additional documents which could be helpful for our research. These documents greatly assisted our analysis of the cases.

As with the collection of various data, new themes emerge which leads to the addition of new questions in the interview protocol, so that emergent opportunities can be exploited (Eisenhardt, 1989).

A case study database for each firm was established after the data collection process. The raw database provided reliability as it allowed the establishment of a chain of evidence between the raw data and the conclusion.

4. Analysis Findings

4.1 Qualitative Data Analysis Results

In order to analyze the interviews of the eight representatives, QDA miner software was used. QDA miner is an easy-to-use tool for the analysis of qualitative data as it incorporates the coding of textual data and graphics, as well as annotating, retrieving, and reviewing the coded data and documents. QDA miner also provides a wide range of exploratory tools with which to identify patterns in coding and relationships between the assigned codes and other numerical or categorical properties. It is very flexible, since documents can be edited at any time without affecting the existing coding.

QDA miner incorporates multiple cases. A case represents an individual, a group, or a company. In this study, it was represented by a company. A case can contain several documents as well as other variables. One of the unique features of QDA miner is its ability to explore the relationships between the properties and codes manually assigned to the document.

The distribution of the cases is provided in Table 2. The firm’s name, industry, and its scope of operations are listed in this table.

Table 2: Case study of firms

Firm	Industry	Scope of Operations
Suzuki	Automobile	Manufacturer
Unilever	Fast moving consumer goods	Manufacturer
Nestle	Food and beverages	Manufacturer
Z and pharmaceuticals	Pharmaceutical	Manufacturer
Coca cola	Beverages	Manufacturer
McDonalds	Fast food Restaurant	Manufacturer
Wal-Mart	Retail	Retailer
Anwari groups	Food products & Telecommunication	Manufacturer

Furthermore, the variables extracted from the analysis were examined, based upon frequency analysis. The results are illustrated in Table 3. According to the descriptive statistics of the variables, 87.5% of the participants to the case study were male, while 12.5% were female; 37.5% were holding general manager positions; 62.5% of the firms included had used a joint venture entry mode, while 12.5% had acquisition, greenfield, and import and export; 75% of the participants possessed a Ph.D. degree, while 25% had a Master’s degree; and finally, 37.5% of the firms were very large, 25% were small, 25% were large, and 12.5% were medium-sized firms.

Table 1: Frequency analysis of the variables

Variable	Category	Frequency	Percent
Gender			
	Male	7	87,50%
	Female	1	12,50%
	TOTAL	8	100%
Position			
	General Manager	3	37,50%
	Senior executive	1	12,50%
	Managing Director	1	12,50%
	CEO	1	12,50%
	Manager	1	12,50%
	Co- founder	1	12,50%
	TOTAL	8	100%
Entry Mode			
	Acquisition	1	12.5
	Joint venture (private)	5	62.5
	Greenfield	1	12.5
	Import and Export	1	12.5
	TOTAL	8	100%
Education			
	Ph.D.	6	75,00%
	MBA	2	25,00%
	TOTAL	8	100%
Reach			
	Small	2	25,00%
	medium	1	12,50%
	Large	2	25,00%
	Very large	3	37,50%
	TOTAL	8	100%

4.2 Coding document

In QDA miner, it is easy to assign manually existing codes from a codebook to a selected segment of text by reading the document. QDA Miner allows you to easily attach a code to a block of text that may be as tiny as a single character, but that will most often consist of a few words, even one or more sentences or paragraphs. A code may even be assigned to an entire document.

The following section provides instructions on how to assign codes to text segments and image areas, resize the selected segment, change the associated code, attach a comment to coded segments, as well as how to delete one or more coding.

The following codes were selected for this study:

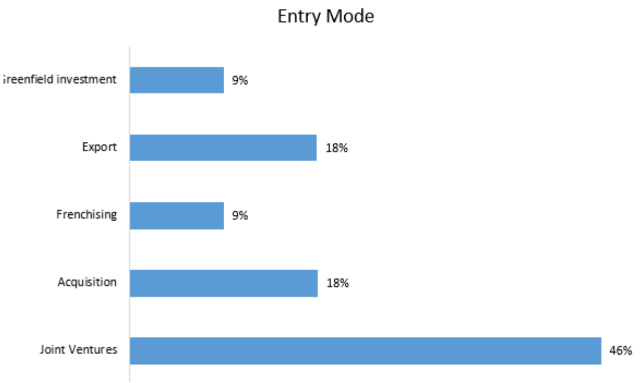
1. Entry mode
2. Competitive advantage
3. Strategy
4. Opportunities in India
5. Challenges in India
6. Motives for investment
7. Make in India campaign
8. Location choice

The coding frequency is shown in Table 4. According to the results, joint venture was the most preferred mode of entry with 62.5 % of the total. Experience in marketing is the most essential competitive advantage required in order to be successful in Indian market. The most preferred strategy was to minimize costs since Indian customers are cost sensitive. As far as opportunity in the Indian market is concerned, the purchasing power of people is the most important factor. Strict quality standards and corruption are the biggest challenges faced.

Table 1: Coding frequency

Category	Code	Count	%Codes	Cases	%Cases
Entry mode	Green field investment	1	0.9%	1	12.5%
Entry mode	Joint venture	5	4.7%	5	62.5%
Entry mode	Acquisition	3	2.8%	2	25.0%
Entry mode	Franchising	1	0.9%	1	12.5%
Entry mode	Turnkey project		0.0%		0.0%
Entry mode	Export	2	1.9%	2	25.0%
Competitive Advantage	Economies of scale	5	4.7%	4	50.0%
Competitive Advantage	Experience in market	7	6.6%	6	75.0%
Competitive Advantage	Global marketing		0.0%		0.0%
Competitive Advantage	Brande name	4	3.8%	3	37.5%
Competitive Advantage	Product design		0.0%		0.0%
Competitive Advantage	First mover advantage	2	1.9%	2	25.0%
Competitive Advantage	Product and service differentiation		0.0%		0.0%
Competitive Advantage	Aggressive promotion and marketing tactics	1	0.9%	1	12.5%
Competitive Advantage	Diversification	4	3.8%	3	37.5%
Competitive Advantage	Distribution network	3	2.8%	2	25.0%
Competitive Advantage	Market share	3	2.8%	3	37.5%
Strategy	Market share	3	2.8%	3	37.5%
Strategy	Adaptability	4	3.8%	3	37.5%
Strategy	Long-term investment	1	0.9%	1	12.5%
Strategy	Corporate social responsibility	4	3.8%	3	37.5%
Strategy	Innovation	3	2.8%	2	25.0%
Strategy	Differentiation	4	3.8%	3	37.5%
Motive of investment	Knowledge seeking investment		0.0%		0.0%
Motive of investment	Market seeking investment	3	2.8%	3	37.5%
Motive of investment	Resource seeking investment	1	0.9%	1	12.5%
Motive of investment	Huge market	3	2.8%	2	25.0%
Motive of investment	Production seeking investment		0.0%		0.0%
Motive of investment	Political safety	1	0.9%	1	12.5%
Motive of investment	Abandon natural resources	1	0.9%	1	12.5%
Motive of investment	Low-cost workforce	2	1.9%	2	25.0%

Figure 1 shows that the joint venture mode of entry into the Indian market is the preferred choice of entry, followed by Acquisitions. In addition, the results show the strategy preferred by a firm with which to enter the Indian market; minimizing cost is the main preferred strategy with 25%, followed by corporate social responsibility, adaptability, differentiation and market share with 1%. Also, the results indicated that the motive of investment, according to our diagram, was to secure a large market in India as well as the latent opportunities in the Indian market. The increase in purchasing power of the middle class is considered to be the most attractive opportunity. Also, the results revealed that challenges in the Indian market, mainly being strict quality standards and corruption, were considered to be the biggest challenges by the representatives of the companies interviewed. Moreover, the results illustrated that prior business experience creates the highest share in terms of comparative advantage. Finally, the results indicated that a seaport was the most preferred location, followed by a location near the intended market in.



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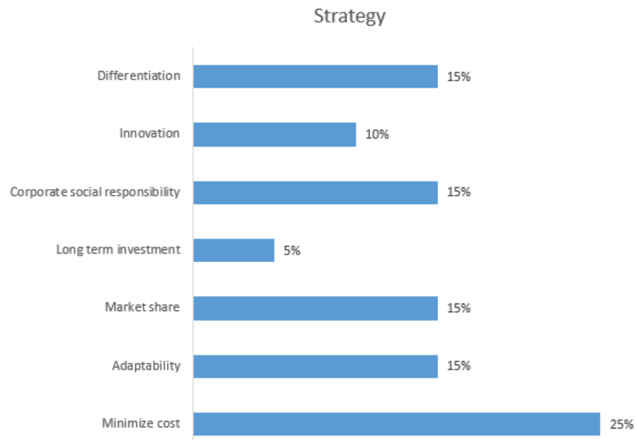

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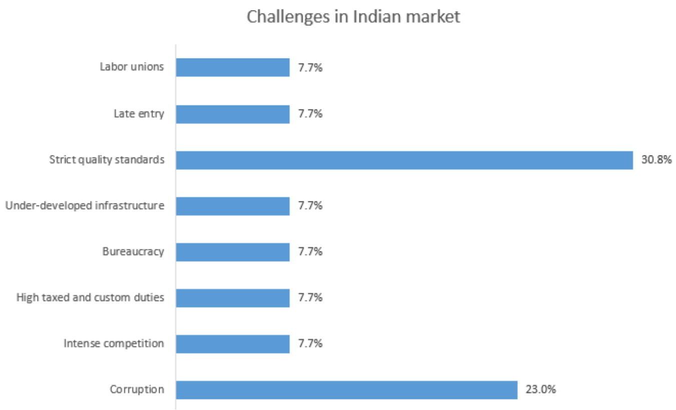

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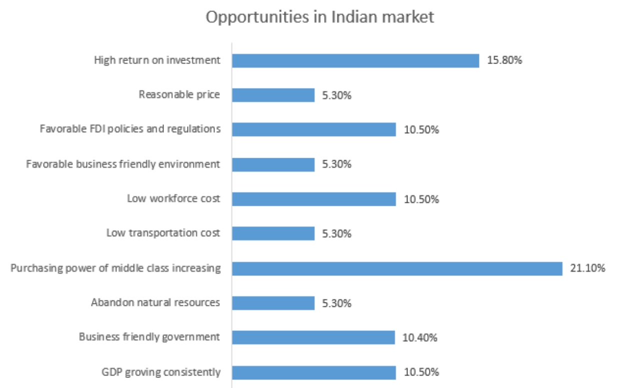

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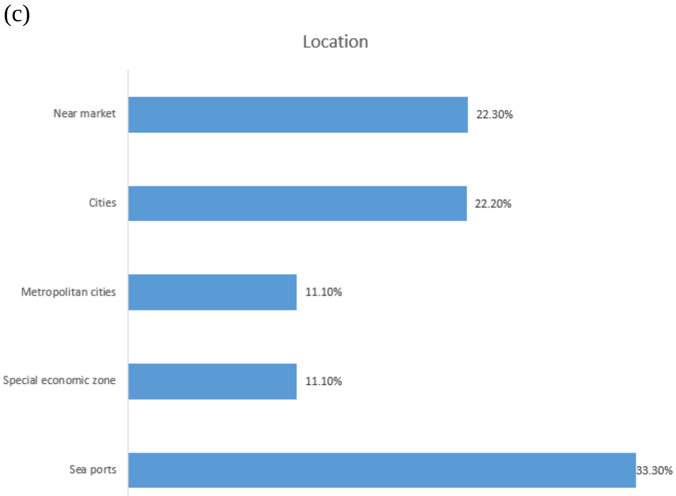

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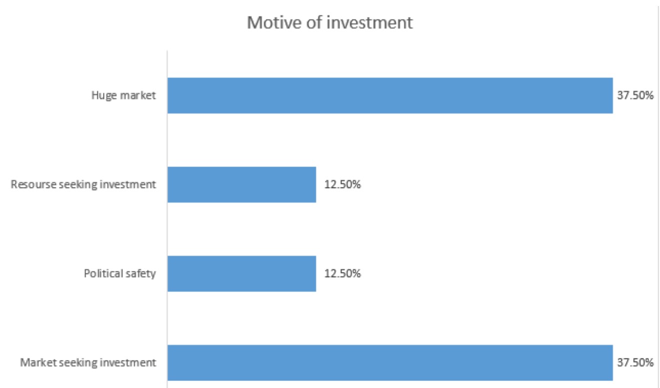

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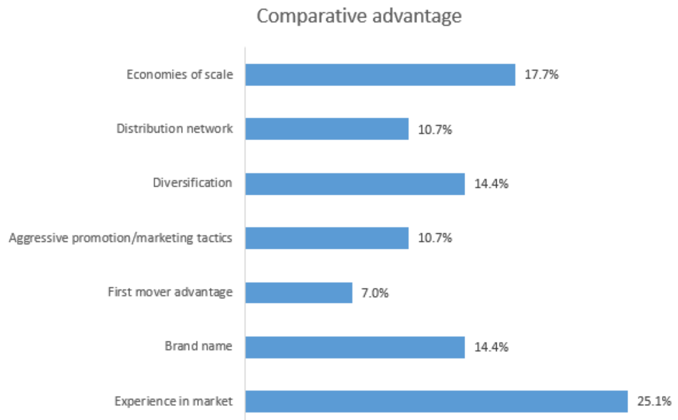

(g)

Figure 1: The distribution of the keywords

4.3 Cluster Analysis

The codes co-occurrences tool and codes similarity tool, which use information about the proximity or the co-occurrence of codes and cases within documents to explore potential relationships among them as well as similarities among cases. This dialog box provides access to various statistical and graphic tools, such as cluster analysis, multidimensional scaling, and proximity plots.

First, the joint venture was selected as the target item. The results are illustrated in Figure 2, revealing that it is important to have experience in the market within the same industry as well as a well-recognized brand name in order to enter the Indian market through the joint venture portal. If the product is easily recognized, then it becomes simpler to enter the new market. Both experience in the market and the image of a brand name have a high similarity index at around 0.6. The main opportunity seen in the Indian market is its GDP growth; first-mover advantages are always crucial for entering India. Adapting to the taste of the local market is also an important aspect leading to a decision to enter the Indian market, as shown by the proximity plot.

Second, "GDP growth consistently" was chosen as the target item for this proximity plot. The relationship shown in Figure 3 reveals that if the economy of a country is growing at a fast pace, then product differentiation is a good strategy enabling the establishment of a product in a foreign market. With a rapid growth of GDP, the purchasing power of people increases so that there will be more demand for products.

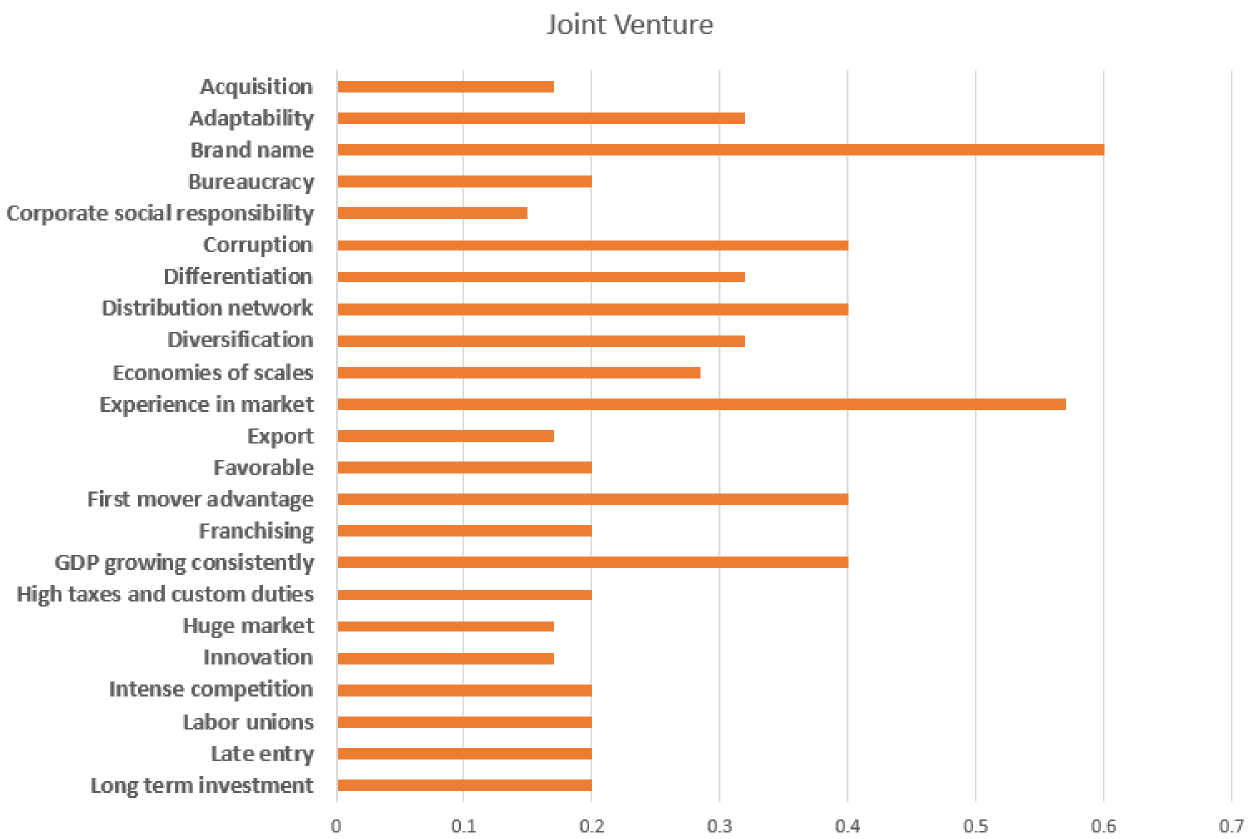

Figure 2: Proximity plot of joint venture as the target item

Third, economy of scale was selected as the target item for the proximity plot. The relationship shown in Figure 5 indicates that a large scale of production enables the company to enjoy economies of scale with an accompanying minimum cost of production, which is shown with the similarity index of 0.8. Companies that serve society, such as Unilever in India, earn both a reputation and the trust of people. The government also provides subsidies, helping these companies to create a huge customer base with which they can achieve economies of scale. Corporate social responsibility has a direct relationship to economies of scale.

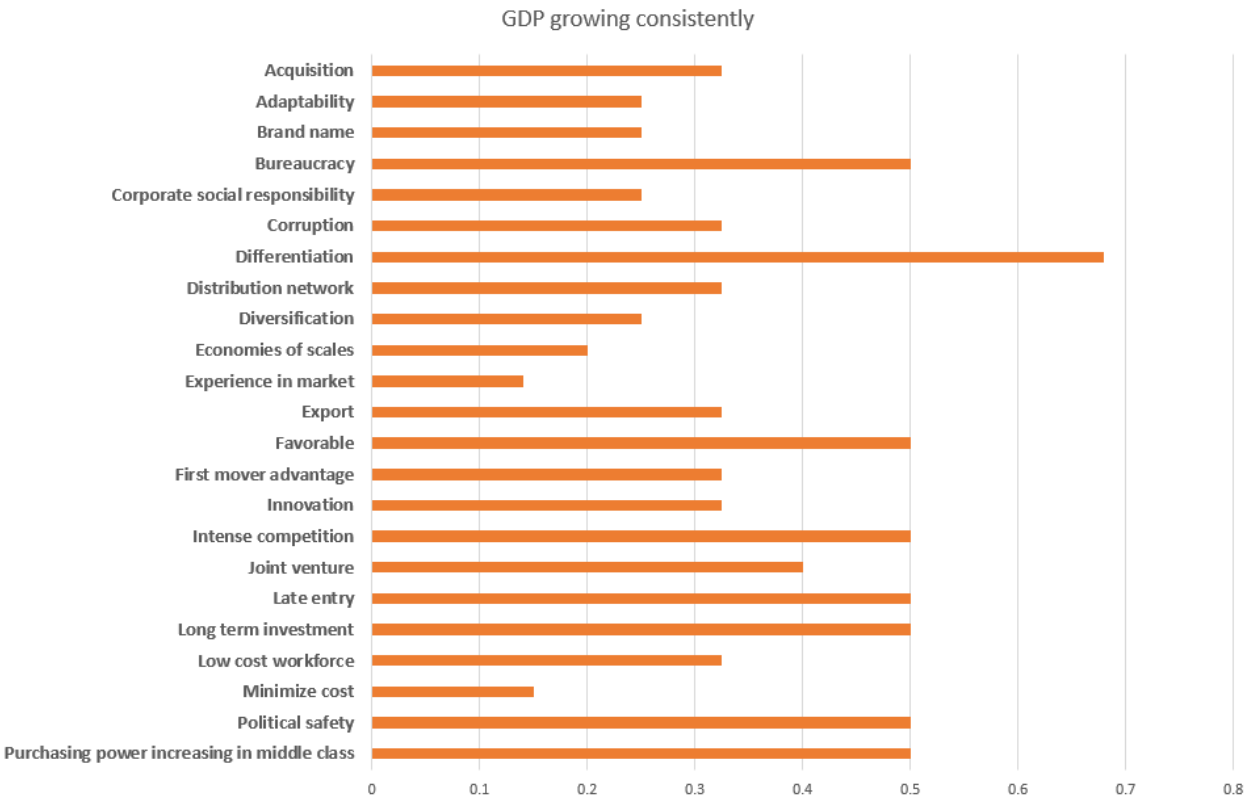

Figure 3: Proximity plot of GDP growth as the target item

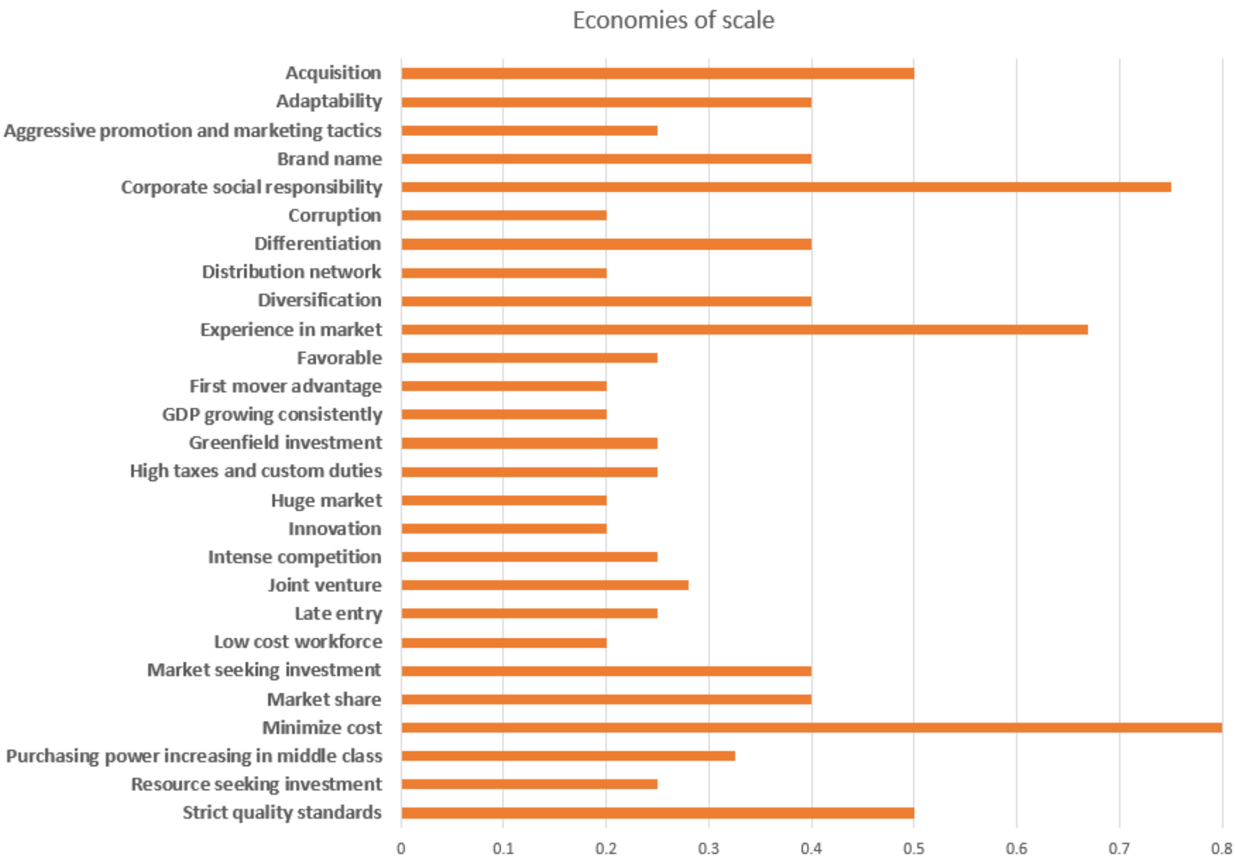

Figure 4: Proximity plot of economy of scale as the target item

Finally, Coca-Cola was selected as the target item. Figure 5 indicates that it's highest relationship is with Nestle. Both of these huge multinational companies are spread all over the world and have a huge market in India. Both have encountered difficulties regarding the quality of their products. Coca-Cola has a history of exiting from India, while Nestle's most famous product, Maggi, was banned, due to quality issues.

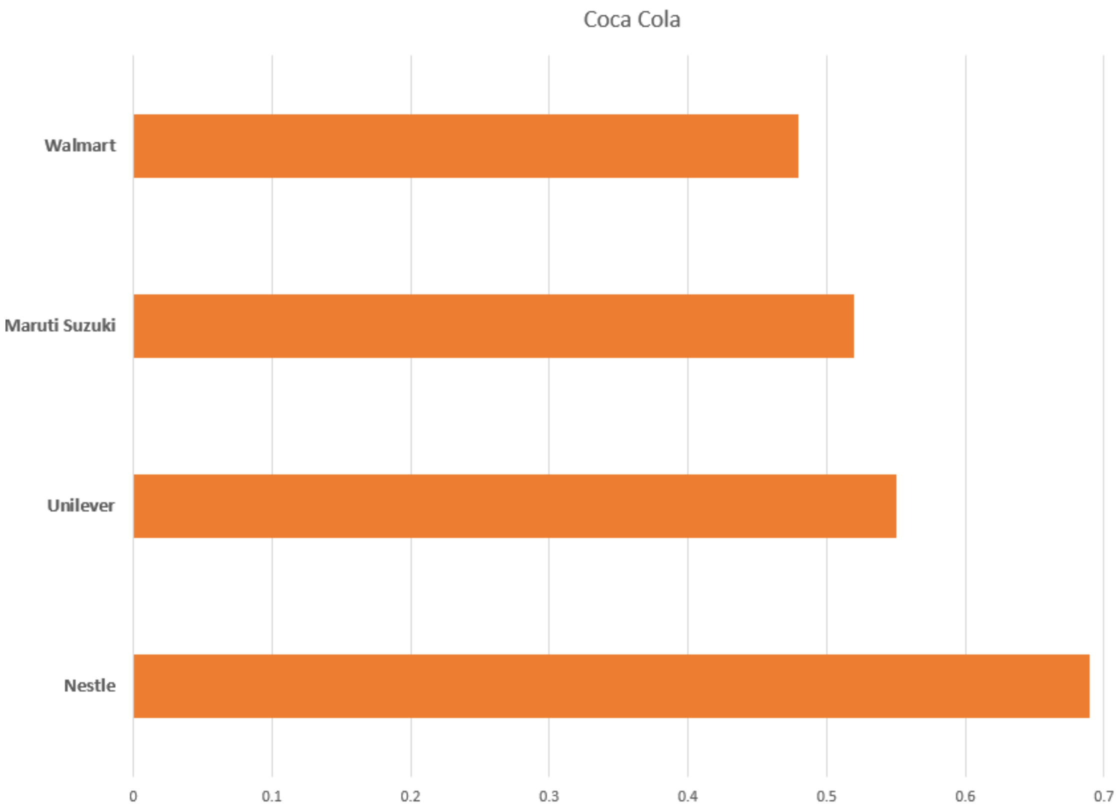

Figure 5: Proximity plot of Coca Cola as the target item

5. Discussion

Companies from differing countries and markets were selected for this study so that a variety of foreign investment decisions could be analyzed in order to give a wider understanding of the investment climate in India, as well as the characteristics influencing the FDI decision-making motives of each firm. Out of the eight firms, five originated from developed countries, one was from Japan, and two were from neighboring developing neighboring countries. The findings of the interviews conducted with the representatives of the eight study firms are discussed in the following paragraphs. The discussions covered context specific FDI factors within India as well as methods of internationalization used by MNEs, based upon location choices, entry mode selections, and firm strategies.

Context Specific FDI Factors of India

Demand side factors

India boasts the second largest population in the world. Normally when an MNE from the developed part of the world enters a developing an emerging country, the motive is to produce the product at low cost and then sell it in a developed country where it receives at a profitable price, but this is not the case in India, where companies are manufacturing and also marketing within India. The purchasing power of Indians is rising, creating a growing middle class which can afford the prices of the products produced by foreign investors. All of the interviewees agreed that India's huge population with its rising purchasing power is one of the main important reasons for entering the Indian market. As a senior manager of Wal-Mart said:

> "*You can't be a global market leader in a particular sector without capturing the Indian market*".

Supply side factors

Skilled workforce

The most important resource for any company is located in its human resources. India has a huge pool of intelligent, hardworking, committed workers. Many of the managers working in the Indian subsidiaries of the MNEs have been educated in western countries; as a result, they are familiar with the common behavior and working style in industry in the west. As a result of their western educations, the majority of people working in MNEs are well versed in English, signifying that communication is not problematic. This explains why many of the Indian units are being managed by Indian nationals who report to headquarters out of the country regularly. On the other hand, 50% of the Indian population is below the age of 25. There are therefore +/- 600 million people who are potential employees within the various companies entering the Indian market. According to the manager of Suzuki:

> "*Showing trust in your employee is the biggest motivator for them to contribute their full potential in their work*".

Infrastructure

All of the representatives of the eight companies were pessimistic regarding the infrastructure that they encounter in India. Roads, ports, waterway, power supply and other infrastructures are not well established. Foreign investors who have worked in other emerging markets such as China and South Korea were surprised to see the dismal infrastructure in India. A foreign company must make an investment to improve the infrastructure in order to establish their business in India. This is part of the cost to be included in an investment project. For example, Unilever has invested a substantial amount into building infrastructure products, which has thereby contributed to their reputation as one of the MNEs which have invested in India.

Supply chain

India has abundant resources which are available at a much lower price than similar resources in the western world. As a result, investment and production in India have a cost advantage. For instance, McDonald’s uses local agricultural products and has worked with local suppliers to develop products that meet the rigorous quality standards of McDonald’s, internationally. McDonald’s has instituted excellent coordination and cooperation with Radhakrishna Food Ltd., which has the responsibility for finding produce from various suppliers and delivering it to the McDonald’s outlets. The company uses Enterprise Resource Planning (ERP) software, which provides information regarding where products are available so that they can be delivered in a timely fashion. At the same time, high tech machinery and machinery parts are available. Big manufacturing MNEs like Unilever, Nestle, Coca-Cola and Suzuki maintain R&D units in India.

Institutional factors

Institutional factors are comprised of basic social, economic, and political elements. The cultural proximity and familiarity, political system and legal framework, as well as the foreign investment policies of India affect the decision-making for foreign investment of MNEs.

Cultural proximity and familiarity

Cultural proximity and familiarity play a very crucial role in the success or failure of a firm in India. Indians are traditionally religious people, so that moral values and principles are very important. Foreign MNEs should honor this factor. McDonald’s exemplifies this actuality, because it has compromised by removing its signature product – the Big Mac burger, which is made from beef, from its menu, thus observing the religious sentiments of the Hindus, who comprise the largest segment of population in the country. It has also removed pork from its menu in deference to the considerable Muslim population.

One manager discussed India’s religious diversity. He said that India is a land of festivals where every possible religious event in the world is celebrated. He explained how the company manages with holidays in India.

Political and Legal Framework

India’s federal structure allows each state to make its own policies and regulations for foreign investors. States like Gujarat, Maharashtra, Tamil Nadu, Delhi, Andhra Pradesh, and Karnataka have made efforts to attract foreign MNEs so that the majority of the foreign investments in India are found in these states.

Economic reform changes the fortune of a country. For example, reforms have contributed substantially to the economic growth of several countries such as China, Singapore and Malaysia (Mathews, 2006; Wang et al., 2012). The economic reform of 1991 has played a crucial role in influencing foreign investment decisions by firms to move into India. Before the reform, India was following a self-reliant, closed-door policy by imposing high tariffs and entry barriers to foreign firms. Following the economic reform, many MNEs discovered that investment in India was attractive. When the Coca-Cola Company re-entered the Indian market after that reform, its executive said:

> "The *return of coke represented the opening up of India's economy to the western world"*.

Out of the eight companies which were examined in our research, three were operating in India before the reform, while Coca-Cola had operated for a few years in the 1970s but left the Indian market due to the unacceptable conditions placed by the Indian Government. Even though these three giant companies (Unilever, Suzuki and Nestle) were well established in the Indian market before the reform, they did not operate well, which affected their performance and, ultimately, their profit. After the opening of the Indian economy, these companies have become more profitable, which has encouraged other foreign MNEs to enter the Indian market. The CEO of Anwari Group summarized this reform process as follows:

> "*A country which is going through a reform period is the best place to invest; many business-friendly schemes and incentives will be provided in order to attract foreign investors, and the return on investment is likely to be high"*.

FDI Policy

Foreign investment policies are the most crucial element for the decision-making process. Investors keep a close eye on policies; these policies and schemes provide opportunities for them. At the present time, FDI policies in India are quite open, and therefore attractive to foreign investors. This has turned it into one of the most favored locations for direct foreign investment.

MNEs' Internationalization Methods in India

Entry mode

The route taken with which to enter a foreign market is crucial to the success of the organization. Five of the companies represented by this study had opted to take a joint venture with either private local players, already established in the market, or with the Government. Joint venture is considered to be the most successful and safest mode with which to engage the Indian market. It involves shared capital, resources, market knowledge, technology and managerial knowledge-sharing. It proves to be successful since the local partner is always knowledgeable when dealing with the rules and regulations of a country and knows the local market well. McDonald's has adopted this strategy very smartly. Instead of adopting the franchising mode as it has done in most other countries, it has formed a joint venture with two businessmen who have no relation to the food industry. In India, joint venture is also preferred due to the restriction that 100 % ownership is not allowed within all sectors. On the other hand, some companies like Z & Pharmaceuticals and Anwari group have taken the exporting route with which to enter the Indian market, since it saves transportation costs and there was no barrier to setting up their subsidiary company within a foreign country (Chittoor & Ray, 2007).

Location

India occupies a large territory as well as having a big population. It is important to reach people, so most organizations try to identify their target customers and focus upon them. McDonald’s outlets are largely located in urban cities where rich and middle-class customers can be targeted. There are also Wal-Mart stores in a few big cities. Unilever, Nestle, and Coca Cola have a huge territory, from big cities to villages. Maruti Suzuki stores are in big and small cities. Z & pharmaceutical and Anwari group use seaports as well as special economic zones. FDI is conducted mainly within states which are close to the sea and a few of the developed cities such as Mumbai, Delhi, Ahmadabad, Bangalore, and Chennai.

Strategies

The strategy followed by a foreign firm is crucial for its success. The following strategies were equally found in the cases of all eight firms in this study.

Adaptability

India is considered to be an exotic place where the taste and preferences of the people are quite different from the western world. A firm must do intensive research into the market and must customize their offerings according to the interests of the people. For instance, McDonald’s has done well by understanding the Indian market and being willing to sacrifice their signature product due to the popular religious culture. Suzuki also understands the Indian market well. Because Indians are price sensitive and there is also a huge middle-class population, it offers cars at a lower price to the Indian people. ‘Think global and act local’ is a perfect strategy in the Indian context. The companies which have investigated and understood the distinctive characteristics of buyers, local suppliers, and distribution channels have found success in India.

Long term and flexible strategy

India is a perfect market for big as well as long-term investment. It takes time to become established and adjusted into the Indian market, but once established, it is a good place to do business. New entrants seeking to invest need to appreciate that India is a market for the future: short term strategies will not work here. India is an emerging market, and it is changing at a fast pace, so strategies should necessarily be flexible in order to be relevant to the Indian market.

Partner with family Conglomerates

A few big family business houses control the major business sectors in India, so it is therefore an excellent strategy to partner with these key players if at all possible. By collaborating with the family conglomerates, a foreign firm can reduce the risk, time, and capital requirements of entering the market, developing helpful relationships with the government, and consequently target market opportunities more rapidly and effectively. Major Indian business industries are dominated by a few large family conglomerates, so it is a smart move to attempt to form a joint venture or simply merge with a big family conglomerate, instead of competing with them. For example, Wal-Mart originally entered the Indian market through a joint venture with the family conglomerate, Bharti. Some problems had emerged between Wal-Mart and Bharti so that in the end, they separated in 2013.After this, Wal-Mart found a new partner.

State Owned Enterprise as a Target customer

Government agencies and state-owned enterprises in India are an important customer group. They buy an enormous quantity of goods and services from foreign companies for the enterprises which they control. They also influence the procurement activities of a variety of private or semi-private corporations. The government regularly announces it's intention to produce bulk commodities, equipment, and technology or to build a power plant, highways, dams, and/or public housing. Foreign investors can take full advantage of this opportunity to participate in big projects.

Diversification and Differentiation

The standard of living for people in India has been rising, so it is necessary to cater to their various diverse needs. For instance, at the time of their entry, Maruti Suzuki was producing cars targeted only for the middle class, but it is currently producing cars in a diverse range with production segments ranging from economy to luxury cars. The Indian market has become very competitive, since more players have entered from different countries, making it necessary to offer a variety of different products. As a result, Unilever, Coca Cola, Nestle, and McDonald's are continuously innovating and adding new items to their product lines.

Advertisement plays a key role in awareness of current products in India. Indians like to watch television, so TV commercials have done a great job promoting products. The TV ads for Coca Cola, Maruti Suzuki, McDonald's, and Nestle became an important medium to help create the commercial success of these firms. Unilever has used an innovative technique of promotion in rural areas by providing training to villagers, and then encouraging them to sell their products, since they know the people in the village so well.

Corporate Social Responsibility

The MNEs which have done well in India are the ones which have gained the trust of the Indian people. MNEs which give back to society and contribute to the infrastructure are respected companies; both the people and the government prefer to buy products from that company. Brand image is an important contributor to revenue. For example, Unilever is one of most respected and successful companies in India, not just because its products are of high quality, but also because it is giving back to society with programs like Shakti, which empowers women by providing them with loans with which they can start their own business.

6. Conclusion

There has recently been a shift in the centers of economic growth away from western developed countries to emerging countries. One of these emerging countries is India. India's GDP has been growing at the rate of 7 % on average in the last decade. The locations of global economic activities are shifting due to economic liberalization, technological advances, capital market developments, and demographic change. India is going through a reform phase wherein the rules for foreign investment have been simplified and the FDI limit has been increased for many sectors. The prime minister of India has launched a campaign "Make in India", hoping to encourage foreign companies to invest in India by creating a business-friendly environment. The ease of doing business in India has improved, causing investors to become attracted to investment there. Most of the company managers who were interviewed for this study were positive about this campaign; they were optimistic that these steps of the government will increase both the productivity of their company and of India at the same time. Economic reforms, along with the country's economic growth, have created a safe environment for FDI which has influenced decisions to invest in the Indian market.

Joint venture was the most preferred mode of entry into the Indian market. Foreign companies merged with a key player - family conglomerate or government or another private business. It was the most convenient and safest entry mode in which it was possible to share their expertise and resources.

Location has also played an important role in the decision-making process. Most MNEs preferred to set up their businesses near their market. FDI has been done mainly in states close to sea as well as a few developed cities such as Mumbai, Delhi, Ahmadabad, Bangalore, and Chennai. Several firms have benefited from India's federal structure, under which each state could make its own policies and regulations for foreign investors.

Doing business outside one's home country is a big decision, requiring an excellent strategy to be implemented in order to achieve the successful operation of a firm in a host country. In this study, it was found that companies would do well to adopt a rational approach and do market research before investing in the Indian market. The success or failure of foreign investment decisions are highly dependent upon the strategy formulated. A strong strategy for the foreign investment decision process will provide a good outcome. In India, patience is also key, so that a long term, sustainable and flexible strategy should be adopted. Companies which have investigated and understood the tastes and preferences of their Indian customers have done well. First-mover advantage has played a very important role in the success of a firm for gaining a market share.

Foreign companies also face challenges in the Indian market, namely, an under-developed infrastructure, unreliable and unavailable data, corruption, unfamiliar business practices, a high level of bureaucracy, and high-quality standards. Positive steps should be taken by the government in order to facilitate business investment and minimize the hurdles.

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