Foreign Direct Investment Decision-Making Processes: 
The Case of Swiss Companies in India

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The President:

Prof. Dr. Thomas Bieger
This dissertation is dedicated to my parents
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New Delhi, September 2010

Rahul S. Sahgal
Overview of content

List of figures...................................................................................................................... 12
List of abbreviations ............................................................................................................ 13
Abstract.............................................................................................................................. 15
1 Introduction and research area......................................................................................... 17
2 Literature review ............................................................................................................. 27
3 Research methodology .................................................................................................... 51
4 Findings.......................................................................................................................... 81
5 Summary and implications............................................................................................. 149
6 Final remarks.................................................................................................................. 161
Bibliography ...................................................................................................................... 163
Appendix 1: Initial interview guideline ............................................................................. 179
Appendix 2: Interview list.................................................................................................. 180
Curriculum Vitae .............................................................................................................. 181
# Table of content

List of figures .............................................................................................................................. 12  
List of abbreviations .................................................................................................................. 13  
Abstract ...................................................................................................................................... 15  
1 Introduction and research area ............................................................................................ 17  
  1.1 Indian economy: Up to 1991 and since ................................................................. 17  
  1.2 Foreign direct investment in India ............................................................................. 19  
      1.2.1 Definition of FDI ............................................................................................... 20  
      1.2.2 FDI routes into India ......................................................................................... 20  
      1.2.3 India’s FDI Strategy ........................................................................................... 21  
      1.2.4 Swiss-Indian trade relations .............................................................................. 22  
  1.3 FDI decision-making processes and target country .................................................. 23  
  1.4 The Indian context and research proposition ............................................................. 24  
  1.5 Summary ....................................................................................................................... 25  
2 Literature review .................................................................................................................. 27  
  2.1 General models in strategic decision-making processes ............................................ 28  
  2.2 Rational model of decision-making process .............................................................. 30  
  2.3 Behavioural studies of decision-making processes ................................................... 32  
  2.4 Strategic decision-making processes ......................................................................... 33  
  2.5 Uncertainty, risk and ambiguity ................................................................................... 34  
  2.6 General decision-making processes .......................................................................... 35  
      2.6.1 Identification Phase .......................................................................................... 37  
      2.6.2 Development Phase ......................................................................................... 38  
        2.6.2.1 Search Routine ......................................................................................... 39  
        2.6.2.2 Design Routine ......................................................................................... 40  
      2.6.3 Selection Phase ................................................................................................. 40  
  2.7 Foreign direct investment .............................................................................................. 41  
      2.7.1 Macroeconomic Studies on FDI ........................................................................ 42  
        2.7.1.1 Product life cycle theory ............................................................................ 42
2.7.1.2 Uppsala Internationalisation Model .......................................... 42
2.7.1.3 Oligopolistic reaction theory ..................................................... 43
2.7.1.4 Eclectic paradigm ................................................................. 43

2.8 Impact of FDI on home and host country ........................................ 44
2.9 Microeconomic studies on FDI ...................................................... 45
2.10 FDI decision-making model ......................................................... 46
2.11 Conclusion ................................................................................... 49

3 Research methodology ..................................................................... 51

3.1 Selection of the research method .................................................. 53
3.2 Grounded theory research method ................................................ 55
  3.2.1 Development of grounded theory ............................................. 55
  3.2.2 Split in methodology ............................................................... 56
  3.2.3 Role of the literature review ..................................................... 58

3.3 Implementation and methodology ................................................. 59
  3.3.1 Theoretical sampling ............................................................... 60
  3.3.2 Primary field study ................................................................. 63
  3.3.3 Interviewing ........................................................................... 63
  3.3.4 Constant comparative method ............................................... 65
  3.3.5 Other sources of data .............................................................. 67
  3.3.6 Interpreting the data through coding ...................................... 68
    3.3.6.1 About coding .................................................................. 68
    3.3.6.2 Open coding ................................................................... 69
    3.3.6.3 Axial coding ................................................................... 72
    3.3.6.4 Selective coding and discriminate sampling ..................... 73
    3.3.6.5 Expert interviews ............................................................. 74
  3.3.7 Theoretical sampling ............................................................... 75
  3.3.8 On grounded theory ............................................................... 75

3.4 Evaluation of research methodology ............................................ 76
  3.4.1 Quality of methodology ........................................................ 76
  3.4.2 Reliability ............................................................................... 77
3.4.3 Construct validity ........................................................................78
3.4.4 Generalising the findings ..........................................................79
4 Findings ..................................................................................................81
4.1 Starting point of the decision-making process ..............................85
4.2 India’s context-specific differences ..............................................86
  4.2.1 Demand-side factors ..................................................................87
  4.2.2 Supply-side factors ..................................................................87
    4.2.2.1 Skilled workforce ...........................................................87
    4.2.2.2 Infrastructure ..................................................................88
    4.2.2.3 Supply chain ....................................................................88
  4.2.3 Institutional factors ....................................................................89
    4.2.3.1 Cultural proximity and familiarity ..................................89
    4.2.3.2 Political system and legal framework .............................91
    4.2.3.3 FDI policy .......................................................................92
4.3 Impact on the emerging market decision-making model ..............93
  4.3.1 Preparation Phase ......................................................................96
    4.3.1.1 Related Activities Phase .................................................98
      4.3.1.1.1 Cultural insight ..........................................................99
      4.3.1.1.2 Organisational know-how and learning processes ...100
      4.3.1.1.3 Alertness to opportunities ........................................101
      4.3.1.1.4 Experienced managers .............................................102
    4.3.1.2 Experience Generation Phase .......................................104
      4.3.1.2.1 Trusted network of contacts .....................................104
      4.3.1.2.2 Experience generation and learning .........................107
      4.3.1.2.3 Awareness of investment opportunities ...................109
    4.3.1.3 Project Start-up Phase ...................................................111
      4.3.1.3.1 Board level initiative and commitment ....................112
      4.3.1.3.2 Right timing and defining moment ..........................114
    4.3.1.4 Productive leisure in the Preparation Phase ..................116
  4.3.2 Project Decision-Making Phase .............................................117
List of figures

Figure 1: India’s GDP growth rate 2006 -10...................................................18
Figure 2: Mintzberg et al., general model of strategic decision processes......36
Figure 3: Emerging market FDI decision-making model .........................47
Figure 4: Grounded theory process model ...................................................59
Figure 5: FDI decision-making process model for India ...............................81
Figure 6: Preliminary basic model emerged from data ...............................82
Figure 7: Preparation Phase ........................................................................96
Figure 8: Related Activities Phase ...............................................................98
Figure 9: Experience Generation Phase .......................................................104
Figure 10: Project Start-up Phase .................................................................111
Figure 11: Project Decision-Making Phase ...............................................117
Figure 12: Development Phase .................................................................118
Figure 13: Selection Phase .........................................................................130
Figure 14: Implementation Phase ...............................................................137
Figure 15: FDI decision-making process model for India ...........................150
Figure 16: Critical decision-making steps for managers ...........................155
List of abbreviations

<table>
<thead>
<tr>
<th>Acronym</th>
<th>Description</th>
</tr>
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<tbody>
<tr>
<td>CEO</td>
<td>Chief Executive Officer</td>
</tr>
<tr>
<td>FDI</td>
<td>Foreign Direct Investment</td>
</tr>
<tr>
<td>FY</td>
<td>Financial Year</td>
</tr>
<tr>
<td>GDP</td>
<td>Gross Domestic Product</td>
</tr>
<tr>
<td>IMF</td>
<td>International Monetary Fund</td>
</tr>
<tr>
<td>INR</td>
<td>Indian Rupee(s)</td>
</tr>
<tr>
<td>IT</td>
<td>Information Technology</td>
</tr>
<tr>
<td>JV</td>
<td>Joint Venture</td>
</tr>
<tr>
<td>MNC</td>
<td>Multi National Corporation</td>
</tr>
<tr>
<td>p.a.</td>
<td>per annum, per year</td>
</tr>
<tr>
<td>SME</td>
<td>Small and medium enterprises</td>
</tr>
<tr>
<td>USD</td>
<td>United States Dollar</td>
</tr>
<tr>
<td>WFOE</td>
<td>Wholly Foreign Owned Enterprise</td>
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<tr>
<td>WTO</td>
<td>World Trade Organisation</td>
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Abstract

Research question – This dissertation seeks to provide an answer to the following research question: What is the foreign direct investment (FDI) decision-making process for Swiss companies that intend to invest in India? Which are the specific characteristics of the Indian market that influence the decision-making process?

Research methodology – A Straussian grounded theory approach was applied, investigating 24 different FDI decision-making processes by means of 41 interviews with company representatives and experts, in Switzerland as well as in India.

Findings – Differences in the FDI decision-making process for India as opposed to other emerging markets were identified, mainly pertaining to the speed, quality and the overall confidence level during the process. These differences stem from specific characteristics of the Indian market with regard to institutional factors (cultural proximity and familiarity, political system and legal framework, FDI policy) and supply-side factors (skilled workforce, infrastructure, supply chain).

Research limitations/implications – Although the research design provides a satisfactory credibility of the results, the scope of the study is limited to the FDI decision-making process of Swiss companies investing into India. Suggestions for future research are provided.

Practical implications – This dissertation guides decision-makers as to how to structure and execute the FDI decision-making process when considering to invest into India. It helps to understand the impact of the contextual difference on the decision-making process, and what characteristics the process should
have in order to make optimal decision-making. This dissertation also provides insights into the lived experiences of companies and individuals directly involved in the process, and describes how managers overcome the uncertainty while deciding to invest into the unknown market of India. In the final chapter, the implications of the findings are provided, including concrete guiding principles for managers.
1 Introduction and research area

The increasing importance of FDI into India in the operations of Swiss companies and the often strategic and long-term nature of these investments make them an interesting and important target of analysis. Little has been investigated on how actually the decision to invest into India is taken and which variables dominate the decision-making process. While some characteristics of the process are similar within a wide variety of emerging markets, others are very specific to a certain country or cultural sphere. Given that the Indian subcontinent is culturally and institutionally significantly different from the West or other, also emerging markets, it is to be expected that India-specific characteristics influence the FDI decision-making process. This dissertation aims at finding out how the FDI decision-making process for an India investment is structured, what the critical variables are and which India-specific factors impact it.

1.1 Indian economy: Up to 1991 and since

Roughly, four economic eras can be defined in Indian history. The first era, the pre-colonial period until the 17th century, was one of a flourishing and culturally rich country, during which the annual revenues of the emperors far exceeded that of their Western counterparts.

The second economic era was that of British colonialism, from the 17th century till independence in 1947. That was a period of economical regression. At the time the British entered the country, India’s share of the world GDP was roughly 22% - when independence was regained, India’s share had gone down to around 2%, with a literacy rate hovering around 17% (Basu 2004).
During the third period from 1947 until 1990, India had taken a protectionist stance. By the late ‘80s, the FDI inflow into India was lower than into Bangladesh. However, in this period the country achieved a fair degree of economic development and standard of living. Literacy rates leaped from 17% in 1951 to 52.2% in 1991, and the national income grew from 1% p.a. in pre-independent India to 5% 1976-1991 (Basu 2000). Still, there was a stark discrepancy between how India thought it could grow and at what rate it was effectively growing.

In 1990 then, India adopted significant changes in its economic policy, opening itself to market liberalisation, implementing key reforms in many sectors (Rakshit 2004). This fourth period led to an India with one of the fastest growing and resilient economies in the world, steadily growing at annual growth rates of 6% or above, as illustrated in the graph below.

*Figure 1: India’s GDP growth rate 2006 –10*

Source: www.tradingeconomics.com
1.2 Foreign direct investment in India

India’s economy is booming, and the nation has attracted FDI equity inflows of USD 2,214 million as on April 2010, as per data released by the Department for Industrial Promotion and Policy, Government of India (http://dipp.nic.in). Many foreign players have entered the market, and many more are expanding their operations in the country. 20% of the companies on the Fortune 500 list, including Microsoft, Hewlett Packard, and General Electric have set up research and development facilities in India. The flow in FDI, coupled with the increasing joint ventures between Indian and foreign companies, and the growth in domestic demand have created significant employment opportunities for India’s young, talented and highly skilled professional workforce. The growth has spilled over to create a burgeoning middle class, with higher disposable income and increased consumption patterns.

Today, the country has opened FDI opportunities in all sectors except defence (opened up recently to a limited extent), railway transport and atomic energy. In sectors like road and port infrastructure, mining of gold and minerals, and pharmaceuticals, Multi National Corporations (MNCs) can own up to 100% of their Indian affiliates without government approval. In other sectors such as power, integrated township development, 100% foreign ownership is possible with government approval. In areas like exploration for petroleum reserves, development of marketing infrastructure for petroleum products, and exploration and mining of coal, MNCs are allowed majority stake in the affiliates, usually varying between 51% and 74%. In most cases however, their stakes in State owned enterprises are restricted to 26%. Finally, in sectors like media and insurance, MNCs are also restricted to a minority stake, and are expected to obtain governmental approval prior to the initiation of the business.
1.2.1 Definition of FDI

According to the International Monetary Fund (IMF), a FDI has three components, namely equity capital, reinvested earnings and other direct capital. A large number of countries, including several developing countries, report FDI inflows in accordance with the IMF definition. However, the Reserve Bank of India (RBI) reports FDI inflows only on the basis of investments received from non-residents on equity and preference share capital under the FDI scheme. As the data released by the RBI does not capture reinvested earnings and other capital, these inflows to India do not fully comply with standard international coverage and are, therefore, not directly comparable with the FDI data released by other countries.

1.2.2 FDI routes into India

There are several ways for a foreign company to enter into India. The most capital-intensive mode is in general to incorporate a company in India with 100% foreign equity, i.e. a wholly foreign owned enterprises (WFOE), may it be a greenfield project or an acquisition. Further, a company can enter into a Joint Venture, by creating a new JV or via partial acquisition of an existing company. Less capital intense routes include export and set up of a branch office, a liaison office or a project office, all of which require an approval from the Reserve Bank of India. In this dissertation, the latter have not been considered since the investment amount typically does not justify an extensive decision-making process.
1.2.3 India’s FDI Strategy

India has broadly promoted its strength in the service industry in attracting FDI, and has capitalised on its high quality workforce’s skills and the advantages of a young college-educated English-speaking population. Noorbakhsh, Paloni and Youssef (2001) observe that the availability of local skills can become a strong pull factor for FDI, and India has stood witness to that. As compared to most emerging markets, India gets a large share of FDI in areas such as IT and knowledge based industries. This is also supported by the view that efforts to provide better education and training would not only enhance the economic growth effects of FDI in an emerging market, but are also likely to induce higher FDI inflows (Borensztein et al. 1998).

Besides, the economic policy has adopted key currency exchange reforms and friendlier tax structures to improve competitiveness.

Till date, when compared with China, India may not witness such a prominent trend of repatriation of funds from its non-resident citizens. However, this is slowly changing, with increased FDI initiatives from the Indian diaspora, especially in areas such as IT and technology consulting. Aside from the fact that these investments are linked to cost advantages, intuitive decision-making, as revealed as an important factor while investing into unknown markets, supports the idea that a non-resident citizen would feel more comfortable investing in his former homeland than an investor without any a priori link to India.

In manufacturing, India is presently gaining considerable investment in communication technology and in the automotive industry (e.g. Nokia, Hyundai). The country would however need to focus on improving its infrastructure to significantly enhance FDI prospects. Recent administrative
reforms have ensured that setting up a business is quicker, however, it still tends to be a prolonged affair, and exiting a business is still perceived as fairly cumbersome in India. Such factors deter investment flow and companies that look to test the water by making an initial entry into the market.

However, it is also observed that India as a nation has adopted a highly pro-investor stance. Aside from the inducements offered by the Central Government, attractive incentives are also offered by state governments. Land is offered at very low rates for foreign-owned factories and attractive waivers and concessions such as tax holidays (e.g. Ford Motors, Tamil Nadu) and exclusive infrastructure improvements (e.g. General Motors, Gujarat) are provided (Gandhi 2002).

### 1.2.4 Swiss-Indian trade relations

Swiss-Indian trade relations date back to 1851 when the Volkart brothers set up the Volkart Trading Company in Bombay (India) and Winterthur (Switzerland). The Swiss-Indian Treaty of Friendship was signed in 1948, the first such treaty signed by India after it became independent in 1947. The next six decades witnessed further deepening and broadening in the economic, political and cultural relationship between these countries.

According to the official data released by the Department for Industrial Promotion and Policy, Government of India (http://dipp.nic.in) Switzerland’s share in India’s total import was at 4.1% in FY 2009 and the bilateral trade between the two nations is increasingly on the rise, with Switzerland being the 11th largest FDI investor in the country in 2009. India’s sustained high economic growth and its improving market access are key factors in attracting rising Swiss investment. Currently, roughly 135 companies (subsidiaries and
joint ventures) of Swiss-Indian collaborations are active in India. According to an unpublished survey conducted by the Embassy of Switzerland in India in Spring 2010, 88.9% of the participating Swiss-Indian collaborations are of the opinion that the business climate in India is changing to the better, and 89.9% of the companies plan to expand their business in the country.

Those figures imply that the foreign direct investment of Swiss companies into India is bound to increase and hence also the number of FDI decision-making processes. Since only few investigations have been undertaken on these companies’ decision to invest in India and on the parameters that dominate the decision-making process, a thorough, grounded research is much required. And given that the Indian subcontinent has significant cultural differences from the West and other emerging markets as well, it is likely that the decision-making process deployed for India would be different from that used in other cultural spheres. To make the decision-making process as optimal and effective as possible, the companies should be aware of the context-specific characteristics and their impact on the decision-making process.

1.3 FDI decision-making processes and target country

While research in the area of FDI has largely focused on understanding motives, procedures, impact of FDI on the host company and country and impact on the home company and country, not much investigation has been carried out on the actual decision-making process that guides the investment decision. Academic efforts have mainly dealt with the theory and practice in strategy formulation and implementation (Hamel & Prahalad 1994; Porter 1980), strategic decision-making (Gore et al. 1992) and models for strategic decision-making (Simon 1976; Mintzberg et al. 1976). Larimo utilises Mintzberg’s general model for strategic decision-making and acknowledges implicitly that the decision-making process deployed for a strategic decision is
the same as that for a FDI decision (Larimo 1995). Nippa (2001) questions whether conceptually strategic decision-making is anything more than just mere decision-making.

Kukovetz (2002) contends that the decision-making process may differ depending upon the FDI host country where the investment is planned, and especially whether the host country is a developed or an emerging market. He argues that due to fundamental differences in operating environment, and factors such as unfamiliarity and change, general decision-making process models (like e.g. Mintzberg et al. 1976) need to be adapted. Finally, Kukovetz (2002) proposes a model for emerging markets, may they be emerging economically or technically. He developed his model using data from foreign direct investment projects by German speaking European countries investing into China. The model was then validated on the technologically emerging market of the Internet.

1.4 The Indian context and research proposition

This dissertation contends that India is different from China, and in fact, from any other emerging market. The Indian context does provide a different, distinctive framework for doing business. The differences exist across varied aspects - India’s legal framework, societal stratification, sectoral caps on FDI, labour skills and composition, labour laws, its democratic governance and the widely English speaking population.

This doctoral research project takes the view that this Indian context does have an influence on the investor’s decision-making process (research proposition). This proposition is addressed with the following research question:
• **Research question:**
  What is the foreign direct investment decision-making process for companies that intend to invest in India? Which are the specific characteristics of the Indian market that influence the decision-making process?

The aim of this study is to analyse the FDI decision-making process of Swiss companies investing into India and identify whether, and if yes how, the specific Indian context plays a role in the decision-making process.

The unit of analysis is the company, which has committed or is in the process of committing a substantial foreign direct investment into India. The phenomenon addressed is the decision-making process, which finally leads to the decision to invest.

### 1.5 Summary

Despite the rapidly increasing investment of Swiss companies into India, little has been investigated on how actually the decision to invest into India was taken and which parameters finally dominated the decision-making process. Does the decision-making process of a Swiss enterprise investing into India appreciably differ from the one investing into China? To what extent do the specific characteristics of the Indian market play a role? This dissertation is a logical continuation of the existing research in foreign direct investment decision-making processes to the Swiss-Indian context.

In section 2, a literature review is conducted. It reveals that the specific characteristics of the Indian market, and the extent of influence those characteristics have on the decision-making process have not been adequately
researched. In order to fill that research gap, a field study according to the principles of the grounded theory research methodology is conducted (section 3): 24 foreign direct investment (FDI) decision-making processes are analysed, by means of 35 interviews with company representatives and 6 interviews with experts. The goal was to uncover through these interviews the most significant India context-specific factors and to identify their impact on the decision-making process. By means of concrete examples of investing companies, Section 4 discusses the findings of the research. Section 5 draws conclusions for the practitioner and points out paths for further research.

The key proposition in this dissertation is that corporate decision-making processes should be different (adapted) for the strategic decision-making process relating to the investment into India. The goal is to reveal the key characteristics needed in a decision-making process to make it optimal and effective in supporting the process.
2 Literature review

The literature review forms the basis for the research exploring the body of knowledge and understanding on the subject set by other researchers and subject matter experts, and also framing the scope of the current discussion in this research work. This dissertation aspires to determine the FDI decision-making process explicitly for foreign direct investments into India. A thorough review on related literature and existing theoretical models, will prepare the grounds for the research based on the disclosed research gap.

The subject of FDI decision-making process within the specific context of emerging markets is a fairly new phenomenon, yet to be explored completely. Most theoretical contributions and conceptual understanding established on the subject have revolved around the general strategic decision-making process, and enhancing existing literature on FDI processes. References to research in the field of FDI decision-making process with regard to emerging market is limited, the first being Aharoni in 1966, and the same applies to specific research in the Indian context. In his dissertation, Kukovetz (2002) presents an elaborate study on different models of strategic decision-making processes and proposes a new model based on FDI decision-making processes for companies investing in China. His findings are generalised across two definitions on emerging markets – the economically and technically emerging markets. For the topic under investigation in this dissertation the contribution made by Kukovetz (2002) forms the most recent addition to the literature.

The foreign direct investment decision-making process for India will be analysed from a strategic decision-making perspective. The focus in the literature review will be on strategic decisions-making models and strategic
decision-making process literature, and touching upon micro- and macroeconomic FDI decision literature.

### 2.1 General models in strategic decision-making processes

To comprehend the vital linkages between a strategic decision-making process model and an FDI decision process, it is imperative to begin with understanding the fundamental meaning of strategy. In their work (Gore et al. 1996) highlight the change over the years in the general understanding of the strategy of a company. They contend that the idea of profit-maximisation as a strategy is outdated and that it needs to be redefined as the capability in creating wealth. This goal is achieved by pursuing a strategy, which enables organisational growth overall, and could also involve financial decisions such as whether or not to execute FDI in an emerging market.

Significant research has been done in the field of strategic decision-making models. The first attempt at explaining the process was derived on the basis of a rational approach, which finds its origin in neo-classical economics. According to that approach, the participants of the process are ‘homo economicus’ and derive their decision from logical processes towards profit maximisation. However, as mentioned earlier, the meaning of strategy has transformed over the years and profit or utility maximization is no longer the sole purpose of a company strategy. Also, theorists who support the rational model in strategic decision-making fail to understand the complexity of the real world and that because of the asymmetry in information a rational decision ends up being only sub-optimal. Considering the limitations in the rational model, behavioural studies are included in the evaluation of the FDI decision-making model for India.
The rational strategic decision-making studies were followed by supporters of behavioural studies, like Simon (1976). The model created by Mintzberg, Raisinghani and Théorêt (1976) deserves special attention since their study considered the limitation of the rational model: They were aware of the constraints of complete rationality in the decision-making process. Their model is partially based on Simon’s three-phase I-D-C Model (Intelligence – Design – Choice), and accordingly identified three phases to a decision-making process: Identification, Development, and Selection (which includes Choice). In addition, the model establishes that in the “real world” these phases do not necessarily follow sequentially and may overlap with/ flow through from any of the phases.

In his work, Kukovetz (2002) provides an in-depth explanation into the model created by Mintzberg et al. (1976). He utilizes their model, amongst others, as a framework and derives a more appropriate one for FDI decision-making processes in emerging markets. It will be discussed in greater detail later in this section.

Mintzberg et al. (1976), define that decisions are a commitment to action (usually a commitment of resources) and since these investments are of a certain magnitude, they are regarded as strategic, strategic simply meaning important, with regard to the actions taken, the resources committed, or the precedents set. Consequently, the decision-making processes for FDI does share commonalities with other strategic decisions made within companies. To that extent, this study is designed to focus on research pertaining to strategic decision-making and strategic decision-making processes.

Foreign direct investment decision-making constitutes a subgroup of the overall strategic decision-making processes in companies. Studies reveal that depending upon the content of the decision to be taken, the process can be
different. FDI into stable markets will involve a different decision-making approach as compared to emerging markets. And again, in the specific context of India, the FDI decision-making processes will need to take into account specific characteristics of the Indian market – may they be supply-side, demand-side or institutional.

2.2 Rational model of decision-making process

The first attempts to explain the decision-making process have been rational models, explaining how decisions ought to be made.

According to the rational model, a comprehensive plan on how to reach the organization’s goals is created based on an exhaustive analysis of the environment and the company’s internal abilities. What follows is the identification and evaluation of all feasible alternatives and development of the most favourable one (Ansoff 1969; Hofer & Schendel 1978; Porter 1980). Also, several studies (Allison 1971; Cyert & March 1992; Lindblom 1959; Eisenhardt & Zbaracki 1992; Simon 1957) indicate that following an extensive search on all possible options, the best choice is made by applying the appropriate algorithms. Varied studies on FDI and related topics have been developed using the rational model as a background. These include studies which evaluate risks in FDI (Brewer 1989), studies that focus on specific aspects in the decision-making process (Chi & Fan 1997) and studies that compare different methods in evaluating investment projects (Van Cauwenbergh et al. 1996; Carr & Tomkins 1996; Leslie & Michaels 1997; Kelly & Philippatos 1982; King 1975). However, it is to be noted that the rational approach has often been criticised by behavioural researchers, who question its varied limitations, and in particular its inability to explain actual behaviour (Aharoni 1966).
The concept of bounded rationality (Simon 1945) highlights the shortcomings of the rational approach. It implies that decision-making takes place within the boundaries of the limited ability of human beings (Nilsson & Jiliberto 2004) and as such subject to factors like limitations in perception, memory, judgment and the ability to process information, imperfect information, and time and cost (Simon 1955; Harrison 1987). In the rational approach, decision-making is accompanied by a strong goal orientation and justification of the aims (Harrison 1987; Dean & Sharfman 1996; Nilsson & Jiliberto 2004). Theories based on bounded rationality impact the decision-making process rather than the outcome. Hence we find the application of behavioural studies relevant to this dissertation.

As mentioned earlier, the rational choice models do not explain actual behaviour (Aharoni 1966) and have many shortfalls. Behavioural researchers have criticized the rational choice model and support the concept of bounded rationality. They argue that organizations are unable to carry out complete analysis of alternatives because of bounded rationality. The effect is that apart from cognitive simplification of the alternatives, managers stop their search once a satisfying alternative has been found (March & Simon 1958; Lindblom 1959; Schwenk 1984). Hence decision makers aim to achieve objectives, which are ‘good enough’ rather than the best (Eisenhardt et al. 1997; Elbanna 2006).

Managers face a highly complex organizational environment when making decisions. It may not be possible for a manager to orchestrate the internal decisions, external environment, behavioural and power relationships, technical and informational needs, and anticipate the actions of intelligent opponents, as these may not come together at precisely the same time (Fredrickson & Mitchell 1984; Dean & Sharfman 1996). Also, decision
makers have cognitive limitations (Cyert & March 1992; Janis 1989; Jones et al. 1992; Pinfield 1986; Snyman & Drew 2003), and despite knowing that the alternative course of action may not necessarily solve the problem, such decisions are made to avoid high risk. This goes against the norms of the rational approach as goals are discovered and choices are influenced through social processes (Anderson 1983).

2.3 Behavioural studies of decision-making processes

Behavioural decision-making analysis how decision makers make decisions in an uncertain environment and how a decision-making process can be made more efficient and effective. Behavioural theories focus on the behaviour of the decision maker in an organizational context, and originate from the organizational theory of Weber (1997) and findings of behavioural decision theory by Simon (1957).

Several studies have been conducted which explain the decision-making process from a behavioural perspective. In the majority of the recent decision-making studies, the underlying assumption that the decision-making process can be broken down in different phases is evident.

Over the years different models on decision-making processes have been proposed. FDI decisions as well as strategic decisions can be analysed with a phase model framework (Simon 1976; Mintzberg et al. 1976). Phase models often form the theoretical framework of empirical research in this area (Björkman 1989; Larimo 1995). Björkman (1989) notes that a data-gathering phase is followed by a strategy development phase, which leads to a selection or choice phase, and activities of one kind dominate others at any point in the decision-making process.
An early model of this approach is Simon’s three-phase Intelligence-Design-Choice (I-D-C) model (1965). A significant addition to Simon’s I-D-C Model has been the acknowledgement that decision-making processes are recursive, run through many, at times repetitive loops, till the decision-maker arrives at the final solution (Kukovetz 2002; Mintzberg et al. 1976). Additionally, there are studies, which do not fully endorse the phase approach, and assert that certain activities such as information gathering and choice are done across all phases of the process (Witte 1972).

Acknowledging that the phases and routines identified do not necessarily occur in a fixed sequential order as suggested by normative literature, most behavioural researchers have modified the sequential process with feedback loops, disruptions, and partial re-starts of the process (Mintzberg et al. 1976). Studying the varied research on decision-making processes improves our understanding of the process better as each study draws our attention to one or more aspects of decision-making that have been previously over looked.

2.4 Strategic decision-making processes

Strategic decisions are different from ordinary decisions. Intrinsic to a firm’s survival and future growth, strategic decisions are generally handled by the top management as they reap long-term results for the organisation. These decisions reflect the interaction and relationship between the organization and its environment, often with a high level of uncertainty, since it relates to predictions of the future (Ginsberg 1988; Mintzberg et al. 1976; Pettigrew 1992; Dean & Sharfman 1996; Wilson 2003; Nippa 2001). Stressing further on this view concerning uncertainty, it has been argued that strategic decision-making is not textbook decision-making under uncertainty, where alternatives
are given even if their consequences are not, but more of decision-making under ambiguity where almost nothing is given or easily determined (Harrison 1987).

2.5 Uncertainty, risk and ambiguity

Risk and uncertainty are prevalent across all situations that involve decision-making (Radford 1989; Carroll & Johnson 1990; Hammond et al. 1999). In decision-making literature, the definitions of risk and uncertainty (Davidson 1982; Davidson 1991; Murtha 1997; Simpson et al. 1999; Simpson et al. 2000; Macmillan 2000) are construed to be the same, and the words have often been used interchangeably (Thurner 2005). There is no conceptual basis available to agree on clear definitions of ‘risk’ and ‘uncertainty’ (Brunsson 2000; Dwyer & Minnegal 2006).

The general understanding based on the mathematical definition of risk is that risk is meant where the probability of every alternative is known, even though the actual outcome is not. Uncertainty is the case where the probabilities of alternatives are not known with certainty. During strategic decision-making processes even the alternatives are not usually known, bringing in the dimension of ambiguity since neither alternative nor outcome is easily determined (Mintzberg et al. 1976). Thus it is likely that while the term ‘risk’ is quoted and used extensively in literature, authors may well be referring to uncertainty or even ambiguity rather than risk itself (Laverty 1996).

Some companies would find investment in India risky, whereas some would find it more risky not to get involved. Investing in emerging markets is not necessarily a hugely risky task, as not investing could prove to be more risky
for a company, if the market develops as forecast, and most competitors take advantage of investment opportunities.

2.6 General decision-making processes

Among the most quoted decision-making models is the one presented by Mintzberg et al (1976), who literally discuss the ‘The Structure of “Unstructured” Decision Processes’. As acknowledged by most researchers, it is seen as the most influential and widely cited scholarly work in the field of strategic decision-making processes. Over a period of five years, a field study of 25 strategic decision-making processes was conducted. The result was that the seemingly unstructured processes shared a common underlying pattern that drives the structure. 3 central phases, 3 sets of supporting routines for each phase and 6 dynamic factors to explain how decision-making processes are structured were identified. Based on the mentioned elements a general model was proposed:
In their field research, each organization was studied in-depth over a period of three to six months, and the decisions were categorized by the stimuli that called for them, their solution and the process chosen to arrive at that solution. In drafting the general model of the strategic decision process, the phase approach was followed; the most popular at that time being Simon’s three-phase Intelligence-Design-Choice (I-D-C) model (Simon 1965).

Mintzberg et al., were able to reconcile their phase-based model with those authors rejecting the phase theorem (Witte 1972) by acknowledging that the phases and routines identified, did not necessarily occur in a fixed sequential order. Mintzberg et al. defined the corresponding phases as identification, development and selection. These three phases consist of seven central...
routines. In the identification phase the central routines are recognition and diagnosis, in the development phase search and design and in the selection phase screening, evaluation/choice and authorization. Three sets of supporting routines support the above-mentioned phases. They are defined as decision control, communication, and political. In order to describe the relationship between the central and the supporting routines, six dynamic factors are added to the model, namely interrupts, scheduling delays, feedback delays, timing delays and speedups, comprehension cycles, and failure recycles.

As visible in the figure, following the recognition that a decision needs to be taken, if no further diagnosis, solution design, authorization is required, the decision maker can proceed straight to the evaluation/choice of a solution. Thus, in this model, the most basic decision-making process will consist of only two main routines.

2.6.1 Identification Phase

The identification phase stands at the beginning of the decision-making model and is the point at which the organization recognizes that action needs to be taken (recognition routine). In Mintzberg et al.’s model the main stimuli are new opportunities arising, crisis recognized or other general problems requiring ‘decisional activity’. As it is, these situations often do not arise suddenly calling for a decisional activity – the decision processes are evoked by a multitude of stimuli of different magnitude, collected over a period of time. It is only after the need for a decision is reviewed and identified that it is taken up as a decision-making problem. It is perceived as the difference between the status quo and desired state in which the company would like to find itself in (Mintzberg et al. 1976).
The decision to act on this initial spark may depend not only on the accumulation of the critical amount of stimuli but also on the readiness and openness of the organization to venture out. In terms of the foreign direct investment decision-making, this is the moment in which the organization recognizes the need to consider an investment, a “decision to look abroad” (Aharoni 1966). The decision to invest has not been taken yet – but the stimuli to follow the thought of a potential FDI are strong enough to evoke a further diagnosis (diagnosis routine). This initial spark leads the organization to investigate further on the option by utilizing in-house and external sources of information to better understand and judge the potential of an investment. At this stage, already a certain amount of management attention is devoted to the process and, as Aharoni (1966) points out, the project ‘Foreign Investment’ will be considered, or else might not even be considered as a strategic project.

And since senior management environments can be political, depending upon the interests and bargaining power of the involved parties, the decision to proceed with an FDI may be accelerated or postponed. The diagnosis routine may manifest itself in a more formal, explicit way when the task is assigned to a business development team or task force or to external consultants. On the other hand, the diagnosis may take place more implicitly, within the normal course of organizational activity.

### 2.6.2 Development Phase

This phase is considered to be the core of the decision-making process. Referred to as “the heart of the decision-making process”, most resources are used in this phase (Mintzberg et al. 1976).
The development phase consists of two routines: search and design. In the search routine, the firm tries to find ready-made solutions for the situation. In a design routine, the firm tries to develop either a custom made solution or modified solutions. Modified solutions are those where the previous search routine has narrowed down the ready-made solutions and then design is used to modify the same.

Hence, this phase leads to the development of one or more solutions to the situation. Relating it to FDI, the aim of the development phase would be to come up with solutions pertaining to the how and why of investing in the new market.

2.6.2.1 Search Routine

Organizational decision makers go through a number of activities to generate solutions. The empirical findings show search activities are rather hierarchical, starting from memory and familiar sources to a progressively more active search for solutions.

Broadly, Mintzberg et al. discuss four types of search behaviours. Memory search, as the name suggests is turning towards existing memory of the organization. Passive search is a waiting for alternatives to appear. Trap search is the setting up of search generators to get alternatives. Generally the search would begin with these three types of searches and their failure would lead to the fourth type of search. Active search is the direct seeking of alternatives through scanning and focusing. Search begins to now look at less easily accessible and familiar areas.
If such a search is not successful then the design route is then taken, which will be discussed below.

2.6.2.2 Design Routine

This routine defines beginning with a vague idea to end up with something tangible (Mintzberg et al. 1976). Hence there is uncertainty about what exactly the future outcome of the design process will be. As discussed before, during the design routine, the firm will develop either custom made solutions or modified solutions.

Custom-made solutions are more expensive and time consuming. Hence developing a custom made solution means the firm will only come up with one alternative. Therefore, the development of an FDI project usually concerns the design of a single option (Sykianakis & Bellas 2005). We see that this is not uncommon in practice due to the high costs and difficulties in managing the development stage (King 1975).

In the case of modified solutions the firm is willing to develop a second alternative, as it is less expensive to develop extra alternatives through search and then involve a bit of design to develop modified solutions.

2.6.3 Selection Phase

In this stage the alternatives are evaluated and involve three routines namely, screen, evaluation-choice and authorization. The screen routine happens when the search has led to more alternatives that can be intensively evaluated. It does not actually determine what is suitable; rather it eliminates what is not
feasible. Hence although a part of the selection phase, screening is already done in the search phase where the alternatives found were quickly screened at that stage itself.

Evaluation choice routine is used to investigate the feasible options and then choose the course of action. This choice can be made in three different ways. Judgment is a single person activity. Bargaining involves a group of individuals who have conflicting goals, and each exercise judgment. Analysis is when experts carry out factual analysis (followed by a choice through either individual judgment or group bargaining). Although a significant amount of literature exists on this routine, according to Mintzberg, it is less significant than other routines such as diagnosis and design. Also it is important to consider that many factors such as emotions, politics, power, personalities etc can negatively affect this routine.

Authorization Routine takes place when the one doing the evaluation and making the choice is not the one with final authority to commit the organization to the course of action. This routine can also be applied during the development stage where authorization may be required for activities. This leads to either acceptance or rejection of the choice. In a few cases conditional acceptance will lead to recycling of the solution through the development phase. This phase can experience the most amounts of difficulties due to time and resource constraints, political force, lack of knowledge of the authorizers.

2.7 Foreign direct investment

Research on Foreign Direct Investment has been focused on both macroeconomic and microeconomic perspectives. On a macroeconomic level, research has been broadly focused on the stimulus for FDI and the impact it
has on host/home countries. At a microeconomic level, studies have largely focused on how FDIs are carried out and the key influencers on FDI decisions.

2.7.1 Macroeconomic Studies on FDI

Macro level research on FDI has usually been conducted on a comprehensive plane, deploying rational choice theories. While such studies are not very specific and do not explain the decision-making process itself, they have helped to generate considerable understanding on the macro-economic perspectives to FDI.

2.7.1.1 Product life cycle theory

Vernon’s product life cycle theory (Vernon 1966) asserts that the product is the central element of a firm’s FDI decision, and demonstrates how products mature with the evolution of a firm’s international activities, and trade and investment patterns change over time. The theory suggests that a product matures through different stages, and the more mature a product and its production, the greater the likelihood that its production will be transferred to developing countries for cost saving purposes.

2.7.1.2 Uppsala Internationalisation Model

Another early model is the Uppsala Internationalisation Model (Johanson & Wiedersheim-Paul 1975; Johanson & Vahlne 1977). This is based on Swedish organizations, and identified a four-stage sequence leading to international production. Firms begin by serving the domestic market, and then penetrate
foreign markets through exports. After some time, sales outlets are established abroad until finally, foreign production facilities are set up. It is based on the logic that there is a sequential internationalisation process based on incremental, experiential learning. To put it simply, a firm develops over time, based on the gradual acquisition of knowledge through experience.

However, exceptions to this theory have been found. It has been found for example, that the model did not reflect the actual internalisation process of UK companies expanding in the European Community (Millington & Bayliss 1990). This was because knowledge based on experiential learning could be leveraged and translated across countries and product markets, and these economies of scope allowed firms to bypass some or all of the intermediate stages of the postulated sequential process. Like the product cycle theory, this model is also incapable of explaining the emerging phenomenon of firms that are ‘born global’. These are small to medium-sized companies which rather than slowly building their way into foreign markets, almost from inception expand by investing overseas.

2.7.1.3 Oligopolistic reaction theory

Another macro view on why FDI happens is through the oligopolistic reaction theory (Knickerbocker 1973). Based on “follow the leader behaviour”, it explains that firms follow rivals into foreign markets such that an initial FDI by one firm will result in others in the same industry to act similarly.

2.7.1.4 Eclectic paradigm
Dunning (1979; 1980) proposes the eclectic paradigm of FDI, or OLI model. This discusses that enterprises engage in FDI if the company has in a certain country (O) Ownership specific advantages, (L) Location/host country specific factors and (I) Internalisation advantages. The theory merges several isolated theories of international economics in one approach. Further, Dunning and others have refined the paradigm and recently expanded it with a cultural component and strategy considerations (Woodcock et al. 1994; Jones 1996; Dunning & Bansal 1997).

2.8 Impact of FDI on home and host country

A great amount of research has been done on the impact of FDI. These studies either deal with the impact on the host countries (e.g. skill and knowledge transfer, employment) or the home countries (e.g. redeployment of labour, process changes). Again, the studies on FDI impact discuss more at the macro level and do not delve the decision-making process itself. However they are helpful to understand the background and setting in which FDI decisions are made. They point to two aspects, which are important to consider in this dissertation.

Firstly, they analyse the concerns in the home country’s economy (Martin & Schumann 1996; Henneberger & Graf 1996). These concerns do have an impact on the companies’ decisions and decision-making processes such that they cite market orientation rather than cost cutting as their main reason to invest in foreign markets (Wang 1996; Ortmanns 1991). Secondly, the goals of the host country governments as well need to be accommodated. Often, they may not synchronise with the goals of the organisation. Since FDI characteristics strongly affect the host country’s economy, FDI is regulated in detail such as in China (Plum 1995) and in India.
Studies dealing with impact on host countries analyse employment and balance of payments effects as well as technology transfer issues (Plum 1995; Spar 1996; Koizumi & Kenneth 1980; Gundlach & Nunnenkamp 1996; Buckley et al. 2007), effects of multinational’s activities in export processing zones (Feenstra & Hanson 1997) and effects of industrialization. Studies dealing with the impact on home countries discuss home country employment (Paqué 1995; Henneberger & Graf 1996; Franko 1978; Koizumi & Kenneth 1980; Lee 1996; Henneberger & Kamm 1996; Buckley et al. 2007) as well as effects on other variables like trade (Pfaffermayr 1996).

2.9 Microeconomic studies on FDI

On a micro level, studies have been done which explain how and why the FDI decisions are made. Motivational studies discuss the factors that initiated the FDIs, i.e. whether it was market oriented or cost oriented. Mostly market orientation rather than cost cutting is cited as the reason to invest (Wang 1996; Ortmanns 1991). There are also behavioural studies, which concentrate on the motives for FDI. This includes an analysis of why FDI was done in small market of Israel and not somewhere else (Aharoni 1966).

These studies again serve as a background. This dissertation concentrates on the decision-making process of India. Hence why a company chose India for its FDI is not the question. It will concentrate on the process, which led to this decision and how it is different from the process, which led to decision made to invest in other emerging markets such as China.
2.10 FDI decision-making model

This literature review investigates the relevance of strategic decision-making models, especially those designed for emerging markets in the context of India. In the research area of FDI decision-making process only a few studies exist as such and therein proposing different models.

Larimo (1995) takes the above-mentioned model by Mintzberg et al. as the base model and complements it with specific variables relevant for Finnish firms. His model is less suitable for this dissertation since stable markets vary from emerging markets and thus get influenced by a different set of factors.

The model developed by Kukovetz (2002) serves emerging markets, as explained through the analysis on China and the Internet. It integrates three parallel areas of literature, namely: Market Entry Models, Project Decision-Making Models and Operational Studies, into one model for FDI decision-making in an emerging market. Kukovetz’ decision-making process model explains the series of activities leading to an FDI decision in emerging markets, typified with fast changing, competitive market coupled with an evolving regulatory environment. While the model draws its fundamental structure from Mintzberg’s approach on decision-making process, it also extends itself to create a deeper understanding on the phases that define a decision-making process in the real life scenario. The following describes the main phases and sub-phases of Kukovetz’ model.
Phase 1: Preparation phase
As shown in the figure above the model is divided into two phases, a preparation phase and a project decision-making phase. It is important that the preparation phase happens with complete awareness. As Kukovetz (2002) points out, during the first informal meetings with the target country the company usually does not realize its business opportunity, its opportunity to create wealth and grow. This first phase can be considered as a sophistication of Mintzberg et al.’s identification-phase. But this model not only identifies recognition and diagnosis of the problem but also involves efficiency gain by experienced managers and the organizational know-how and learning processes. Both factors have an impact on the preparation and also on the implementation, which builds a part of the second phase of the model, the project decision-making phase.
The preparation phase is thus divided into three subgroups: *related activities*, *experience generation*, and *project start-up*. The main objective of the first phase is to obtain market knowledge and experience in order to be able to develop a design in the next phase. According to Kukovetz it is important that the preparation phase happens within time, hence the immediate addressing of an FDI possibility is crucial. The early recognition of the opportunity does not mean instant investment. Moreover at times it may be important that the company waits till the environment is ripe for its intention, in a phase of productive leisure (Reinmoeller & Chong 2000). The phase ends with the company’s decision of whether or not to increase its position in the target market.

**Phase 2: Project decision-making phase**

The second phase is the actual decision-making phase, but it is ineffective without the right preparation. This phase is subdivided in again three phases: *development*, *selection*, and *implementation*. Normally, the implementation only follows after the authorization of the project. The development phase requires companies to design investment alternatives. In his study Kukovetz (2002) does not explain this procedure in detail but focuses on the possible variables, which may be different for emerging markets. One of which could be flexibility, since emerging markets are considered to be changing rapidly, companies try to keep their investments small and options open. Hence they try to be as flexible as possible.

The development phase is fairly lengthy since the organization searches for one or more viable alternative. In the selection phase the developed designs get evaluated. Other important variables to be decided on in this phase is how to deal with risk, which is closely related to the possibility of a flexible investment as mentioned above. The location of the decision-making authority
is also determined in this phase. After deciding on these variables the project seeks authorization.

The authorization is followed by the implementation phase. There are four variables which influence this phase: reaction to market change, in-depth market knowledge, organizational and knowledge transfer and how much experience can be generated for new markets. Although it has been widely neglected in literature, Kukovetz emphasises on the implementation phase as being very important. In the organizational role on knowledge transfer he points out the importance for the organization to not only integrate their strategy in their decision-making process, but to also align their whole organization accordingly.

Different target countries require cultural adaptation, which is very important for a successful implementation of the decision-making. With the reaction to market change Kukovetz is refers to the needed alertness and to the timely adaptation of an emerging market. Through the feedback loop in the model it is possible to acquire in-depth market knowledge. And last but not least, generation of experience is valuable for new markets as discussed already in the preparation phase.

2.11 Conclusion

The literature review has discussed the existing literature on strategic decision-making processes and foreign direct investment. While studies were conducted on strategic decision-making and on FDI decision-making, in particular also into emerging markets, those studies did not take into account that emerging markets can differ significantly from one another, as was shown earlier. This dissertation attempts to fill this gap in research for the corporate decision-
making process for FDI into the specific host market of India. It adds to the body of knowledge in the area of strategic decision-making processes in general, and FDI decision-making processes in particular.

In order to reveal the unknown impact on the decision-making process of these differences in context between India and other emerging markets like China, a large-scale field study is conducted, following the grounded theory research strategy. The next chapter discusses the grounded theory research approach, its applicability to the research question and how it was applied in the course of this research project.
3 Research methodology

In the previous chapters, various questions and hypotheses have been raised, and to answer them, a methodically sound research needs to be designed and implemented. For each question the appropriate research method shall be applied and prepare the grounds for the next phase. In the following chapter a critical review of potential research methods is presented while then moving on to the ones identified for this dissertation project.

Bernard (2000), who wrote a book on social research methods, pointed out that one of the problems about writing a book on that topic is that the expression ‘method’ has at least three different meanings in its common research usage. Very generally speaking, method signifies epistemology the theory and study of knowledge. Further, method could mean in which way and with which research tools the research is conducted. That could range from the selection of data sources, like interviews or focus groups, to which type of research is applied at which stage, like qualitative or quantitative research. In summary, it encompasses the research strategy as a whole for a certain study. The third understanding of method is the individual research technique which is applied at that particular stage, like whether to conduct an interview by posting a questionnaire, by phone or face-to-face.

An important point to be made before outlining different possible research methodologies is that “(f)rom the standpoint of good theory, one important conclusion drawn is that no single research category or sub-category is superior to any other research category or sub-category. Each method serves a very different, but important, purpose for theory development…” (Wacker 1998, p. 375).
The scientific research process can be categorised into two main categories: inductive and deductive. The *deductive* path is usually chosen in law-based sciences, like physical sciences. The explanation process initiates from a law or a model, which is considered to be watertight. It is followed that since the law holds for certain circumstances, it will also hold for other circumstances if it is applied ‘scientifically correct’. The test method is usually quantitative, in which the predefined model with operational variables is tested for its applicability. For the FDI decision-making process in India no model was readily available to be tested, hence a quantitative study approach was not considered applicable.

*Inductive* studies are commonly used in social sciences; e.g. observations are conducted and an explanation is derived out of the findings. Thus the basis of an inductive study lies often in empirical data and not, for example, in theoretical laws. If the utilised data can explain the phenomenon adequately, then the inductive explanation can also be used for predictions. Black (1999) summarises the inductive process with the steps of 1.) Observation 2.) Data collection 3.) Recognition of patterns and 4.) Proposal of a relationship.

*Qualitative* research methods are used for the initial, exploratory phase of a research project. The “richness and holism” of qualitative data, with its “strong potential for revealing complexity” (Miles & Huberman 1984, p. 10) tends to be more subjective in nature, investigating perceptions as a mean to gather in-depth understanding of human and social activities (Black 1999; Yin 2003). Since the research question revolves around strategy and decision-making at a firm level, it is part of social sciences. Therefore, an inductive approach seems more favourable in conjunction with this research project.

The epistemological position relating to the question what can be assumed to be found out as outcome of the research project, is the most important
reflection regarding the research methodology (Falkenberg 2005). Moving within that framework, this dissertation relates to the functionalistic paradigm of theory building. By discovering patterns of human behaviour in society, regularities are discovered with which the behaviour is predicted and controlled. Research propositions are derived based on existing literature and deduction. In order to test the proposition, data is collected and constantly compared with the existing findings. The hypotheses either get rejected or accepted by the data. In this process of iteration and refinement, theory slowly emerges.

No model has yet been created for the FDI decision-making processes in India - the theory building cannot rely on previous literature or prior empirical data to derive proposition for refinement. The task here is to develop this theory in the course of the dissertation. The procedure followed is that of literature review, defining the research gap and research question, derive the most appropriate research methodology, implement the methodology and draw conclusions. At the end, the implications for management and research should point the way ahead.

3.1 Selection of the research method

The topic under investigation, the strategic decision-making processes within companies, is complex in nature and hard to comprehend since it involves a multitude of factors and dynamics. Hence, most researchers have applied qualitative research methods in order to capture the holism of the data: In case studies, based on personal interviews (e.g. Aharoni 1966; Mintzberg 1976), decision-making models for FDI decision-making and strategic decision-making were developed. Kukovetz (2002) based his study on the FDI decision-making process for emerging market on the grounded theory research method.
For the FDI decision-making process for India, no model has been developed as yet. Also, the present level of research does not allow to derive meaningful research propositions for theory testing. Hence, the research questions, ‘how the foreign direct investment decision-making process for companies that intend to invest in India is structured and why’, and ‘which are the specific characteristics of the Indian market that influence the decision-making process’ are both exploratory and explanatory in nature and require theory building rather than theory refining or testing (Black 1999).

According to the original guidelines of the sociologists (Patton 2002), the developed theory should

- Enable prediction and explanation of behaviour
- Be useful in theoretical advances in sociology
- Be applicable in practice
- Provide a perspective on behaviour
- Guide and provide a style for research on particular areas of behaviour
- Provide clear enough categories and propositions so that crucial ones can be verified in present and future research.

For the research question it is unknown which categories and variables will be relevant in explaining the phenomena. The goal of this dissertation is not to test theory, but to develop theory. Hence, the research method chosen will have to provide an analytical framework for data collection, coding, analysis, category building and finally putting these categories in a relation to one another.
The grounded theory research approach aims at the development of theory through the emergence of conceptual categories and their interrelationships. The starting point is formed by the study of related literature and the researcher’s hunch (Glaser & Strauss 1967; Strauss & Corbin 1990). This matches the objectives of this research project, which is to generate a theory that can explain the FDI decision-making process for investments into India. Hence, the grounded theory research strategy is well suited for this research project.

3.2 Grounded theory research method

Grounded theory is a research method in which the theory is developed from the collected data, rather than the other way around. Hence it works in almost a reverse fashion from the traditional model of research, where the researcher chooses a theoretical framework, and then applies this model to the studied phenomenon.

The first step is data collection, through a variety of methods. From the data collected, the key points are marked with a series of codes, which are extracted from the text. The codes are grouped into similar concepts in order to make them more workable. From these concepts, categories are formed, which are the basis for the creation of a theory.

3.2.1 Development of grounded theory

Grounded theory was developed by two sociologists, Barney Glaser and Anselm Strauss in 1967 in their book "The Discovery of Grounded Theory". It was originally developed as a methodology in the social sciences emphasizing generation of theory from data during the process of conducting research.
However it has been adopted within the disciplines of psychology, anthropology, nursing, social work, education and more recently management.

Although it has entered the field of management research recently, it can be regarded as an established method for analysing issues involving business organisations (Koizumi & Kenneth 1980; Manning et al. 1998; Fox-Wolfgramm et al. 1998).

### 3.2.2 Split in methodology

Since the original publication, "The Discovery of Grounded Theory" in 1967 (Glaser & Strauss 1967), there has been a split in the theory. In the original book the two authors had argued that the researcher should approach the data with as little existing theory in mind as possible. In 1990, Strauss and Corbin moderated this stance in their book “Basics of Qualitative Research: Grounded Theory Procedures and Techniques” (Strauss & Corbin 1990). The disparity in ideas between the two theorists led to the creation of the book “Basics of Grounded Theory- Emergence vs. Forcing” by Glaser in 1992. While Strauss allows the researcher to have some concept about what he may find in the analysis (Strauss & Corbin, 1998), Glaser strictly argues against preconceptions (Glaser 1992).

This divergence in the grounded theory methodology is a subject of much academic debate, and has led to the existence of a Straussian and a Glaserian school. Grounded theory researchers must make a choice between the Glaserian approach and the Straussian approach. This decision has a significant impact on the analytical tools permitted during the course of research. According to Glaser there should be no pre-research literature review.
as this would lead to preconceptions. The researcher should not have a prior understanding of the phenomena under study since he might get desensitised by borrowed concepts. Instead, literature should be read in the sorting stage, and be treated as more data to code. It should be compared with what has already been coded and generated. The Straussian school however, emphasizes highly complex and systematic coding techniques and permits a preliminary literature study to identify research problems, the research gap and the areas in which to look for data. They saw the literature review as a foundation of professional knowledge and as per them a review of the relevant literature discloses current thinking in the area. It is however essential to note that such a literature review should not bring about any hypotheses. According to Straussian guidelines the researcher does not begin a project with a preconceived theory in mind. The researcher begins with an area of study and allows the theory to emerge from the data. (Strauss & Corbin 1998).

For the study of the foreign direct investment decision-making in India, the Straussian grounded theory approach was chosen and the research was conducted accordingly. In accordance with the functionalistic paradigm, the literature review revealed that the impact of the Indian context on the decision-making process was unknown. From this research gap meaningful research questions were derived. This procedure is not in line with the Glaserian approach, which disallows any sort prior involvement of the researcher with the topic under investigation. However, throughout the implementation of the grounded theory, an important aspect of the Glaserian approach is kept in mind, which is that the researcher is in danger of forcing preconceptions on the data.
3.2.3 Role of the literature review

Typically, the area to which grounded theory is applied, has been treated only superficially or been fairly ignored in the literature. Hence, the researcher is left with no other option than to build theory from the ground. Nonetheless, the researchers will have a disciplinary background, which will influence the way the problem is investigated. “Nobody starts with a totally blank sheet”, as very aptly put by Goulding (2002, p. 55).

According to Goulding (1999), when the topic of interest has a long, credible and empirically based literature, it could prove difficult to apply grounded theory. However, it can still be used, but exposure to the immediate area should be avoided so as not to prejudice or influence the perceptions of the researcher. The danger lies in the researcher having a prior disposition, whether conscious of it or not, of testing existing work rather than letting new categories and relationships emerge from the data. To avoid this, it is generally suggested that the field is entered at a very early stage and data is collected in the form appropriate to the research target.

The area of interest, i.e., FDI decision-making processes in India, has been relatively ignored or has been given only superficial attention. The objective of the research is to build theory from the ground. Hence grounded theory is well suited to the dissertation. Keeping in mind the Straussian approach, the literature review consisted of studying relevant studies on related areas. This was done keeping in mind that the review should not lead to any preconceptions or early propositions. It was done to identify gaps in the areas of interest. Stimulated by the literature review the research questions were developed. Hence the literature review was used to enhance theoretical sensitivity and not to formulate any research propositions.
3.3 Implementation and methodology

The research was designed as per the guidelines set by the Straussian approach. It was a recursive process of data collection, data coding, comparative analysis and theoretical sampling, until theoretical saturation, as represented in the following diagram.

*Figure 4: Grounded theory process model*

Source: Locke 1996

Once the area of interest was identified, i.e. the FDI decision-making process in India, the collection of data through interviews was started. The initial sample of chosen persons and organizations was based on the research questions developed at the end of the literature review. Questions for the initial unstructured interviews were prepared based on concepts derived from preliminary research.

In order to analytically code the individual data items, the technique of comparative analysis was applied. Coding is the analysis of data collected in
research. The goal is to develop categories based on the data collected. Coding was done in a sequential manner such that it began with open coding followed by axial coding and ended with selective coding. The three processes are described in detail later in this chapter.

This process allowed the development of an initial theory in connection to the research topic. To validate and refine the emergent theory, new data was collected (theoretical sampling). As per the logic of theoretical sampling, the focus was on collecting data that would lead to the testing and development of this emergent theory. Comparative analysis was done of the new data and the data was coded again leading to a further development of the categories.

Thus the task was recursive and completed once theoretical saturation was reached. This is the point at which no new categories, concepts, dimensions or incidents are emerging from the data. Instead, there is a strong repetition in the themes already observed and articulated. This is also the point where the theory is refined and thoroughly validated.

A field study of 24 different FDI decision-making processes by means of 35 interviews with company representatives led to the emergent theory. 6 expert interviews were conducted to challenge the findings, until the theory was considered robust.

3.3.1 Theoretical sampling

“Theoretical sampling is the process of data collection for generating theory whereby the analyst jointly collects, codes, and analyses his data and decides what data to collect next and where to find them, in order to develop his theory as it emerges.” (Glaser & Strauss 1967).
Hence in the grounded theory approach, data collection is directed by theoretical sampling, which means that the sampling is based on theoretically relevant constructs. What group or subgroups should the researcher look upon next to collect data? Sampling decisions should be purposeful and relevant. Participants should be chosen based on their ability to contribute to the evolving theory.

On the identification of an area of interest, the researcher will begin by formulating questions. These questions are designed to lead to the development of a theory. Directed by the main research question, the researcher must choose organisations, sites or groups to be analysed. He identifies an initial sample from which data is collected and analysed. This process allows the researcher to develop an initial theory in connection to his area of interest. Based on this initial theory he will decide on how to sample next. This is called theoretical sampling.

As per the grounded theory approach there are distinct ways of theoretical sampling and coding for the different phases. Theoretical sampling is structured. The three processes are a) open sampling, b) relational and variational sampling, and c) discriminate sampling (Strauss & Corbin 1998). Implementation was in a sequential order, structured according to the data required to further develop the theory. The initial phase, open coding, applies an open sampling approach during which data is collected free from preconceptions in order to have enough material within the area of research to form first categories and their properties.

In the second phase, axial coding, relational and variational sampling is conducted, with the goal to define the properties and dimensions of categories
and subcategories as well as the relationships between them (Pandit 1996; Strauss & Corbin 1998; Goulding 2002; Goede & Villers 2003).

Now once the categories and their relationships were discovered, the third phase began of selective coding with discriminate sampling. This consists of a deliberate and directed selection such that all necessary data is collected in order to confirm the core category, leading to the finalization of the research and the development of the theory. This helped to verify the relationship between the categories and refine the properties of those categories, which were underdeveloped and not yet fully understood. Discriminate sampling also had the objective of deliberately searching for data that would question or even falsify the categories and variables found. Only if no threatening data was found, or the data could be reconciled with the developed model, could it be assumed robust.

In addition to the three mentioned sampling and coding steps described, expert interviews were conducted after every block in order to discuss preliminary findings, and extract expert input from professionals who had each witnessed 10 to 20 FDI decision-making processes in India, and often from a different angle. At the end of the sampling phase, another block of expert interviews was conducted to challenge the findings, until the theory was considered robust. This is in line with Glaser and Strauss (1967) recommendation to verify the emerged theory with an independent data set. These three types of coding and the expert interview will be described later in the chapter in more detail as a part of our implementation.
3.3.2 Primary field study

In a field study, behaviour is examined in its natural setting (Scandura & Williams 2000). Primary field study requires the researcher to perform the data collection. The advantage of this research method is the one-on-one exchange of thoughts with an expert in that field. The primary field study enables the researcher to receive insights not put down in any books or articles. That tacit knowledge can be of great value on one hand at the beginning of a research, in order to understand the mechanics, dependencies and interdependencies of a topic. This is precisely what is required in the grounded theory research methodology. And on the other hand, after a certain theory building has taken place, to test or even validate the proposed model.

Prevalent methods of data collection include interviews, surveys, observation based on group interaction and direct observation. Interviews can be conducted unstructured, semi-structured or structured, referring to the extent of ‘interference’ and guidance the interviewer acts upon the interviewee and the interview situation. Surveys very often are conducted as postal (or e-mail) questionnaire surveys or sometimes as telephone surveys. As far as observation based on group interaction is concerned, there are two possibilities: focus groups (semi-structured) or workshops (structured). For this research, interviewing was considered as most useful data collection method.

3.3.3 Interviewing

The basic methods used in social research, are structured, semi-structured and unstructured interviews. In this research, in the first phase, the unstructured interview approach was utilized. One reason being that the area of FDI decision-making process into India has not been investigated so far – thus not
enough data was available to create a meaningful, exhaustive questionnaire at that stage of research. The second, closely related reason being, that if the goal is to find out as much as possible about the process, a structured, closed-ended interview would limit the interviewer in what he could ask and in reacting flexible to the information given by the interviewee. And it would limit the interviewee in elaborating ‘off-track’ and therefore not open new aspects to the topic under investigation. As Bernard (2000, p. 195) put it: “Get people on to a topic of interest and get out of the way. Let the informant provide information that he or she thinks is important.”

In the beginning when interviews were conducted they were unstructured as opposed to structured. Structured interviews, which are formal with a prescribed set of questions, do not match with the objective of obtaining first hand information from the point of view of the interviewee. The interviewee should be comfortable and have freedom to express his point of view during the interview. In a structured interview the interviewee may be inhibited and answer only the questions asked without any elaboration. This way we would lose vital information that the interviewee may have. However, totally unstructured interviews may produce inefficient data when the interview focus starts narrowing down. Hence, for the phases two and three in the grounded theory research strategy, axial coding and selective coding, a balance is found through semi-structured interviews, which provide a mere guidance to the interviewee about the kind of information the researcher is looking for. Also the method of interviewing should be flexible such that we are able to ask suitable questions depending on who the interviewee is. Persons in the same company can have different perspectives depending on many factors. For example what their job functions and positions are. Hence keeping in mind the above, the interview technique moved from unstructured to semi-structured interviews as the main method of data gathering.
In order to guide the interviewer through the discussion and make sure that the decision-making process was viewed comprehensively an interview guideline was prepared. It was based on the existing knowledge and experience of the interviewer and on the studied research and literature. In the first section, a number of statistical questions with regard to the interviewee (like number of years of experience in company, area of expertise etc.,) and with regard to the company (like number of employees in India, etc.) were posed. In the second section, structural or guiding questions (Spradley 1979) were introduced to guide the interviewer through the dialogue and also ensure that these questions were posed to every interviewee – in some way or the other. With the permission of the interviewee, the interviews were recorded electronically on a laptop during the interview. Where required, the notes were re-confirmed with the interviewee to ensure accuracy and correctness of the statements.

The use of a tape recorder during the interviews was considered many times. In view of the reactions and the type of information given during the first few trial interviews, it was decided to take notes without taping. The result was far better: In line with the grounded theory research, a plethora of interesting, partially sensitive, information was shared. Hence, it was decided to abandon the use of the tape recorder.

### 3.3.4 Constant comparative method

The grounded theory approach involves constant comparative analysis or what has come to be called the constant comparative method. This involves the researcher moving in and out of the data collection and analysis process. This back and forth movement between data collection and analysis is sometimes called ‘iteration’. Grounded theory research involves multiple iterations. This
method and its application in this dissertation is described more in detail in the coding chapter.

The interviews procedure lent itself to this constant comparative method. After every interview, stock was taken and, if necessary, the interview guideline was adapted.

Merging the findings with existing knowledge and existing theory, the initial structure of the model slowly emerged. Additionally, expert interviews were conducted after every block in order to discuss preliminary findings, and extract expert input from professionals who had each witnessed 10 - 20 FDI decision-making processes in India, and often from a different angle. As Miles & Huberman (1984, p. 49) noted: “Analysis during data collection lets the fieldworker cycle back and forth between thinking about the existing data and generating strategies for collecting new - often better quality - data; it can be a healthy corrective for built-in blind spots; and it makes analysis an ongoing, lively enterprise that is linked to the energizing effects of fieldwork”.

In order to curb the risk of a one-sided perspective, a technique called triangulation from multiple interviews was applied (Eisenhardt 1989; Yin 1994). The point was to find out from different persons involved in the same decision-making process what their view of things was. The interviewees were on different hierarchical levels, different geographical locations (like India and Switzerland) within the same organisation. Like this, the robustness of the emerging theory was enforced.
3.3.5 Other sources of data

In addition to interviews, other sources of data were used to gather information on the FDI decision-making process. Publicly available information like annual reports, websites, newspaper articles were used as background information or also to cross-verify information like figures and dates given during the interview. Company internal documents encompassed organisational charts, roles and responsibilities, strategy documents, white papers. In some cases, documents like feasibility studies, results from consultant’s work, business plans and meeting protocols gave a tremendous insight in the actual decision-making process.

Furthermore, a good amount of academic and non-academic publication has taken place on the general topic of FDI into India. Although not exactly to the point of the subject under research, some did provide useful information or direction for further sampling. The disadvantage of data provided by private companies, which do not have as their main raison d’être the unbiased data collection (e.g. consulting companies), but to sell other services, is that the data provided or the way the data is presented is possibly biased in favour of some service the company sells. This was taken into account while interpreting the information.

These additional sources were also utilised to cross-verify information and data collected during the interviews. This triangulation technique enhanced the validity and robustness of the findings further (Marshall & Rossmann 1995).
3.3.6 **Interpreting the data through coding**

Coding is the analytic process through which "data are fractured, conceptualised, and integrated to form theory" (Strauss & Corbin 1998, p. 3). Thus coding helps to find the core issues from a great deal of data. It recognizes, develops and relates the concepts that are the building blocks of theory.

3.3.6.1 *About coding*

Coding consists of naming and categorizing data. For example, throughout the analysis of an interview, if an interviewer finds that the interviewee is using words and phrases that are of importance and interest then this gets noted. If and when this issue gets mentioned again then again a note is made. This note or short phrase describing and naming the issue is a code. More than one code may come out from the same text.

As mentioned earlier, data analysis is an ongoing continuous process. Hence when the data is collected it should be analysed to look for all possible interpretations. Also it is required that the researcher keeps revisiting the data for diverse pieces of information at different times. This way the data is reviewed numerous times. The researcher is able to keep looking and re-looking for emerging codes.

To identify the concepts, the researcher needs to open up the text and expose the thoughts, ideas, and meanings contained therein (Strauss & Corbin 1998). Goede and Villiers (2003) describe a concept as an abstract illustration of an event, object, action or interaction that a researcher identifies as being considerable in the data.
While naming concepts, grounded theory does not attempt to understand the world of the research participants as they construct it (Glaser 1998). According to Glaser (2002) grounded theory discovers patterns that the participants do not understand or are not aware of. When concepts emerge they must be categorized in order to make relationship among them and form theory. This process begins with open coding.

3.3.6.2 Open coding

Open coding takes place in the beginning of the data analysis after the interview has been transcribed and memo recorded. At this stage the coding is unfocused and hence the name open coding.

Open coding is the process of breaking down the data into distinct units of meaning. As a rule, this starts with a full transcription of an interview, after which the text is analysed line by line in an attempt to identify key words or phrases that connect the informant's account to the experience under investigation (Goulding 1999). During this process the researcher may recognize hundreds of codes. However, as a result of constant comparison of subsequent data these are reduced and grouped into meaningful categories. (Goulding 1999). For each category several subcategories or properties have to be found. These properties are then “dimensionalised” by showing which possibilities they can take on. Categories are labelled and then slowly reduced to uncover themes.

Besides during the interview stage, memos were written throughout the research process. There are three kinds of memos: code notes, theoretical notes and operational notes (Strauss & Corbin 1998). Code notes are memos that
discuss the codes as they develop. Theoretical memos could be in the form of reflections, questions, summaries, hypothesis etc. Theoretical notes cover a variety of topics. A theoretical note is anything from a post-it that notes how something in the text or codes relates to the literature, to a 5-page paper developing the theoretical implications of something. They were written constantly throughout the entire research process and used as a basis for theory integration and finally theory generation. The final theory and report is typically the integration of several theoretical memos. Operational notes are mainly about methodological issues, like directions for further data collection. Memoing was heavily used in this research project. Since no tape recording was utilised during the interview process, note keeping, besides the interview transcripts, formed a fundamental part of the theory development.

During the first phase of research unstructured interviews were conducted focusing on exploring categories of the foreign direct investment decision-making process for India. They were conducted based on a list of thoughts and topics that we wanted to touch upon during the interview, but not in planned sequence. At this initial stage of theory creation, the interviewer has only a slight idea in which direction the conversation could go. The interview starts with general questions and then asking more and more detail at each level. Such a funnelling technique (Bernard 2000) helps the interviewee to discuss the area in question on a macro level and then gradually come down to more specific topics.

Either the ‘in vivo’ coding approach or the ‘conceptual’ coding approach can be pursued. In vivo codes are labels derived from the actual words and phrases used by the respondent whereas the latter uses a label that best captures a description of a phenomenon highlighted in the textual data. In vivo coding was found to be more suitable for this dissertation. A codebook was
maintained, which is a record of codes, their descriptions and pointers to the text that contain them.

In the initial phase of the research, as previously discussed, open sampling method of identifying individuals, objects or documents was utilised. This is so that the data’s relevance to the research question can be assessed early on, before too much resource is expended. In one sample for example, the company had not committed such a major investment into India as initially assumed. The investment was not considered to be strategic in the sense of this study which is why the sample was dropped from the study. Following the open sampling process, the research aimed to collect samples as widely as possible to discover concepts in various situations, and as flexibly as possible to code any interesting events of the research (Pandit 1996; Strauss & Corbin, 1998; Goulding 2002; Goede & Villers, 2003). The open sampling process focuses on gathering data as widely as possible until the discovery of core variables and categories reoccurs constantly in the data.

Strauss and Corbin (1998, p. 65-68) suggested coding by "microanalysis which consists of analysing data word-by-word" and "coding the meaning found in words or groups of words". Word-by-word and line-by-line microanalysis can be very time consuming example in the case of interviews. It can also lead to confusion as dividing the data into individual words sometimes causes the analysis to become lost within the details of data. Therefore, it is useful to identify key points (rather than individual words) and let concepts emerge.

However, microanalysis of the interview transcripts has been done at this early stage to remove any preconceptions and researcher bias, which might exist due to prior studies. The Straussian school permits a preliminary literature study to identify research problems and the areas in which to look for data. As per Glaser, the researcher should not have any prior understanding of the data. He
argues that his approach based on neutral questions and constant comparison method results in unforced data and reduces researcher bias. Microanalysis is an analytical procedure as per the Straussian approach, which tests such preconceptions against raw data and decrease researcher bias. This dissertation takes into account prior studies to find a gap in the literature and thus formulate research questions hence microanalysis was important.

Parallel to microanalysis another approach known as pawing was used. This included proofreading the written and printed data and marking the text. Using this approach words were circled, underlined, highlighted etc. to indicate different meanings and coding. Then patterns and regularities were looked for.

This pawing and shuffling through notes is a low-tech yet efficient way of analysis of qualitative data. Bernard (2000) refers to this as the ocular scan method, otherwise known as eyeballing. Through this method a feel for the text is developed by handling the data multiple times. This is followed by the interoccular percussion test, in which patterns jump out and hits the researcher between the eyes.

Once the categories and variables started to emerge from the data, comparative analysis was used. Through this approach the new data items were evaluated relative to data items already assigned to categories. This comparison helped clarify the category property and check for consistency.

3.3.6.3 Axial coding

In the before mentioned phase of open coding the aim was to discover categories and their properties and enhance the understanding for each of them. The objective throughout the second phase - axial coding - was to
discover the relationships between the categories and also develop a better understanding of their properties.

As per theoretical sampling the next round of interviews was chosen with companies and experts, which were thought to best contribute to this aim. Relational and variational sampling was used. Semi-structured interviews were conducted so that the open views from the samples would result in the formation of further categories and also further challenge the categories and their relationships. Thus in this way the categories, their properties and the relationships between them were verified, refined or removed as per whether the data supported or contradicted them.

First findings for example indicated that the perceived unfamiliarity of India and the risk attached were not as significant as for other emerging markets. That directed the research towards finding out the implementation strategies to assess its influence on the decision-making process.

Through axial coding the dynamic interrelationships between categories were discovered. This formed the foundation for the creation of the theory. Hence finally the core category and central phenomena was discovered.

3.3.6.4 Selective coding and discriminate sampling

Strauss and Corbin (1990, p. 116) define selective coding as "the process of selecting the central or core category, systematically relating it to other categories, validating those relationships, and filling in categories that need further refinement and development".
Selective coding was done after discovering the tentative core variables and the properties of the conceptual categories of the foreign direct investment decision-making process into India. The core variables now guided the coding process and no time was spent on concepts, which were unrelated to the core. Hence discriminate sampling took place by selectively choosing samples which could verify the properties of the categories, and with that also the properties of the emerging theory. Samples were also searched for which could challenge or falsify a category or an interrelation. By trying to find contradictory data, the robustness of the model was tested (Glaser & Strauss 1967) until the point of theoretical saturation was reached. The emergent theory is considered strong at the point of theoretical saturation when additional data does not achieve any new and useful information, which would help develop the emergent theory further. Theoretical saturation led to the finalization of the research, and the formulation of the propositions.

3.3.6.5 **Expert interviews**

In addition to the three mentioned sampling and coding steps described, expert interviews were conducted after every block in order to discuss preliminary findings, and extract expert input from professionals who had each witnessed 10 - 20 FDI decision-making processes in India, and often from a different angle. At the end of the sampling phase, another block of expert interviews was conducted to challenge the findings, until the theory was considered robust. This is in line with Glaser and Strauss (1967) recommendation to verify the emerged theory with an independent data set.
3.3.7 Theoretical sampling

Preconditions were defined for the companies on the basis of which they were selected for the study. The companies should have either a) invested substantially into India recently, i.e. in the last 5 years or, b) were in the process of investing in India while this study was conducted.

All companies had to have at least a joint venture (JV) or a majority or wholly foreign owned enterprise (WFOE) in India. In order to be able to generalise the findings, companies of different sizes, i.e. large multinationals as well as owner operated SMEs were chosen. Also, it was made sure that service companies as well as manufacturing companies were represented.

The sample spans 24 Swiss companies - 18 manufacturing companies and 6 service companies, who offered a total of 35 in-depth interviews over a span of 4 months. In addition, 6 expert interviews were taken. The preponderance of manufacturing companies is attributable to the fact that substantial, strategic investments were more often committed by manufacturing companies, e.g. setting up a new factory in India, than by service companies.

Annual reports, websites, analyst reports by investment banks, different databases, and in-house magazines were used to supplement the information gathered in the interview and round off the picture of the organization and its investment decision-making process.

3.3.8 On grounded theory

Although the grounded theory research methodology has been successfully applied in many cases in management literature in recent years, there have
been cases where it has been abused resulting in works of doubtful and questionable quality. Researchers using the grounded theory approach need to properly study, understand and implement the methodology. Grounded theory depends on variation (example avoiding a one sided perspective), theoretical coding and constant comparison (Strauss & Corbin, 1994). Keeping these methodological imperatives in mind, the grounded theory method was applied with integrity and ethics to avoid misuse of the methodology.

3.4 Evaluation of research methodology

Any research must be methodologically sound by addressing the reliability and the internal, external, and construct validity.

3.4.1 Quality of methodology

“How can an inquirer persuade his or her audiences that the research findings of an inquiry are worth paying attention to?” (Lincoln & Guba 1985, p. 290). Validity and reliability are two factors, which any qualitative researcher should be concerned about while designing a study, analysing results and judging the quality of the study (Patton 2001).

While every effort was made to keep the interview and information gathering process rigorous, questions do arise, on areas such as data reliability. More reliable information may be collected through close observation which may take months or even years. For certain information, like the initial spark to invest, which can only be identified ex-post, or activities conducted in parallel by two teams, in India and Switzerland for instance, the researcher would nonetheless have to rely on interviews. The analysis of company documents,
like Board of Directors protocols or feasibility studies is helpful, but will not give the complete picture of the decision-making process. Organizational records have been used to supplement the interviews and render information more precisely, where applicable, but not utilized as the sole source of information.

Also interviewing has its drawbacks. By interviewing, the researcher relies on the memory of the interviewee. As is pointed out by Mintzberg et al. (1976), two types of error could be evoked: distortion and memory failure. Systematic distortions cannot be assumed for this study. There is a certain possibility for random distortion. Conducting multiple interviews per company where possible and crosschecking the notes with other sources of information were used to minimize this probability (triangulation). With regard to memory failure it is fair to say that when tapping the memories of the decision makers regarding a process, which may have started years ago, some bits and pieces of the process could have been lost or even suppressed. Nevertheless, the companies chosen for the interviews had completed their FDI not too long ago or were still in the decision-making process. That should reduce the propensity of memory failure substantially. To put it in Mintzberg et al.’s (1978) words, this research proceeded on the premise that what the researcher captured, really happened, but that not all that happened was necessarily captured by the researcher.

3.4.2 Reliability

The extent to which results are consistent over time and an accurate representation of the total population under study is referred to as reliability and if the results of a study can be reproduced under a similar methodology, then the research instrument is considered to be reliable (Joppe 2000). An
important factor in reliability is the idea of replicability or repeatability of results or observations. Simply put, achieving reliability is establishing repeatability.

The goal of this dissertation is to come up with a model that is replicable and hence the methodology must be reliable. Reliability is achieved by keeping the methodology thorough and as transparent as possible. A comprehensive transcript of interviews, analysis, theoretical sampling, memoing etc. is kept. All steps of data gathering and analysis are explained in the dissertation. A comprehensive account of the implemented methodology would be able to aid any replication attempt to attain the same result.

A factor to keep in mind to ensure reliability is that researcher bias is the main threat to reliability in qualitative research (Yin 1994) and as per the Straussian approach there is a higher degree of involvement of the researcher. Hence, tools such as microanalysis and memoing were applied to remove any preconceptions on the part of the researcher. This helped in avoiding researcher bias and maintaining reliability.

### 3.4.3 Construct validity

The extent to which the methodology measures what it is supposed to measure is referred to as construct validity (Black 1999). To enhance construct validity, i.e., the appropriateness of operational measures for the concepts being studied, various tactics were employed. As per the original grounded theory, Glaser and Strauss stress that constructing a conceptual framework is not the ending point in the grounded theory approach. It should be tested against an independent data (Glaser & Strauss 1967). In order to make sure that the descriptions, conclusions, explanations and interpretations were correct and
credible such that the theory could not be proved invalid certain measures were taken.

First of all, we set out to collect and double check our findings. We looked thoroughly for any kind of evidence or cases, which might negate our research and theory. Discrepancies found at any stage were treated seriously. They were analysed to see if an explanation could be found or if they pose an actual threat to our theory. Furthermore constantly feedback and reactions from suitable, independent sources were sought after. Also, informal discussions with company representatives and the supervisors gave valuable feedback and raised the right questions.

3.4.4 Generalising the findings

An issue in qualitative analysis is that of generalisability. Generalisability refers to the scope of application of the findings from a study, to a wider population or to different contexts. Simply put, it refers to the extent to which the theory developed within one study may be exported to provide explanatory theory for comparable situations.

Internal generalisability refers to the condition that the conclusion must hold true for the group studied. In qualitative research internal generalisability is a key factor in validating the conclusion. In the study on the FDI decision-making process for India the internal validity was first reached by achieving theoretical saturation and then validated by subsequent expert interviews. External generalisability points to generalisability beyond that group. For this dissertation external generalisability is desirable as the built theory should be applicable and valuable to other companies involved in FDI decision-making process in India as well. By deliberately challenging the emerging theory with
seemingly contradicting interview partners, by choosing companies with different background in terms of industry and size and by conducting a stress test with experts after the theoretical saturation, the emerging theory was considered to fulfil the claim for external validity.

Based on the rigorous carrying out of the grounded theory research strategy, and the vast interview base to fortify the findings, the level of confidence in the research results is assumed to be high.
4 Findings

In the following section, the most significant findings of more than 45 hours of interviews are discussed and illustrated. With the help of examples, each factor and variable is explained and its impact on the decision-making process described. Figure 5 below depicts the FDI decision-making process model for India.

**Figure 5: FDI decision-making process model for India**

Source: Author’s depiction based on Kukovetz (2002)
This dissertation project began with the hunch that the foreign direct investment decision-making process for India should be different than for other emerging markets. In which way it was different was not known. A literature review was conducted in order to verify if the current state of research provides a satisfactory response to that question. That not being the case, an own research strategy was set up with the goal to discover the relevant variables, categories and their relationships, which are pertinent to the FDI decision-making process into India. Starting with very limited prior knowledge, the grounded theory approach was chosen as the best suitable.

For the first round of unstructured interviews, a basic interview guideline was put in place based on the researchers own experience in this field, a few preliminary discussions with experts and the existing literature. The interviews were analysed on an ongoing basis during the entire interview phase, while moving back and forth between data collection and data analysis. Figure 6 below exemplifies a preliminary model as it was developed during the course of data collection.

Figure 6: Preliminary basic model emerged from data

Source: Author
The interview guideline was adapted during this process, moving from unstructured to semi-structured, as it got more and more clear which variables and relationships required further analysis. Gradually, the relevant variables and then their relationships started emerging until the point was reached where additionally collected data did not reveal any further information which challenged or refined the emerging model. The state of theoretical saturation was attained.

The interviews were coded with an in vivo approach and classified. Context-specific decision-making was observed and grouped according to the main influencing context-specific factors. The guiding question all along was “What is the difference in the foreign direct investment decision-making process for India when compared to other emerging markets?”. The result of the data analysis can be found in the following table. The frequency of occurrence within the sample lot is listed in absolute and in percentage terms.
Table 1: Data frequency table
Foreign direct investment decision-making process for India:
Data frequency table
Number of companies (n) = 24

<table>
<thead>
<tr>
<th>Phases (bold) and their variables</th>
<th>Absolute frequency</th>
<th>Percentage frequency</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Preparation Phase</strong></td>
<td></td>
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<tr>
<td>Productive leisure</td>
<td>16</td>
<td>67</td>
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<tr>
<td><strong>General Experience</strong></td>
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<tr>
<td>Generation Phase</td>
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<tr>
<td>Cultural insight</td>
<td>22</td>
<td>92</td>
</tr>
<tr>
<td>Organisational experience from similar markets</td>
<td>16</td>
<td>67</td>
</tr>
<tr>
<td>Alertness to opportunities</td>
<td>15</td>
<td>63</td>
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<tr>
<td>Experience from managers</td>
<td>19</td>
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<tr>
<td><strong>Experience Generation in Target Market Phase</strong></td>
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<tr>
<td>Local network</td>
<td>20</td>
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<tr>
<td>Input from current activities in India</td>
<td>18</td>
<td>75</td>
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<tr>
<td>Proximity to market development</td>
<td>18</td>
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<tr>
<td><strong>Project Start-up Phase</strong></td>
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<tr>
<td>Matching; Timing of project start-up</td>
<td>13</td>
<td>54</td>
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<tr>
<td>Top management support</td>
<td>22</td>
<td>92</td>
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<tr>
<td><strong>Investment Decision-Making Phase</strong></td>
<td></td>
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<tr>
<td>Speed</td>
<td>10</td>
<td>42</td>
</tr>
<tr>
<td><strong>Diagnosis phase (search and design)</strong></td>
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<tr>
<td>Maintaining flexibility</td>
<td>20</td>
<td>83</td>
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<tr>
<td>Input from external consultants</td>
<td>11</td>
<td>46</td>
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<tr>
<td>Adapting the strategy</td>
<td>14</td>
<td>58</td>
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<tr>
<td><strong>Selection</strong></td>
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<tr>
<td>Evaluation</td>
<td>13</td>
<td>54</td>
</tr>
<tr>
<td>Dealing with risk</td>
<td>16</td>
<td>67</td>
</tr>
<tr>
<td>Location of decision-making authority</td>
<td>24</td>
<td>100</td>
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<tr>
<td><strong>Implementation Phase</strong></td>
<td></td>
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<tr>
<td>Organisational adaptation and knowledge transfer</td>
<td>15</td>
<td>63</td>
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<tr>
<td>Strategic changes during implementation</td>
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<tr>
<td>Generation of in-depth market knowledge</td>
<td>24</td>
<td>100</td>
</tr>
<tr>
<td>Generation of experience for new markets</td>
<td>14</td>
<td>58</td>
</tr>
</tbody>
</table>
4.1 Starting point of the decision-making process

In this research, it has been discerned that as such the exact starting point of the decision-making process is hard to define. Only 2 of the 24 sample companies indicated that they had absolutely no formal links prior to entering India with their substantial FDI. The rest all had some form of an existing relationship with a local business entity, such as operating through a sales agent (8 companies), a less formal relationship such as longstanding personal relations or technical collaborations (8 companies), involvement with joint venture partners (4 companies), and sales offices prior to set-up own manufacturing unit (2 companies). As one company’s owner/CEO quotes: “India has been on my radar for the past 10 years – but the actual, active decision-making period I would account for is two years.”

Observations as made above do occur, as even before an active, goal-oriented search for a solution is pursued, the decision maker carries the thought consciously or subconsciously in his mind and has his radar open for possible options and solutions. This period is very important within the decision-making process since first contacts may be made, initial learnings take place and opinions are formed. This period of learning, which may or may not lead to an investment decision, can quite aptly be termed “productive leisure” (Reinmoeller & Chong 2000) and regarded as part of the decision-making process.

Since the thoughts are shaped gradually and often unintentionally, the starting point of the decision-making process often remains in the dark, making its definition challenging from a researchers perspective. Thus, a decision-making process under this definition could have started eight years ago, whereas the decision maker would only count for instance three years of active examination of the topic as part of the decision-making process. Defining the
starting point and examining the influencers to the formal decision-making process constitutes one of the most challenging tasks in this research.

4.2 India’s context-specific differences

In the course of this research project, various differences between investing in India vis-à-vis investing in other markets were mentioned by the interviewees. These differences occurred in a range of contexts and situations. In order to put them in a framework, the India context-specific differences were grouped in the three categories of FDI determinants, namely demand-side factors, supply-side factors and institutional factors (Dunning 2006; Patilbandla 2001; Zheng 2009). The findings indicate that supply-side factors, consisting of skilled workforce, infrastructure and supply chain; and institutional factors, comprising cultural proximity and familiarity, political system and legal framework and India’s FDI policy, lead to differences in the foreign direct investment decision-making process for India. The following chapters will discuss the factors in detail and then move on to demonstrate their impact on the emerging market decision-making model.

It is to be noted that no category stands isolated from the others – e.g. the democratic system, part of the political and legal framework, has also an impact on the FDI policy as well as on the perceived cultural proximity. General characteristics of emerging markets, like evolving legal framework, increasing GDP, growing market size or the unavailability of sufficient market data are not explicitly mentioned unless their occurrence is significantly more frequent than in an average emerging market.
4.2.1 Demand-side factors

Demand-side factors account for an increase in demand in the host country. Examples are a growing addressable market and rising disposable incomes. In this study, these factors have been found to be inherent to all emerging markets (as defined in this dissertation) and therefore do not add a context-specific variation to the decision-making model. Hence, demand-side factors are not considered to have a significant impact on the India-specific FDI decision-making model.

4.2.2 Supply-side factors

Supply-side factors consist of FDI-impacting characteristics that the host country has to ‘offer’ to a company from another country seeking to deploy a foreign direct investment. The answers of the interviewees can be clubbed into the three main factors on the supply side, namely skilled workforce, infrastructure and supply chain. Their impact on the decision-making process is described in following chapters.

4.2.2.1 Skilled workforce

Indian managers were perceived as well educated, intelligent and refined by the representatives of the Swiss companies interviewed. Many had been educated abroad and had worked outside India for quite a while. In many ways they were considered similar to Europeans, in their behaviour, communication and understanding. The strong English-language skills enhanced the exchange of thoughts and ideas and left Indians to appear less cryptic as opposed to their emerging market counterparts. That explained why many Indian units were
managed by Indians only – nearly from the beginning onwards. Also the skill level of the mid-segment and the young work force, mainly in knowledge based industries like engineering, IT and other services were considered to be of high quality compared to other emerging markets.

4.2.2.2 Infrastructure

A strong point often deliberated upon during the interviews was regarding India’s physical infrastructure like roads, ports, airports, hotels, highways, waterways, and power supply. In general it was understood that the offering was considered to be way below the necessary level to keep pace with the growth of the economy and the population. Interviewees reminiscing over previous emerging market experience in other Asian countries, were surprised at the poor quality in comparison. Additionally, higher cost to company arise since a lot of basic infrastructure needed to be set up by the companies themselves: personal power back-ups, water harvesting systems, and in an extreme case even an access road to an airport needed to be built and funded by the company – although contractually the government was responsible for that.

4.2.2.3 Supply chain

Here, managers mentioned that the availability of raw materials, the raw material prices, the availability of high quality machinery and machining parts posed a prolongation in the implementation phase. During the planning, too less market information was available in order to judge the availability. During the implementation then, several critical raw material and machines needed to
be imported from China, Thailand or even Europe in order to keep the schedule.

4.2.3 Institutional factors

Institutional factors are basic social, economic, and political factors that constitute an institutional structure of an economy or society (Zheng 2009). They are inherent to the system and do not change frequently. The interviews revealed three sets of institutional factors, which had a significant impact on the decision-making process of the interviewed companies: India’s cultural proximity and familiarity, the political system and legal framework, and India’s FDI policy.

4.2.3.1 Cultural proximity and familiarity

The cultural proximity and familiarity of the Indian subcontinent ran as a significant factor through the majority of interviewees who had participated in-depth in the decision-making process. This factor was found to have a subjective and an objective component. On an objective level, the cultural link between the northern part of India and Europe goes long back. Indo-European languages not only include the languages of Latin (parent to French and Spanish for instance), Greek, and Germanic (parent to English and German) but also Sanskrit, key influencer of the majority of modern languages prevalent on the Indian subcontinent. Based on this linguistic evidence, something like a Proto-Indo-European religion and culture is assumed (e.g. Mallory 1989). It is a theoretical construct of a religion of the Proto-Indo-European (PIE) peoples based on the existence of similarities among the deities, religious practices and mythologies of the Indo-European peoples.
In terms of trade relations, the ties between India and Switzerland go back to the seventeenth century. In search for trade opportunities, European merchants started importing cotton fabrics from India. Soon, the production of cottons started also in Europe and when King Louis XV banned production in France, many merchants, weavers and dyers moved to Switzerland. That was in 1685. A century later, the first Swiss trading companies were set-up to trade directly with India. They soon joined ranks with the largest trading companies in the world. In 1851, the Volkart Brothers set up their company, which, for the next hundred years, controlled pretty much the main trade between India and Switzerland. Many of the companies in this study were represented by Volkart Brothers till after India’s independence in 1947.

On a more subjective note, many interviewees spoke of a familiarity with India. They were impressed with the fairly sophisticated, well-educated (often also in the UK or US) and world-travelled Indian businessmen. The use of English as common language resulting in no need of an interpreter, the geographical distance resulting in a short flight time and less time difference, the British legacy in terms of education were amongst other factors mentioned. Further, the democratic system (discussed in the next paragraph) and the thriving private sector economy with profit-driven companies competing in the market place were politico-economic realities, which were closer to the homeland. Partially, this cultural proximity and familiarity relates more to the urban population of India. Regardless of whether this familiarity was real or only perceived, it had a significant impact on the decision-making process. In line with this finding, Zheng (2009) named low transaction costs, stemming from cultural proximity, linguistic ties and geographical distance, as one of the main influencing factors of FDI into India.
4.2.3.2 Political system and legal framework

This category consists of a multitude of factors, like democracy, freedom of press, uncensored Internet, observation of human rights, respect for different interest groups and a strict labour law. The National Environmental Appellate Authority for instance, which was set up by the Ministry of Environment and Forests, allows petitioners from an affected villages or areas to file a case before the Authority. So far, with quite a success. It was found that the political and legal framework on one hand gave the decision-makers confidence and trust to invest. When a foreign company acquires land in India it belongs to the company, it is not on lease from the government.

Unlike in other emerging markets, which may not be democratic, it is possible to appeal against arbitrary acts of the government, such as uncompensated expropriation. Also, intellectual property rights are believed to be more rigorous in India than in other emerging markets. Western investors in general feel more comfortable and trust the democratic system. On the other hand, amongst several interviewees there was a certain reservation visible towards the actions taken by Governmental bodies like in the case of land rights while acquiring land, the power of environmental protection agencies, the labour court. These are all considered very democratic, but not always supporting a MNC’s investment into the country. One interviewed Swiss MNC had a case pending at the Supreme Court with regard to an alleged breach of WTO rules: A patent application had been rejected by the Intellectual Property Appellate Board as it failed to satisfy certain requirements of the Indian Patent Act.

High import duties and fluctuating foreign exchange rate have had an impact on the relocation decision of some companies. One machinery manufacturer could offer the same machine from domestic production more than 30% less expensive solely by saving on import duties and neutralising the effect of the
rising Swiss Franc. On the other hand, companies especially with low sales volumes in India, mentioned that with falling import duties the compulsion of relocating was eased – at least for the time being. Some of them postponed the FDI accordingly. Direct and indirect taxes, high capital costs for bank borrowings and a high inflation rate were mentioned in some interviews – but did not have a significant impact on the decision-making process.

4.2.3.3 FDI policy

The general notion seems to be that FDI is permitted in many sectors, but not necessarily desired. India still entertains FDI-caps (e.g. insurance, retail, defence), and other sectors have been released not long ago. As Zheng (2009) points out, India’s FDI policy has been focussing more on an inward, import-substituting FDI-regime, whereas other emerging markets like China have followed an outward, export-led regime. This has had a significant impact on the nature of the attracted FDI. While China witnessed vast FDI-investments in industrial manufacturing centres, India has attracted more service oriented, knowledge based FDI. That has led to a severe neglecting of India’s physical infrastructure, which has had a negative effect on the attracted manufacturing FDI, as our data analysis shows. Additionally, FDI policies and procedures, remittance of funds into the country are seen to be bureaucratic and slow.

In the subsequent chapters, the impact of the above-mentioned Indian-context specific differences on the various variables and phases of the emerging market decision-making model is discussed, using the substantial data collected through the 41 interviews.
4.3 Impact on the emerging market decision-making model

The emerging market decision-making model by Kukovetz (2002) has been found highly pertinent in this discussion since it explains in great depth the series of activities leading to an FDI decision in emerging markets, typified with fast changing, competitive market coupled with an evolving regulatory environment. The variables found and the emerging model of this dissertation were compared with the variables of the emerging market decision-making model by Kukovetz (2002). After reconciling all variables, it was found more practical to continue with the nomenclature as found in Kukovetz (2002). Hence, the variables were renamed as per the chart below. In the subsequent chapters, this nomenclature has been retained.
Table 2: Reconciliation of variables

Foreign direct investment decision-making process for India: Data frequency table

Number of companies (n) = 24

<table>
<thead>
<tr>
<th>Data item according to own research</th>
<th>Data item with coding according to Kukovetz (2002)</th>
<th>Absolute frequency</th>
<th>Percentage frequency</th>
</tr>
</thead>
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<tr>
<td><strong>Preparation Phase</strong></td>
<td><strong>Preparation Phase</strong></td>
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<tr>
<td>Productive leisure</td>
<td>Productive leisure</td>
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<td><strong>General Experience</strong></td>
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<td><strong>Generation Phase</strong></td>
<td>Related Activities Phase</td>
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<td>Cultural insight</td>
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<td>Organisational experience from similar markets</td>
<td>Organisational know-how and learning processes</td>
<td>16</td>
<td>67</td>
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<tr>
<td>Alertness to opportunities</td>
<td>Alertness to opportunities</td>
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<td>63</td>
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<td>Experience from managers</td>
<td>Experienced managers</td>
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<td><strong>Experience Generation in Target Market Phase</strong></td>
<td><strong>Experience Generation Phase</strong></td>
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<tr>
<td>Local network</td>
<td>Trusted network of contacts</td>
<td>20</td>
<td>83</td>
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<tr>
<td>Input from current activities in India</td>
<td>Experience generation and learning</td>
<td>18</td>
<td>75</td>
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<tr>
<td>Proximity to market development</td>
<td>Awareness of investment opportunities</td>
<td>18</td>
<td>75</td>
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<td><strong>Project Start-up Phase</strong></td>
<td><strong>Project Start-up Phase</strong></td>
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<td>Matching: Timing of project start-up</td>
<td>Right timing and defining the moment</td>
<td>13</td>
<td>54</td>
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<td>Top management support</td>
<td>Board level initiative and commitment</td>
<td>22</td>
<td>92</td>
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<td><strong>Investment Decision-Making Phase</strong></td>
<td><strong>Project Decision-Making Phase</strong></td>
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<tr>
<td>Speed</td>
<td>Speed</td>
<td>10</td>
<td>42</td>
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<td>-</td>
<td>Seasonality</td>
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<td>Diagnosis phase (search and design)</td>
<td><strong>Development Phase</strong></td>
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<td>Maintaining flexibility</td>
<td>Gaining flexibility</td>
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<td>Input from external consultants</td>
<td>Acquiring outside knowledge</td>
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<td>Adapting the strategy</td>
<td>Adapting the strategy</td>
<td>14</td>
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<td><strong>Selection Phase</strong></td>
<td><strong>Selection Phase</strong></td>
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<td>Evaluation</td>
<td>Evaluation method</td>
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<td>Dealing with risk</td>
<td>Dealing with risk</td>
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<td>67</td>
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<tr>
<td>Location of decision-making authority</td>
<td>Location of decision-making authority</td>
<td>24</td>
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<tr>
<td><strong>Implementation Phase</strong></td>
<td><strong>Implementation Phase</strong></td>
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<td>Organisational adaptation and knowledge transfer</td>
<td>Organisation and knowledge transfer</td>
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<tr>
<td>Strategic changes during implementation</td>
<td>Reaction to market change</td>
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<td>54</td>
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<td>Generation of in-depth market knowledge</td>
<td>In depth market knowledge</td>
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<td>100</td>
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<tr>
<td>Generation of experience for new markets</td>
<td>Generation of experience for new markets</td>
<td>14</td>
<td>58</td>
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</table>
In the next chapter, the findings of the research, the variables will be discussed, backed up by evidence from information received from the interviewed companies. But due to the contextual difference, differences in the working of the model were manifested. Along with the description and validation of the variables, the impact of the Indian context is discussed and conclusions are drawn.

The following discussion analyses and compares the relevance of each phase in the model in the Indian context, drawing from interview observations and case illustrations from varied organisations that participated in this study. While it is being accepted that the FDI decision-making process for emerging markets is different than for stable markets, the proposition is that the FDI decision-making process for different emerging markets differ from one another due to varying contextual factors.

A variable would typically impact the speed and/or the quality of the decision-making of a company. The following chapters will firstly illustrate if and how a variable is applicable to the FDI decision-making process for India. And secondly, in which way the several phases and variables of the emerging market decision-making model are impacted by the India-specific differences.

The cultural proximity and familiarity of the Indian market was seen to have an overarching impact on both, the Preparation Phase as well as on the Project Decision-Making Phase. Even though India’s democracy is part of the ‘political system and legal framework’ in terms of the FDI determinant category, in the following application it is counted to the category ‘cultural proximity and familiarity’, since its effect on the decision-making process till the end of the Selection Phase is comparable. During the Implementation Phase, however, the political and legal system carries its own significance,
especially in cases where law enforcement is required. Hence, it will be listed separately.

4.3.1 Preparation Phase

*Figure 7: Preparation Phase*

The Preparation Phase is the first of the two main phases of the decision-making process for foreign direct investment into India. It consists of three sub-phases and commences with the acquisition of knowledge of the organisation and its managers in markets somewhat related, i.e. similar, to the target market (Related Activities Phase). Till then, no meaningful activities have taken place in the target market itself. In the next sub-phase, the Experience Generation Phase, the company generates first hand knowledge in the target market itself, whereas the exposure to the target market in term of financial commitment is moderate. Upon arrival at the third sub-phase, the Project Start-up Phase, the company has acquired sufficient market knowledge and experience to come to the conclusion, that a major investment into India is desirable. In this last sub-phase the decision to proceed with a substantial FDI into India is taken. It marks the end of the Preparation Phase and leads into the beginning of the Project Decision-Making Phase.
The Preparation Phase is focused on gathering as much market experience and knowledge as possible in order to perform a detailed analysis, with the goal to be able to judge whether to invest in a country or not. The company and the decision makers absorb directly and indirectly market knowledge and experience, which will be of great value in the Project Decision-Making Phase. The Preparation Phase takes place before the actual decision-making as to whether to invest or not. Broadly, at this stage, the companies focus on observing the events and activities that justify their interest in investing further in a country and also explore their experiences with greater intensity, to filter their learning and initial FDI approach. As discussed, the exact starting point of this phase – and hence also of the entire decision-making process – is hard to define.

The India-specific factor *proximity and familiarity*, as perceived by the interviewed companies, impacts the Preparation Phase by reducing the overall process time taken until the recognition, that a major investment is necessary. The more familiar an environment seems to the investing party, the quicker is the walk through the decision-making process. The comfort level while taking the decision is higher. The positive impact of this proximity and familiarity on the Preparation Phase is the increase in quality and speed of the process - as will be seen in the following chapters.
In the Related Activities Phase the company and the decision makers have not yet set foot into India. But what has taken place is the acquisition of knowledge and experience in markets that are in some way similar to the environment prevailing in India. That has enabled the company to gain knowledge to tackle similar situations. While some of the experience generated is specific to that country (like language challenges), other may serve as implicit or explicit knowledge for the new target market (e.g. how to deal with insufficient market data). The variables under consideration in this phase are cultural insight, experienced managers, organisational know-how and learning processes and alertness to opportunities.

The field data on India has strongly supported the relevance of the Related Activities Phase and its variables for the FDI decision-making process for India. The cultural proximity and familiarity increase the speed and quality of the decision-making since deeper insights and improvement in timing are caused. For example, through personal friendships and contacts, the alertness to investment opportunities in the target market is increased. In one of the
sample companies this lead to a far quicker deployment of FDI since personal

ties, knowledge and trust had been built before business interests had come up.

In the following chapters the impact of the India specific characteristics on
each of the variables is described.

4.3.1.1.1 Cultural insight

One of the most cited variables in the research was the relation the interviewee
in Switzerland had to India before India was considered as a FDI destination.
The reason for the variable being in the Related Activities Phase is because no
activities have taken place in the target market as yet. Still, the knowledge and
experience generated through these activities had a substantial impact on the
FDI decision-making process. The touching points were manifold - having
Indian friends, having worked or studied with Indians abroad, personal trips to
India, Indian organisations and chambers of commerce, media coverage and a
general interest in the country. Several of the interviewed managers were
rather fond of India – a fondness that had grown before business in India had
been a topic. Others had a trusted network of contacts of Indians living in
Switzerland. The CEO of one of the interviewed companies had been in
regular touch with other Swiss managers who had already invested in India, in
order to learn and understand the market mechanics. This increased insight had
a positive effect on the speed of the process and on the quality due to more
knowledge.

<table>
<thead>
<tr>
<th>VARIABLE</th>
<th>IMPACTED BY</th>
<th>IMPACT ON DECISION-MAKING</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cultural insight</td>
<td>Cultural proximity and familiarity</td>
<td>More insight increases speed and quality</td>
</tr>
</tbody>
</table>
4.3.1.1.2 Organisational know-how and learning processes

Apart from having or hiring managers with prior emerging market experience, a company itself develops a large set of knowledge from past experiences in investing in emerging markets. In FDI situations, companies typically draw from experiences made while investing in other, similar markets. These related activities offer valuable insights in dealing with situations of uncertainty and lack of information. A company that operates in different parts of the world has dealt with issues of cultural differences, sensitivities, and is aware of different political systems, laws, rules and regulations.

While the related activities phase may not offer the company direct exposure to the Indian market, the company’s prior exposure to similar markets helps it learn and generate relevant experience. Some of this knowledge may be transferable and lower the company’s inhibition in entering another emerging market. Hence a company's past exposure to a region offers an advantage, and large multinational companies are able to make use of their exposure to other emerging markets when they enter a new one. This learning effect was observed in 15 of the companies studied, who had had prior experience in operating under similar market conditions in other countries.

It is observed in this research that large multinationals entertain dedicated in-house business development departments which act as vessels to support FDI activities. They are equipped with research databases, contacts and standardized procedures to support the decision-making process and market entry. Of the 17 multinationals, 12 had dedicated business development departments, some including representation in the executive board. These individuals and departments dealt with the overall strategy of the company, new markets, and new business areas. They also brought experience and knowledge generated from assessing other, similar new markets, and were instrumental in aiding the decision-making process for the top management.
They analysed, validated and presented vital information needed to make sound decisions on where, when and how to invest in times of ambiguity and uncertainty.

The organisational know-how and learning process for the FDI decision-making process has proved to play as vital a role for India as for the general emerging market experience. No India-specific difference was apparent. A refinement manifested was the significance of in-house business development departments that had a noteworthy impact as enabler on the decision-making process.

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<td>Org. know-how and learning processes</td>
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<td>More insight within the organisation increases speed and quality</td>
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4.3.1.1.3 Alertness to opportunities
Companies and managers having extensive experience in similar markets show in general a higher alertness towards emerging opportunities in the new target market. They read and interpret signals earlier and can hence seize an opportunity before an inexperienced competitor has fathomed it. Also, the inhibition to enter a new market is far lower if several other emerging markets have been successfully entered. In the Indian context the proximity to India in terms of an Indian network (outside India) and access to information increases the decision-making speed and improves the timing of the project start-up.

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<td>Alertness to opportunities</td>
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4.3.1.1.4 Experienced managers

Many multinationals request their experienced managers with prior exposure to similar markets to offer input or even take charge of setting up the new investment. This ensures that existing knowledge is used productively for the new FDI decision-making and implementation. Also, companies often choose expatriates with similar experiences in other markets to set up the operations in the target market. For instance, one of the companies interviewed said it always sends expatriates to the target market in order to ensure that the way of doing business is in line with the practice in the headquarters.

Another vital factor in choosing a suitable candidate is industry and international experience. A Swiss expatriate was chosen to lead and implement an FDI, because he was well exposed to the company’s international platforms, including India, in his previous assignments. The same applies even when hiring an Indian manager, for instance, the manager of the subsidiary of a Swiss machinery manufacturing company had worked in the sector in different African and Asian countries before returning to India to set up operations for the Swiss MNC. The Indian manager of another Swiss company had prior experience with another multinational company in the same industry based in India. His extensive experience and network within the sector was of great value to the company and brought in key benefits such as speedy approvals of business plans, and break-even ahead of schedule.

Companies also opt for a combined approach – a Swiss MNC construction products company hired an internationally experienced Swiss manager and an in-house global talent who was of Indian origin, adding to the cultural proximity of the market. While the Swiss manager left after the start up phase, the operations were taken over by the person of Indian origin. With that,
the company had a local manager in place, who had already been working with them for 8 years in another market and in addition knew the local language and was closer to the national culture than a Swiss national. In general it was observed that out of the 24 companies discussed, 9 started off from the beginning onwards with a local Indian manager, not with an expatriate. In other emerging markets like China, hardly any multinational company starts their major FDI with local management. This points towards a comparatively high trust in the local workforce.

Experienced managers were mentioned by 19 out of 24 companies as to have been instrumental in the decision-making process. The experience they had gathered in other markets helped make the decision-making quicker and more reliable. The perceived familiarity of the Indian market gave the gut feeling more weight than in an average emerging market.

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<td>Experienced managers</td>
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4.3.1.2 Experience Generation Phase

**Figure 9: Experience Generation Phase**

The two significances of the Experience Generation Phase are for one, that the experience is now generated directly in the target market and not deduced out of a related market. The second is that the company does not put too much capital at stake for this initial step into the target market. Hence, such a market entry is not considered as a strategic decision and does not require a lengthy approval process. That is why it is counted to the Preparation Phase and not to the Project Decision-Making Phase in this study.

4.3.1.2.1 *Trusted network of contacts*

A key advantage of establishing a foothold directly in the target market is the building up of a network. Unlike in established markets, in India a network is of tremendous importance since many institutions are not directly accessible. A solid network is not only confined to the business world – it covers politics, social life, embassies and chambers of commerce. A solid network can be the key to a successful venture into India. A machinery manufacturing company was struggling for years to receive an approval for domestic production, which was being delayed by several legal and administrative hurdles in an
economically important sector. Finally, the company tided over these issues through the expert guidance it received from a local professional who was able to help establish the right connections.

Likewise, when a small Swiss manufacturing company with less international experience and no direct Indian experience set out to establish an assembly plant, it collaborated with an Indian partner of another Swiss firm, who helped kick-start the operations within 6 months. The company was able to trust the Indian partner, because the Swiss firm, which facilitated the introduction, had been in close collaboration with them for several years. Again, trust played a vital role.

A local presence helps accelerate the FDI decision-making process, as the companies are working with local parties. A significant number of the companies interviewed had maintained the head of their previous sales and service subsidiary as the head of their Indian operations when they decided to commit a larger investment: Of the 24 companies, the Indian operations were headed in 16 cases by Indian managers, in 7 by Swiss or other expatriates and 1 company, still in the FDI decision-making process, had not yet settled for a manager in India. The mentioned figures describe the status quo. Of the 16 run by Indian managers, 7 were set up by expatriates who left 2 - 3 years after setting up the Indian unit. Two of the companies had an Indian CEO when they entered the market as a sales and service organization. However, when a decision was taken to commit a larger amount of FDI, by setting up a manufacturing unit, a Swiss Chairman was relocated to India for a short period of 3 - 5 years mainly to contribute to the development and selection of the India strategy and ensure investment and implementation.

Interestingly, commonalities were found between the managers in these transnational units, regardless of whether they were Indian or expatriates. The
Indian managers had been with the company from the very early stages of its operations in India, often joining as sales representative or sales head and were well accustomed to the products, administrative processes, communication and management style within the company. Although they did not hail from the company’s home country, they offered the same advantages as trust and credibility that hiring an expatriate manager would. Initial trust helps to reduce risk and information asymmetry, and is vital in influencing major FDI decisions.

One of the most significant impacts of the cultural proximity and familiarity is on the variable ‘trusted network of contacts’. A trusted network of contacts can only develop when both parties feel comfortable, communicate openly, have the feeling to know each other, each other’s motives and, at the end, trust each other. The English language skill of the general Indian business community, the shared cultural and historical background, the familiarity with business practices increase the speed and intensity of the Experience Generation Phase in general, and the build up of a trusted network of contacts in particular. Its impact is again the increase in speed and quality of the entire Project Decision-Making Phase.

Of the supply side factors, the availability of skilled workforce has a positive impact on the variables ‘trusted network of contacts’ and ‘experience generation and learning’ of the Experience Generation Phase. The workforce basically becomes part of the network, proving to the company that “everything is possible with us”. They will hold key knowledge and be hungry to grow. In that way, speed, due to strong support from the Indian operations, and quality, due to quality in-put from the workforce will increase in the Project Decision-Making Phase. In the same way, the experience generated will be more intense since communication with the workforce of the company, but also of the government, will be easier.
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<td>• Trusted network of contacts</td>
<td>• Cultural proximity and familiarity • Skilled workforce</td>
<td>More trust and larger network increase speed and quality</td>
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4.3.1.2.2  Experience generation and learning

In the experience generation phase the company is offered a closer view of the country, and while previous sources of information, may or may not be cued on the target market, the insight obtained from this phase is greatly filtered through own experiences. To plan a potential market entry into India, the company may opt for arrangements such as exporting via an agent, directly on its own, set up local sales and service organization in India, licensing agreements, or open a representative or a branch office. In India, specific laws and regulations guide each of these arrangements. For example, a representative office cannot pursue any commercial activities in the country. And most companies interviewed in the study acknowledged that they had pursued arrangements such as exporting to India, working with an agent, opening a sales and service organisation, before considering a major FDI.

Each of the above entry options offer the company an opportunity for direct contact with the target market, without investing huge amounts. Of the options explained above, setting up an own sales and service organization in India offers the closest operational experience for a company before it plans for a larger investment. The companies interviewed reported that this option offers two key sources of learning. For one, the Indian subsidiary deals directly with the customers and feedback comes right “from the horse’s mouth”, as noted by one of the managers, and market movements can be felt instantly. Second, it enables the company to build a local network which is of tremendous use when
deploying further investments into the country. This local network is not necessarily the traditional western network like Rotary or other business clubs – in the case of some interviewees the customers were the main network built up. In the machinery industry for instance, many customers own the companies they operate. They are wealthy, influential business people who have helped some of the sample companies with business licenses, land acquisitions, etc.

For instance, a Swiss machinery manufacturing company initiated a customer feedback system in India. The results were utilized to investigate customer satisfaction, recognize areas of improvement and key areas for action. Since at that time the company had also invested in its own manufacturing unit in India, designing its first locally produced machine to cater to the Indian market, the feedback and results from customer surveys helped it greatly in manufacturing an effective product. The experience of this company contrasts with that of another company, who worked through a sales agent. The company experienced lack of access to the customers and its market, and while results were satisfactory, it always felt that its India business should be doing better. It felt that operating through an agent (who was acting as a reseller) only brought high product training costs, but did not bring the benefits. Eventually, the agency agreement was terminated as it was felt that “India is far too an important market to leave to an agent”. Setting up its own local service organization offered the company deeper insight into the market, daily feedback from customers and product performance data.

The experience of another company, a producer of high precision instruments, reaffirms this observation. Its Indian service team received complaints that due to the humidity and power cuts, the electronic oil level indicators in their machines were not performing. Consequently, this company proceeded to setting up its own manufacturing unit in India, to create its “in India for India” product with a mechanical oil level indicator and less electronic components,
paving the way for less expensive product, which is closely aligned with customer requirements.

However, it may not be generalized that setting up an own sales and service organization is the best entry mode. If sales volumes are very low, initiating a fully owned set-up may not be the right strategy. Also, sectoral restrictions play an important role. For instance, the Chief Representative of a bank, which is operating through a representative office, explained that they did not opt for a sales office, since they were in the country for a different purpose, and that besides, obtaining a bank license may take several years along with huge capital investment.

In summary, entering a culturally different market like India step by step, first via export, then with an own sales and service organization and then venturing out with a larger foreign direct investment, seems to be a rather successful modus operandi – especially for manufacturing units. The closeness to the workforce due to their skill level and English language ability (supply-side factor) and to the customers due to the cultural proximity and familiarity, deepens the experience generated, makes it more insightful and hence increases the speed and quality of the decision-making process.

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<td>Experience generation and learning</td>
<td>Skilled workforce</td>
<td>Deeper experience generated increases speed and quality</td>
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4.3.1.2.3 Awareness of investment opportunities

In the Experience Generation Phase, a strong awareness of investment opportunities within the target country could be observed with organisation
that had already set foot in the country. This awareness relates to the general “getting to know the market better” and to the understanding, that a major investment is required to be part of this emerging market. This awareness also enables the local set-up to be at the source for actual opportunities that may arise in a more unexpected fashion. An example was the allotment of plots in a Special Economic Zone. Without local sales staff - the head office in Switzerland admitted - they would not have been aware of the goings and might not have found themselves enjoying significant tax rebates for the next ten years. Search for land or finding an appropriate JV partner where amongst the most quoted examples for benefits of a general alertness within the market. Additionally, the local employees tend to push more towards a larger investment in their home market and thus make sure that India does not slip off the radar in the headquarters. The skilled workforce, as in one example the marketing manager, helped the company get the timing right for the FDI as he saw the ‘window of opportunity’ approach. Being culturally close to the market helped increase the insight into the market goings, into new rules and regulations, and influences the decision-making speed positively.

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<td>More insight increases speed and improves timing</td>
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4.3.1.3 Project Start-up Phase

Figure 10: Project Start-up Phase

The Project Start-up Phase forms the culmination point of the Preparation Phase. The decision to proceed with a substantial FDI into India is taken in this phase. The organization needs to be geared towards committing the adequate resources to decision-making and to ensure that the substantial investment pays off in the long run. Hence, a strong support from top-level executives is required. Without their buy-in and their pushing for the case in the organisation, it proved hard to find support to release the funds and prepare the organisation for this major change. Companies recognise that considerable risk is involved in investing large scale into India. An analysis of the potential of the market and the right moment to invest is considered in the risk analysis. The research has revealed that the perception of the risk of the Indian market is different than for a comparable emerging market. Due to the democratic system, the English language skills, the positive effects mentioned in the Related Activities Phase (e.g. networks), the confidence level to invest is higher and the risk is perceived to be lower. The effect witnessed has been that the route to reach the Project Start-up Phase has been walked quicker than in markets with similar risk levels.
However, in terms of board level commitment and initiative, differences were observed in the approaches taken by the larger corporations/MNCs as compared to the smaller owner operated SMEs.

4.3.1.3.1 Board level initiative and commitment

In nearly all the large organizations studied, i.e. 16 out of 24, a ‘sponsor’ from the Executive Board or Board of Directors supported the venture, ensuring resources – personnel as well as financial – are dedicated to the project. The importance therein is significant. An investment proposal above a certain magnitude inherently requires a large investment of resources and subsequently carries a substantial risk. An investment in plant and machinery could take 5-10 years until a break-even is achieved. A good example is the automotive industry: When a large-scale unit is set up, including supplier park etc., the investment figure finds itself in the vicinity of USD 1 billion and takes and investment horizon of several years into account. These are not decisions mid-ranking employees can take. Interestingly, in many companies studied, the main drive for the investment actually came from the top management or the board level. The reason cited was that at that level it is part of the job profile to think strategically, to identify new markets, to take risks. Also, individual board members frequently had travelled to India – sometimes since years – just to visit exhibitions, trade fairs, meet customers and potential partners. This Experience Generation made them the most market-savvy person in the head office.

The analysis of the project and the funding process requires human resources in the form of several key employees. Certain organizations created a project organization comprised of a mix of project team members and regular line employees. Project team members who were committed full time on these
projects ensured the project progresses, while the line employees ensured that the regular business sense flowed into it.

One manufacturing company had a so-called ‘Sounding Board’, consisting of senior managers from different functions, like the Head of Sales (International), Head of the Indian Sales and Service Organization, Head of Production etc, who though not directly involved in the project, were in a jury role, giving input to the project. That group had vast experience in setting up international markets, working in India or running factories. The monthly presentations to the Sounding Board ensured that all relevant functions were informed about the status of the project and about the important decisions made. This procedure ensured the buy-in of relevant stakeholders, since they were given a platform to address their concerns.

In all the 6 smaller companies represented in the study, the owner/operator has been the key driver for the expansion into India. In the absence of a formal project management team, he provided the initiative, rationale and resources. However, the knowledge on India of such owners/CEOs did vary substantially. One owner confirmed that he understood India the best in the company including its local networks and culture. Consequently, as he stated, he took the investment decision unilaterally, albeit consulting his management in specialized areas.

Another owner/CEO, who was the main driver to go to India, admitted that he was not familiar with India, but acknowledged that he moved to the country since some of his key customers started moving. Being their supplier, he did not want to lose his stand, and thus initiated a tour on India, visiting several locations, meeting other Swiss manufacturers, representatives from the Swiss-Indian Chamber of Commerce and eventually hiring a senior and experienced Indian country head.
Considering the impact on the Project Start-up Phase, in the sample taken, it was often a board member/company owner who had this India-affinity due to travels, personal ties, books and media coverage. Hence, the board level initiative and commitment, as a crucial factor during the project start-up, was usually rather strong and obvious during the interviews. This commitment increased the speed in the Project Decision-Making Phase by assuring the necessary human and financial re-sources for the process.

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<td>Cultural proximity and familiarity</td>
<td>Stronger support increases speed</td>
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4.3.1.3.2  Right timing and defining moment

The timing of the project start-off can be very crucial. As Kukovetz (2002, p. 97) points out, “a firm has “right timing” if its capabilities match the requirements of its operating environment”. This links to the concept of ‘matching’ proposed by Mintzberg et al. (1976), i.e. the decision maker will most likely initiate a decision-making action only when there is an apparent solution that matches the problem. If there is a problem with no apparent solution, the situation is allowed to reach a certain degree of severity before being acted upon. For instance, if a company experiences declining sales in India, but can not find an apparent solution, the decision maker may not initiate significant steps to arrest the problem, especially if India is not a core market. Similarly, if a solution presents itself, but the urgency of the problem is not that severe, the decision maker might take time to decide. But in many cases in which the moment was not predefined (e.g. due to some governmental schemes) the company just started in India, without thinking too much of the
right moment. Intuition led the process till there was a match. A Swiss company that operated through a distributor for many years had been urged by its India based sales team to set up its own entity in the country, however the company responded only when sales declined. When the senior members from the Sales team in India proposed an own office as a strategy to improve the situation, the idea was accepted. It has been observed that the recognition of this ‘right’ moment is vital in influencing the ‘commitment to invest’. The matching of the problem and the solution makes the initialisation of the decision-making process much easier.

In some instances, the trigger may be exogenous. A Swiss service provider was part of an international consortium, which had won a Government of India tender for a large infrastructure project. Following this, the company set up its project management team to roll out the FDI.

At this stage, only the senior management is involved, and when sufficient reasons become available, the drive and impetus to explore investment in a country begins. Examples of such stimuli include locating an ideal match, a customer who expresses his strong wish that the company comes to India, or the change in India’s FDI regulations. For instance, FDI participation from existing multi-national players significantly increased post-liberalisation in 1991.

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4.3.1.4 Productive leisure in the Preparation Phase

During the Preparation Phase, the company slowly starts getting to know the target market better. Beginning with experience generating in related markets, the company starts taking its own steps in the target market itself by exporting, licensing etc. In this time period, knowledge and experience is built up which will be of productive use to the company during the Project Decision-Making Phase. The purpose of the Preparation Phase is to gear the company towards a larger investment into the target market as soon as the time has come. While some companies are very clear about their expansion plans and move from country to country, others wait till the right moment is there to deploy the investment. This attitude of generating general experience with a wait-and-watch attitude is what Reinmöller and Chong (2000) defined as productive leisure.

One of the interviewed companies, a larger multinational, was an excellent example for the concept of productive leisure. One of their Chief Executives had been visiting India for the past 25 years. At that time the market was not mature enough. The so-called inflection point, i.e. the point at which the demand for a product was to take off, was not reached in India for their product, and no good opportunity was visible. But it was clear that the company wanted to go to India at some point in time. So the company patiently waited in the Preparation Phase, staying in touch with continuing visits to India, strengthening the network, till the time was ripe to invest large scale in the country. The importance of productive leisure was manifested in 16 of the 24 companies under research. The Indian context did not impact the productive leisure variable in any particular manner.
4.3.2 Project Decision-Making Phase

The Project Decision-Making Phase begins after the Preparation Phase when the decision makers have concluded to further pursue the option “FDI in India”. The secondary phases consist of the Development Phase, during which the investment strategy is developed, the selection of the optimal strategy (Selection Phase) and the implementation of the chosen investment and market entry mode (Implementation Phase). The perceived cultural proximity and familiarity has an impact mainly by increasing the speed and the quality of the entire Project Decision-Making Phase. Whereas above, the impact of the India-context was mainly via other variables, in this section the speed and quality impact on the select secondary phases and their variables is direct.
4.3.2.1 Development Phase

The goal of the development phase is to find, create and design the optimal strategy to substantially enlarge the footprint in India. The main focus is on searching for viable investment projects or designing an own investment strategy, e.g. a greenfield project. This is when the decision-making process starts becoming more visible, since the development of a solution requires investment calculations and analysis of options, which usually involves different parties and divisions in the company communicating with one another and leaving formal traces in form of documents created. The experience in the interviews has shown that many decision makers only consider the decision-making process to have started at this point in time. Mintzberg et al. (1976, p.255) call it “the heart of the decision-making process”. In line with previous research (Mintzberg et al. 1976), it has also been observed in this study that this process is not linear but iterative. Feedback and learning loops accompany the process all along (Kukovetz 2002). Due to its iterative nature and depending upon the availability of a match, the duration of the Development Phase can vary substantially.
India’s cultural proximity and familiarity helps to understand and interpret the market better and hence to develop more suitable alternatives. Knowing the system and the rules gives a larger scope of insights to maintain flexibility.

From the supply-side factors, the difficulties in sourcing commodities and machinery in India and the unavailability of market data decreases the speed in designing the most appropriate market entry mode significantly compared to other emerging markets. Additionally, India’s underdeveloped infrastructure needs to be considered while crafting a solution. Calculating with an average speed of 40 km/h for road transportation may disqualify some seemingly viable options.

In terms of institutional factors, the legal framework draws clear boundaries as to what type of investment structures and into which sectors are legally possible. That increases the trust in the system and helps the company to deal adequately with the risk posed. Traditional land and labour laws need to be considered during the development phase in order to avoid unpleasant surprises during the Implementation Phase. The prevailing foreign direct investment caps and norms may have an adverse effect on the speed of the Development Phase, for example if the sector under review is undergoing a policy change.

4.3.2.1.1 Excursus: On search and design

Search

In the Development Phase, or search phase as called by Mintzberg et al. (1976), the company searches for the best strategy to enter the market and deploy the investment. Due to legal regulations, the choice of different paths of how to invest in India in terms of fund flow and establishing a legal entity is
somewhat limited. Also, the extent of foreign direct investment may vary depending upon the sector.

The four types of search behaviours (Mintzberg et al. 1976) are identified in this study as well. The first, ‘memory search’ describes the process of going through the existing knowledge within the company and the employees. All companies applied some kind of a memory search to supplement finding a solution. The input came from their current operations in India, from collected market data, from sales experiences or also from existing joint venture partners.

The second, ‘passive search’ occurs when the company does not actively search for alternatives but a solution comes its way. An example could be an investment proposal by a company in India looking for a foreign partner. According to the decision-making process as being discussed this study, the situation of a passive search does not occur at this stage. A company in the Development Phase is actively searching for a solution since it has already decided that it wants to go to India. Else, an investment proposal is presented to the company in its Preparation Phase, when the company is just playing with the thought of actually entering India with a larger investment. An interviewed Swiss company working with a reseller in India was satisfied with the way business was developing and initially did not see a reason to change anything. At some point however, the reseller approached the Swiss company with the proposal that the Swiss company buys the resellers operations in India, i.e. the skilled sales team, the contacts and the existing infrastructure. In this case, there was no need for search and design of a solution since the solution was readily available. The Swiss company mainly had to decide whether it was ready for an investment into India and with that exposing itself to a higher risk.
The third, ‘trap search’, is observed when the company searches for solutions with proxies. In this context this could imply collaborating with search firms to find a viable take-over target in India. One sample company acquired a German machinery manufacturing company with a production facility in India. Besides acquiring technology, the company also acquired a fully operational manufacturing unit, which eventually merged into the Indian sales and service organization of the investing company. Following modernisation of the plant, the investing company saved substantial time in its desired market entry. In general though, a trap search was witnessed pre-dominantly as a sub-activity in the design phase, like for example the search for land or key personnel.

The fourth, ‘active search’ is more pertinent to the study. It involves the active search of alternatives on how to deploy the investment. A typical example is the active search for a joint venture partner or an acquisition target. This search behaviour is often combined with the trap search since a company may not know and understand the entire market and its players as profoundly as a local consultant would. One of the companies interviewed was active in a sector that required high initial investments and a long set-up period. Fearing that it may take a long time to be market-ready and that demand may not pick up to the extent expected due to overcapacity in the market, the company decided to take over a local company with existing production capacity and a distribution network. Hence, the company acquired the second and third largest producer in its sector and is now close to being the market leader.

**Design**

Designing is an essential activity in the Development Phase during which all aspects relating to the investment - the market approach, the financials, the product mix and the human resources requirements are defined. Additionally, three key decisions were regarded as pertinent to the FDI opportunity in India.
Broadly, the investing companies identified three motives when bringing FDI into India
a) to tap the potential of the Indian market
b) to pursue outsourcing opportunities and derive advantages from highly skilled, low-cost workforce
c) to follow the customer and stay competitive – for instance, remain the preferred supplier of the customer

The majority of the companies interviewed, 18 out of 24, invested into India with the prime objective to tap the potential of the Indian domestic market. Some had adopted a dual strategy, by manufacturing in India for local consumption and the export market as well.

**Reason/Stimuli for FDI**

In their work, Mintzberg et al. (1976) examine the decision-making processes adopted by companies in the context of an FDI situation, and categorise each of the processes by the solution generated. Four types of solutions are observed in the work:

(1) given – this meant that the result of the decision-making process was known from the beginning;
(2) ready-made – which refers to the case that a fully-developed solution is ‘discovered’ during the decision-making process;
(3) custom-made solutions which were developed specifically for that decision-making problem and
(4) ready-made solutions which have been modified to suit the problem under investigation.

With regard to the FDI decision-making process into India, the solution are predefined since the options are limited. Either the Swiss company forms a
100% owned subsidiary, also known as a wholly foreign owned enterprise (WFOE). In the case of a joint venture (JV), either it is 50:50 JV or the Swiss company owns a majority or a minority stake.

Of the studied companies, in summary, the following cases: 15 subsidiaries were owned 100% by the mother company. 1 out of those 15 started of as a joint venture but eventually the foreign company bought out the Indian partner. 3 companies were listed at an Indian stock exchange; their majority however remained with the foreign company. 1 company engaged in a Joint Venture (JV) with 4 other parties as a minority shareholder, 1 company had a stake of less than 50% in the Indian company but still was the largest single shareholder and hence controlling the JV. One Swiss multinational entertained a 50:50 joint venture. In addition, it had a subsidiary in which it was the majority shareholder, but held less than 100%. One service provider had set-up a Representative Office without any equity stake. Following, the most significant characteristics of the different set-ups are described.

**Wholly foreign owned enterprise (WFOE)**
The company enters India as a wholly foreign owned enterprise of the parent company, and the parent company has 100% ownership of the company in India. Majority of the companies had opted for this arrangement as it offers complete flexibility and freedom in decision-making. A key disadvantage however is that the company does not have an in-country partner to guide it.

**Joint venture (JV)**
The investing company would seek a joint venture with a local company. Varied motives guide this choice, while some prefer it for purely equity specific participation of the Indian partner, most foreign companies prefer it for access to a local network, sourcing, production know-how, customer base and general guidance on how to build and operate in India.
A key factor in a JV is the shareholding pattern. A 50:50 joint venture could potentially be the toughest to operate since the consent of both parties is necessary for all non-routine decisions. In such cases the joint venture shareholding pattern will need to be clear from the outset, else subject to negotiations. One Swiss SME, who had been working together with its Indian partner for a span of 13 years, decided to set-up a production facility in India. The intention was to incorporate a WFOE and supply to the Indian partner-as they had been doing from Switzerland till date. However, the Indian distribution partner, who had introduced them to their main customer in India, had different intentions and insisted upon an equity stake. After 18 months of negotiation, a 50:50 JV arrangement was settled on. In this case, the Swiss partner was aware that without the Indian partner it will not gain access to the key customers, and a 50:50 joint venture ensured that both parties would contribute effectively in bringing positive results.

Another Swiss company that entered India via a technology agreement in the 60s, entered into a 50:50 JV with its Indian partner about 40 years later. It was formed as a production JV, which only produced for the Swiss partner and the total production output was meant for export. This is a classic production outsourcing model from the Swiss MNC’s perspective and it proved to be highly successful amid increasing costs of homeland production. However, several years later the Swiss MNC wanted to set up an own manufacturing unit, which was impeded by the JV partner, as it refused to provide a No Objection Certificate. After a decade’s legal struggle, the company finally received the rights to set-up an independent manufacturing unit in India.

Largely, the joint venture question was observed as a dominant theme across all interviews, and most of the companies indicated that having a joint venture arrangement creates access to customers. Also, the collaboration facilitates a
clear division of labour, where the Swiss partner brings in the products and the technology and the Indian partner the network.

4.3.2.1.2 Gaining flexibility

When entering a new market, flexibility is of great importance. The local demand and modus operandi will need to be validated, and especially in a distinctively new market like India, the difference in terms of opportunities for business, legal environment, market preferences etc., may be even more significant and hence more difficult to judge.

The data collected has underlined that companies enter the market in a way that they maintain the maximum amount of flexibility while at the same time not compromising too much on the investment amount.

The most common strategy witnessed was that of a gradual build up of market presence before the investment and then a staggered investment deployment. Along those lines, 9 of the 18 manufacturing companies started off with assembly operations in India, which required a substantial investment in land and building, but not in machinery, which usually takes up the major part of the budget when setting up a manufacturing unit. This strategy offers the advantage of a lower initial capital investment. Secondly, the flexibility is kept in case the demand does not take off, to reduce the import of the semi knocked-down or completely knocked-down kits. Thirdly, staff training need not be as intensive and time consuming since assembly staff would require a different, less sophisticated skill set than production machine workers for usually high precision manufacturing. Fourthly, it gives the company time to scan the environment for suitable suppliers to set up a sourcing base for localized production. Fifth, the assembly concept allows the company to localize gradually – one sample company started off with 100% import, only
local assembly, but gradually they reached about 80% of local sourcing and production and only 20% was imported.

Gradual localisation has some disadvantages. At the beginning, the savings are not as significant as generally expected: Sourcing related savings are hardly made and import duties still occur (albeit a little lower than on the import of fully assembled products). Labour cost savings only apply to the assembly part taken over in India. A Swiss machinery manufacturing company had relocated the production to India, and the headquarters had expected substantial cost savings. While a major part of the production did take place in India, in term of value however, 80% was still coming from the European production plants, and therefore the expected cost savings could not be achieved. While the companies may benefit from being flexible, they need to be clear about the objectives that drive their decisions.

Another risk hedging strategy observed was that of following the customer. With supply contracts in hand it is a lot easier to calculate the initial investment and the expected returns. This was commonly seen in the automotive industry, as in one of our cases, where the supplier would follow the car manufacturer as soon as a supply agreement has been awarded.

While certainly having their advantages in other areas, joint ventures did take their toll in terms of flexibility. One of our sample companies was blocked from manufacturing in India for nearly a decade because its joint venture partner obstructed the idea of setting up an own manufacturing unit. Another company, holding a 26% stake in a four-party JV, stated that it had done quite a few things differently if it had been alone. During the course of this dissertation, the company had also slowly started to dilute its share in the JV.
In terms of flexibility, the Indian context does give the investor a good amount of freedom to manoeuvre. The underdeveloped infrastructure and supply chain may restrict the regions of activity. So does also the restricted capital mobility into and out of India. Bringing funds into India in order to capitalise the business is not as trivial. For example an External Commercial Borrowing, which basically is a loan from the overseas mother company to the Indian subsidiary, can only be used for certain purposes, like operational expenses, but not for investments. In order to maintain flexibility, the majority of the interviewed companies made mid-sized investments in the core area of activity. They started off with one unit and gradually, upon customer demand, increase to several manufacturing units. In summary, gaining flexibility was a very important factor in the Development Phase.

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<td>Gaining flexibility</td>
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<td>• FDI policy</td>
<td>Cultural proximity and familiarity increase speed and suitability due to market insight; supply-side constraint and FDI policies reduce speed</td>
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<td>• Underdeveloped infrastructure</td>
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<td>• Underdeveloped supply chain</td>
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4.3.2.1.3 Acquiring outside knowledge
Consultants take in a very crucial role in this FDI decision-making process since they are equipped with specialized knowledge which the company may not have. They have accompanied other firms in their venture into India and are thus more seasoned with regard to India. And since 18 of the 24 sample firms were manufacturing companies, their top management comprised more of engineers and less of executives with a business background. The external consultants helped consolidating the organizational knowledge and supplement
it with their own knowledge and research. Some sample companies used external consultants only for specific segments of solution development, such as location search, market survey, tax advisory or legal counsel. The unavailability of market data on the Indian market posed an additional big hurdle in assessing the potential. External agencies could help to some extent.

Another possible route to seek design help from outside is through the hiring of experienced staff. For instance, one company realized that it needed someone who can do beyond managing the operations - they wanted to develop the market, set up a strategy for India for the next ten years and thus decided to hire an expatriate of Indian origin with a business background. While the person was familiar with the culture and language, as a business graduate he was also able to bring core managerial capabilities. During the design period, which was an ongoing process, the manager was able to enrich the business plan from varied perspectives. Such strategies also serve to compensate for the lack of India experience within the new organization.

Further sources of input from outside found in our sample were formal and informal networks, chambers of commerce, governmental export promotion units, business hubs and the like. As for the Indian context, no significant difference was observed vis-à-vis the general emerging market behaviour.

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| Acquiring outside knowledge | • Cultural proximity and familiarity  
• FDI policy  
• Underdeveloped infrastructure  
• Underdeveloped supply chain | Cultural proximity and familiarity increase speed and suitability due to market insight; supply-side constraint and FDI policies reduce speed |
4.3.2.1.4  Adapting the strategy

14 of 24 companies mentioned that their strategy for India was different than for other markets. That did not relate as much to the internal, organisational strategy (like a divisional strategy or not) but more to the product-market strategy. An example would be a consumer good company which sells its products in India in much smaller packed quantities in order to adapt to the lower purchasing power especially in Indian villages.

Among the interviewed companies it was also often witnessed that the strategy for India was oriented upon what the members of the network and the local business community suggested – irrespective of whether that was in line with the global corporate strategy.

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<td>• Cultural proximity and familiarity</td>
<td>Cultural proximity and familiarity increase speed and suitability due to market insight; supply-side constraint and FDI policies reduce speed</td>
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4.3.2.2 Selection Phase

After conceptualising the potential solutions, the company needs to decide on how it wants to progress with its investment. In the Selection Phase this key decision is taken. Existing literature (Mintzberg et al. 1976; Kukovetz 2002) and this study, assert that aside from this key decision, several sub-decisions are made along the decision-making process, which help to arrive at the most suitable option. Mintzberg et al. (1976) speak of a ‘multistage, iterative process, involving progressively deepening investigation of alternatives’ (p. 257). As described in the previous chapter, several fundamental decisions need to be taken in order to come to a final proposal, and a series of proposal discussions are held before arriving at the final option. Sub-decisions on the way ahead are made in these discussions, and the proposal is continuously refined, until the final edition is developed and presented to the board of directors for approval. In small organizations, where the owner is directly involved in the investment proposal, feedback may take place in a less formal fashion; nevertheless in none of the cases studied did the first proposal emerge as the final option. The Selection Phase is one of great significance. During this phase, different market entry strategies are evaluated and the most
appropriate is selected and authorised. Cultural proximity and familiarity and the skilled workforce have a major impact on this phase.

The key variables in this phase are the evaluation method, the way risk is dealt with and the geographic location of the decision-making authority. A summary of the impact of the Indian context on the key variables of the Selection Phase is given below. A detailed discussion follows thereafter.

4.3.2.2.1 Evaluation method

The evaluation phase is fundamental to the selection of the most viable investment strategy, and while a series of options may be generated in any decision-making process, this process helps to explain the manner in which a company zeroed in on selecting the final option.

Companies tend to base their decision applying two rather different approaches. In one approach, the company has reconciled with the fact that market data is only available in very limited amount and changes quickly. Hence, they base their decision more on intuition than on hard facts. The second approach is somewhat the contrary. Due to the difficulty in finding useful data, the company would utilise more time, more human resources and more external consultants to base their judgement on a seemingly more reliable information base.

In this study, both approaches were witnessed. The researched companies typically followed one of the two approaches pretty clearly – since to some point an intuitive approach excludes an approach based on extensive data research for the same decision. But it may be said that no company did venture into India without any data research at all, nor did any company base its
decision purely on data, since all data, especially related to the future, carries a certain amount of personal estimation and judgement.

**Intuition-based analysis**

The intuition-based analysis is followed when the company and the decision maker relies predominantly on his gut feeling rather than on extensive analysis of data. This intuition does not only relate to the general perception of the market but this intuition proves to be a very important factor in ‘reading’ all kind of data and using it for forecasts. The Managing Director of a manufacturing company stated that when he took over, the company was making a turnover in India of USD 5 million. His sales forecast for the next year as submitted to the headquarter was USD 8 million, which was not taken very seriously since it indicated a sales increase of more than 50%. But he was confident since he thought he knew the market. He ended that year with sales of USD 12 million. And the year after was even better. Shortly thereafter the headquarter decided for a major FDI – strongly based on his inputs and estimations, i.e. on their gut feeling for his gut feeling.

In the sample, the prevalence of intuition-based analyses could not be missed. The majority, i.e. 13 of 24 firms stated that due to the challenge in getting data in areas of interest and due to the soft knowledge accumulated in the Preparation Phase, a trade off between time and 100% assurance of doing the right thing was required. Typically the balance was in favour of speed. The companies were used to taking decisions based on the 80:20 rule. Knowing that they had to be in India, the how-question was important, but not that important as long as the investment was made and the flexibility maintained. In order not to put too much value at risk, the approach chosen gave the company a certain amount of flexibility in order to adjust the investment according to the market development. Overall, the confidence level in taking
the right decision by investing in India was very high – despite the lack of sufficient supporting data.

**Extensive data research based decision**
Decision-making based on extensive research of data is the second approach witnessed during the study. While it was far less prevalent than the intuition based decision-making, it still was followed occasionally. In that case, the company collected as much data and information as possible and drew conclusions out of it. The data typically relates to areas like market size, market share and competitors, geographic locations, customers. Based on that input, the company calculates its potential market share, projected growth and turnover and the return on investment. External consultants often support this process with data and analysis.

In our research, several reasons for choosing this approach were witnessed. One was with companies that had not made enough experience in the Related Activity Phase. They were insecure overall and wanted to base their investment as much as possible on a seemingly solid foundation. This more so in situations in which the persons involved in the decision forming and making process were answerable to other stakeholders. They would base all their analysis on facts in order to have an answer to questions posed. On the contrary, owner operated companies, even with less experience in the Related Activity Phase, would rely more on their gut feeling and dive into India if it seemed right.

Interestingly, this approach could also be manifested with companies with less strong leadership and/or where the middle management had a strong influence on the decision-making. The effect was that decisions were postponed in order to clarify some points for which data was not even readily available. By doing so, non-supporters found a legitimate way of procrastinating the decision to
invest in India and with that also potentially the loss of jobs in the home country.

As for the Indian context, the evaluation method is clearly biased towards intuition since the perceived familiarity with the market and the people creates a confidence level higher than in an average emerging market. The evaluation speed, manifested in a quicker zeroing down on a particular solution, is therefore high.

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<tr>
<td>Evaluation method</td>
<td>Cultural proximity and familiarity</td>
<td>More intuition increases speed</td>
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4.3.2.2.2  Dealing with risk

The reason why an investment into India is considered is because a certain return on the investment is expected. The inseparable question linked to it is how much risk the company is comfortable to put at stake in order to achieve the desired returns. The typical risk-return arbitrage applies for India as well. The risk can be manifold – it can be financial by putting too much value at risk. But also related to time by entering the market too late or buying out or into a less suitable JV partner.

A risk mitigation strategy commonly applied in the sample lot was via a staggered entrance into the market. Instead of investing a large sum at once, the company would line up a total investment sum which was deployed upon progress and requirement in the market. A typical manufacturing company started with the assembly of machinery in the India, which would already attract tax and import duty benefits. After gradually building up the supply chain, the local content would be increased and with that also the investments
for plant and machinery. This process has been described in the Development Phase. One CEO in the headquarters pointed out that he had already once made the mistake of investing too less into India, which resulted in a loss in market share when demand picked up significantly. He said it was cheaper for him to be overinvested for some time and be ready for the take-off than to have to build up all the capacity when the market would already be in full swing, having to watch the chances go by. The general approach was to take a calculated risk, set up a manufacturing unit that later could be expanded and extended. A common seen strategy was also to acquire enough land reserves around the planned unit for a potential expansion. Since the land value had risen manifold in most industrial areas this strategy was considered beneficial anyhow.

It was witnessed that the risk perceived for an investment in India as vis-à-vis other comparable emerging markets was lower, and hence the confidence level to invest was higher. A significant impact thereof is that the market entry strategy selected was typically not based on a trial & error approach as described in Thurner (2005) for general emerging market entry modes, but based on mid-sized investment at one chosen location in the core business of the company. Upon success, these investments were increased.

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<tr>
<td>• Dealing with risk</td>
<td>• Cultural proximity and familiarity</td>
<td>Higher confidence level increases risk appetite</td>
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4.3.2.2.3 Location of the decision-making authority

In the Selection Phase the decision-making authority is the one giving the final authorisation for the investment. Since in this study the subject of research is foreign direct investment, the funds flow from outside India into the country.
And typically, the funding party is the one taking the final decision about the investment. In all cases studied, the authorisation was given in the head quarters by the board of the company – representing the shareholder, the ultimate owner of the company.

A factor differentiating the decision-making process in terms of the final decision was the extent to which the local management and the knowledge had been incorporated in the process and what role they played in the decision-making. While some companies had a clear corporate head quarter driven process – with the local representations only giving figures and input when asked – other companies, like one sample, actually relied on the business plan proposed by the Indian manager, including the proposed investment amounts. Another illustrative example of local input was a company which had installed a ‘Sounding Board’ for their India investment plan. Each member of that committee had a veto and could block an important decision and seek for clarification and justification on bothering points. One of the members was the CEO of the Indian sales and service organisation.

In sum, it was surprising to witness the strong influence the Indian organisation had in some decision-making processes, as in the examples above. The factors behind such a strong delegation of decision impacting power and involvement in the decision-making relates on one hand to the high skills and knowledge of the Indian workforce and on the other hand to comfort and open level of communication – which relates in turn to the cultural proximity and familiarity.

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<td>Location of decision-making authority</td>
<td>Skilled workforce</td>
<td>More decision-making authority located in target market</td>
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The Implementation Phase marks the operationalisation of the decision and therefore the last phase in the decision-making process. If the decision outcome has been positive to invest in India, the investment will be deployed in this phase. The reason why it is considered to be a part of the decision-making process is because of its effect on the ongoing investment, especially if a staggered approach has been chosen: Via feedback and learning loops knowledge and experience is fed back into the decision-making process and affects the ongoing India investment. Additionally, as seen in the Related Activities Phase, past investments lead to organisational learning and experience generation of managers, which again feeds back into the Preparation Phase of future investment decision-making processes.

Based on the cultural familiarity and proximity, the implementation of the decision in the target market India is a lot easier – mainly due to the linguistic ties between the home country and the host country and the familiar legal
system. This also plays an important role in increasing the quality of the feedback and learning into the development phase. Due to a higher general confidence level and the resulting difference in the immediate decision outcome, the company starts off in the core activity business and not in a related business to test the waters.

India’s democratic constitution – albeit its shortcomings – was perceived to be closer and more comforting than the system of other emerging markets. On the other hand, the still prevalent administration and bureaucracy of the Indian regional and national government seemed to take a toll on the patience level of the investors. Hence, overall, the political system and legal framework was found to increase the speed as far as decision-making and comfort level was concerned, but the Implementation Phase was negatively impacted by red tape.

From the supply side factors, the availability of skilled, educated workforce does have a positive impact on the Implementation Phase – both in terms of time and quality of the implementation.

India’s underdeveloped infrastructure and supply chain finds its major effect in the Implementation Phase, i.e. in the start of operations, its major negative effect. Expecting a similar infrastructure as in China or other Asian countries, companies are surprised at the shortcoming in nearly all areas, may it be highways, industrial areas or ports. A lot of basics like access roads or electricity supply need to be arranged by the individual companies – often resulting in an unexpected delay and budget strains. Also, India’s strict labour laws could put an unwanted obstacle in acquiring a company, buying out a JV or increasing the investment, as was seen in a couple of the sample companies.

These unexpected experiences add to the seasonality and can flow as experience generation into the Related Activities Phase for other emerging
market decision-making processes, as very valuable in-depth knowledge in to Development and Selection Phase of the ongoing India investment and most importantly, if the right amount of flexibility was gained during the Development Phase, as adjustment in the ongoing Implementation Phase (reaction to market change).

4.3.2.3.1 Organisation and knowledge transfer

With the new investment also a new area of responsibility arises within the organisation. This area of responsibility needs to be integrated into the existing organisational flow. The goal is to give the India set-up the required support in order to perform according to the expectations and goals.

An organisational adaptation took place in all cases. Depending upon the existing internationality of the company and the importance given to India, the change in organisational structure was more or less significant. One machinery manufacturing company gave India its own business group – despite of being functionally organised. Another made the Indian Managing Director part of the global strategy team, later on its head, and with that also part of the executive team of the headquarter. On the other hand, for some of the interviewed companies India was ‘just another market added to the portfolio’. Hence, India was subsumed in the overall foreign markets division.

In terms of knowledge transfer too, the entire bandwidth could be observed. Some companies would actively seek for knowledge and learning from India, by having regular conference calls, visits to India and from India. One manufacturing company set up a technology and design centre in India, which in the process of establishing was upgraded to the global headquarter for technology research and layout design. By doing so, the company could take advantage of the existing knowledge and the comparatively lower labour cost
in India – on the other hand the Indian unit had business and turnover from the beginning onwards and other units were forced to recognise and interact with the newly set-up unit. Other companies kept India as an isolated group company which was there to cater to the domestic market. The interest in the transfer of the knowledge generated was not that high. All in all it can be said that the organisational adaptation and knowledge transfer for the FDI decision-making process into India was similar as into other emerging markets.

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<td>Organisation and knowledge transfer</td>
<td>Cultural proximity and familiarity</td>
<td>More proximity and familiarity and higher</td>
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<td>Skilled workforce</td>
<td>skills foster knowledge transfer</td>
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4.3.2.3.2 Reaction to market change: timing

As outlined in the introduction an emerging market like India is subject to frequent change – often fairly erratic and unforeseen. As a developing market, not only the market as such is in constant development, but also the boundary conditions. Taxes, duties, other market players, regulations such as incentive schemes, joint venture rules, and currency restrictions have a significant impact down to the micro level of a single operating unit. When deploying a major investment, the circumstances will most probably have changed between the point in time when the planning was done vis-à-vis when the actual investment took place. A company needs to be prepared for this since it can have a significant impact on the success of the venture.

In the researched sample, for very few interviewees the foreign direct investment ‘went according to plan’. During the often long time it took to purchase land, set up a legal unit, get a water and electricity connection, the boundary conditions had changed. In one case, the market was thriving and the
investment into India was pushed through at high speed. But by the time the company was ready to start manufacturing its first machine, the market had shrunk by more than 30%, the potential customers had already covered their requirements and the governmental incentive scheme was in the process of being phased out due to overcapacity in the market. The company now had to take a call as to whether the estimated growth projections were still valid, considering the prevailing situation as a temporary slump in the market, and hence continue with the planned investment – or whether it wanted to reconsider its overall India plan and strategy. While most companies stuck to their 5, 10, 20 years projections for India, most slowed down their investments to regulate the cash drain.

Changes in the regulatory environment did have a more significant impact on the investment plans of some companies. One, loosing a high court case in India, decided against setting up a million dollar research and development facility in India and instead opted for Singapore. Another company had entered into a joint venture with an Indian company in the nineties. Some time later, the government introduced a so-called press note, which disallowed foreign companies in a JV to manufacture in India the same product outside the JV without a non-objection certificate (NOC) from the Indian JV partner. Since that partner was also the main competitor, no NOC was obtainable, leaving the Swiss company in a lengthy legal battle and unable so set up its own manufacturing unit in India. Also, the decrease in import duties led one company to rethink whether it made sense to manufacture at all in India or whether, due to the low duties, could do with exporting to India for a couple of more years till the demand really picked up. The introduction of Special Economic Zones (SEZ) in India led one of the companies to change the chosen location to a SEZ. Since land, water, power was readily available there, the investment could be made much quicker and hence also the start of production.
In the Indian context, MNCs that had established operations in India prior to 1991 had no option but to enter into a joint venture with an Indian partner. After the economic liberalisation, most of these companies chose to buy out of the joint venture by acquiring the equity of the Indian partner and start the operation on their own. In this case the selection of the preferred solution was predetermined through the circumstances – hence the selection phase had a given goal. Similarly, foreign companies that were in operation in India in the 1970s were confronted with a similar regulatory environment. Then the multinational corporations were under pressure from the Indian government to list their companies. In 1977, the government directed foreign companies operating in India to reduce their equity stake below 40%. Exemptions were only provided at the government's discretion, and the companies had to choose whether they wanted to continue or quit their Indian set-up. Many MNCs preferred to list their shares on the stock exchanges, like three of the companies in our sample. Presently, all these three companies are still listed at the Indian stock exchange but are majority controlled by the headquarter. Post-economic liberalization, one of these companies is gradually buying its own shares from the free market and has reached an 80-90% ownership. The ultimate goal is to delist the company from the stock exchange, and which will imply a substantial FDI into the country since the market capitalization in the given case was rather high.

Another company which had evaluated increasing FDI by way of expansion projects, such as opening a new manufacturing unit, said that while the decision-making process was straightforward according to a fixed set of routines, and since it also enjoyed knowledge of the market, customers, government regulations etc., it had to contend with labour unions as a strong influence on its decision-making process. To tide over this challenge, they spread their manufacturing units across the country. However, having faced the risk of labour challenges, and fearing potential situations of labour unrest,
the company is not in favour of setting up any further manufacturing units in India. This illustrates that evolving situations do impact evaluation in decisions.

As for other emerging markets, the variable ‘reaction to market change’ was considered important in the FDI decision-making process for India.

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| ● Reaction to market change: timing | ● Cultural proximity and familiarity  
 ● Political system and legal framework  
 ● Skilled workforce  
 ● Underdeveloped infrastructure  
 ● Underdeveloped supply chain | Mixed impact: Cultural familiarity, sound legal and political system and skilled workforce increase speed and quality; Supply-side constraints and red tape reduce speed |

4.3.2.3.3 *In-depth market knowledge*

The generation of in-depth market knowledge during the implementation of a major FDI project was witnessed in all cases. Larger companies had a formal process of project reviews etc. ensuring that the organisation took part in the progress. At the same time, these progress reports formed a feedback loop into the organisation, on one hand into the Development Phase of the ongoing foreign direct investment into India, on the other hand adding to the Experience Generation Phase by adding to the organisational body of knowledge for further investment projects into India.
In-depth market knowledge
- Cultural proximity and familiarity
- Skilled workforce

More proximity and familiarity and higher skills deepen knowledge

4.3.2.3.4 Generation of experience for new markets
The overall learning experience of the FDI into India adds to the organisational know-how and learning. As discussed in the Related Activities Phase, experience generated in one market can be utilised to some extent for another market with similar characteristics. This feedback in a learning loop back into the organisation was also witnessed in the FDI decision-making process for India.

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<td>Generation of experience for new markets</td>
<td>Cultural proximity and familiarity, Skilled workforce</td>
<td>More proximity and familiarity and higher skills foster learning</td>
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4.4 Summary
The following table reduces the interview data experienced in this chapter to the minimum. In a comprehensive manner, it lists for each variable the context-specific factor which was found to impact it and what the effect on the decision-making process was. The impact on the overall phase has deliberately been left blank since it is the sum of the factors impact on each variable.

In the first column, the phases with their discovered variables are mentioned according to the developed process model. The phases are shown in bold.
letters, whereas the variables appear normal behind bullet points. The second column indicates, which India context-specific differences were found to impact that particular variable and, with that, the phase overall. The third column establishes the result of the impact, by showing how the decision-making process was witnessed to be different by the interviewed companies due to the Indian context.
Table 3: Impact of India factors on decision-making process

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<tr>
<th>Phase/Variable</th>
<th>Impacted By</th>
<th>Impact on Decision-Making</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Preparation Phase</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Related Activities Phase</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Cultural insight</td>
<td>More insight increases speed and quality</td>
<td></td>
</tr>
<tr>
<td>- Org. know-how and learning processes</td>
<td>Cultural proximity and familiarity</td>
<td>More insight within the organisation increases speed and quality</td>
</tr>
<tr>
<td>- Alertness to opportunities</td>
<td>More insight increases speed and quality</td>
<td>Increases speed and improves timing</td>
</tr>
<tr>
<td>- Experienced managers</td>
<td>More insight increases speed and quality</td>
<td></td>
</tr>
<tr>
<td><strong>Experience Generation Phase</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Trusted network of contacts</td>
<td>More trust and larger network increase speed and quality</td>
<td></td>
</tr>
<tr>
<td>- Experience generation and learning</td>
<td>Skilled workforce</td>
<td>Deeper experience generated increases speed and quality</td>
</tr>
<tr>
<td>- Awareness of investment opportunities</td>
<td>Cultural proximity and familiarity</td>
<td>More insight increases speed and improves timing</td>
</tr>
<tr>
<td>- Skilled workforce</td>
<td>More insight increases speed and quality</td>
<td></td>
</tr>
<tr>
<td><strong>Project Start-up Phase</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Board level initiative and commitment</td>
<td>Cultural proximity and familiarity</td>
<td>Stronger support increases speed</td>
</tr>
<tr>
<td>- Right timing and defining the moment</td>
<td>Cultural proximity and familiarity</td>
<td>More insight increases speed and quality</td>
</tr>
<tr>
<td><strong>Project Decision-Making Phase</strong></td>
<td></td>
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<tr>
<td><strong>Development Phase</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Gaining flexibility</td>
<td>Cultural proximity and familiarity</td>
<td>Cultural proximity and familiarity increase speed and suitability due</td>
</tr>
<tr>
<td>- Acquiring outside knowledge</td>
<td>FDI policy</td>
<td></td>
</tr>
<tr>
<td>PHASE/FEATURE</td>
<td>IMPACTED BY</td>
<td>IMPACT ON DECISION-MAKING</td>
</tr>
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</tbody>
</table>
| **Adapting the strategy**     | • Underdeveloped infrastructure  
• Underdeveloped supply chain                                              | to market insight; supply-side constraint and FDI policies reduce speed |
| **Selection Phase**           |                                                                              |                                                                 |
| • Evaluation method           | • Cultural proximity and familiarity                                         | More intuition increases speed                                  |
| • Dealing with risk           | • Skilled workforce                                                          | Higher confidence level increases risk appetite                  |
| • Location of decision-making |                                                                              | More decision-making authority located in target market          |
| • Location of decision-making authority | I Underdeveloped infrastructure  
• Underdeveloped supply chain                                              |                                                                 |
| **Implementation Phase**      |                                                                              |                                                                 |
| • Organisation and knowledge transfer | • Cultural proximity and familiarity  
• Skilled workforce                                                      | More proximity and familiarity and higher skills foster knowledge transfer |
| • Reaction to market change:  | • Cultural proximity and familiarity                                         | Mixed impact: Cultural familiarity, sound legal and political system and skilled workforce increase speed and quality; Supply-side constraints and red tape reduce speed |
| • In-depth market knowledge   | • Political system and legal framework  
• Skilled workforce  
• Underdeveloped infrastructure  
• Underdeveloped supply chain                                              |                                                                 |
| • Generation of experience for new markets |                                                                              |                                                                 |
5 Summary and implications

This dissertation investigated the nature and structure of the foreign direct investment decision-making process of Swiss companies that are in process of investing or have recently invested into India. It discussed in-depth the specific characteristics of the Indian market that influence the decision-making process and how the impact manifests itself. A grounded theory approach was applied, using the power of 41 carefully selected interviews. The findings were discussed extensively in the previous section 4. In this summary section, the main findings are discussed and implications for management practice are drawn.

5.1 Summary of findings

The results supported the initial research proposition that:

1. The Indian context does have an impact on the foreign direct investment decision-making process for India and that,
2. These differences are observable by decision makers and are perceived as impacting the decision-making process for India.

Two main groups of Indian context-specific FDI determinants were identified, which both had a significant impact on the decision-making process: institutional factors and supply-side factors. The impact of these Indian context-specific factors on the decision-making process was, in summary, found to be the following. A detailed discussion will follow in the next chapter.
• They increased the speed and the quality in the Preparation Phase as well as in the Project Decision-Making Phase,
• They increased the overall confidence level, resulting in a higher risk appetite and hence a different outcome of the immediate investment decision,
• They had a mixed impact on the Implementation Phase, i.e. the supply-side factors had a positive as well as a negative impact on the decision-making process.

The depiction below shows graphically how the Indian context impacts the different phases of the emerging market decision-making model.

Figure 15: FDI decision-making process model for India

Source: Author’s depiction based on Kukovetz (2002)
5.1.1 Institutional factors

Institutional factors in this study were considered as basic social, economic, and political factors that constitute the institutional structure of the Indian economy and society. The interviews revealed three sets of institutional factors, which had a significant impact on the decision-making process of the interviewed companies: India’s cultural proximity and familiarity, the political system and legal framework, and India’s FDI policy.

The India-specific factor cultural proximity and familiarity, as perceived by the interviewed companies, was found to impact the Preparation Phase of the decision-making process by reducing the overall process time taken until the recognition that a major investment is necessary. The more familiar an environment seems to the investing party, the quicker is the walk through the decision-making process. Moreover, the comfort level while taking the decision was found to be higher. Based on this familiarity, the knowledge of the market and its participants was perceived to be deeper and more qualified since the access to market information was more immediate. This factor was shown to enhance the quality of the decision-making significantly. Thus, the positive impact of this proximity and familiarity on the Preparation Phase can be summarised as the increase in quality and speed of the process. Practically, Proximity and familiarity also impact the Project Decision-Making Phase. The evaluation method was found to be clearly biased towards intuition since the perceived familiarity with the market and the people creates a confidence level higher than in an average emerging market. The evaluation speed, manifested in a quicker zeroing down on a particular solution, is therefore high. The risk perceived for an investment in India vis-à-vis other comparable emerging
markets seems lower, and hence the confidence level to invest was higher. Consequentially, the market entry strategy is typically not based on a trial & error approach as described in the literature for general emerging market entry modes (e.g. Thurner 2005), but was rather found to be based on a mid-sized investment at one chosen location in the core business of the company. Upon success, these investments were increased.

The political system and legal framework draw clear boundaries as to what type of investment structures and into which sectors are legally possible and in which way an investor can exercise his rights. This increases the trust in the system and helps the companies deal adequately with the risk posed. Traditional land and labour laws were found to be factors to be considered during the Development Phase in order to avoid unpleasant surprises during the Implementation Phase. India’s democratic constitution – albeit its shortcomings – was perceived to be closer and more comforting than the system of other emerging markets. On the other hand, the still prevalent administration and bureaucracy of the Indian regional and national government seemed to take a toll on the patience level of the investors. Hence, overall, the political system and legal framework was found to increase the speed as far as decision-making and comfort level was concerned, but the Implementation Phase was negatively impacted by red tape.

The prevailing FDI policy and the respective caps were shown to have an adverse effect on the speed of the Development Phase, for example if the sector under review was undergoing a policy change.
5.1.2 Supply-side factors

Supply-side factors consist of FDI-impacting characteristics the host country has to ‘offer’ to a company from another country seeking to deploy a foreign direct investment. The answers of the interviewees can be clubbed into three main factors on the supply side, namely skilled workforce, infrastructure and supply chain. Not all supply-side factors had an impact on every variable and not always was the impact positive. In summary, the impact was witnessed as follows:

Skilled workforce was shown to have a positive impact from the preliminary stage of the decision-making process, the Experience Generation Phase, onwards. With a skilled workforce in India supporting the initial steps of the company, substantial know-how and knowledge was generated which flowed back to the headquarters. Similarly, a strong, skilled local management would build up a solid network to other business people, the government, confederations of industry and chambers of commerce, helping the company learn faster (experience generation), have more insight into the market and be more aware of investment opportunities. These factors typically increased the speed during the pre-investment decision-making phase and improved the timing of the actual investment.

They also impacted the Selection Phase, i.e. when the company enters the process of selecting in which way it would like to enter the Indian market. A skilled, English-speaking local management can support the headquarters tremendously and it was observed that the more skill and knowledge was located in India, the more decision-making authority was allocated there. This was witnessed for the initial investment, but also for future follow-up investments.
The two main other factors uncovered - *infrastructure* and *supply chain* - had a negative impact on the Development Phase and the Implementation Phase. The difficulties in sourcing commodities and machinery in India and the unavailability of market data was found to decrease the speed in designing the most appropriate market entry mode compared to other emerging markets. Additionally, India’s underdeveloped infrastructure needs to be considered while crafting a solution - calculating with an average speed of 40 km/h for road transportation may disqualify some seemingly viable options. Depending upon the planning, these factors created an unexpected delay and unanticipated budget strains for many interviewees during the implementation of the investment project.

### 5.2 Implications for management

This dissertation provided insights into the lived experiences of companies and individuals directly involved in the FDI decision-making process into India. It described how the managers of the interviewed companies overcame the uncertainty while deciding to invest into the unknown market of India. In the main findings chapter, chapter 4, many actual examples of company’s behaviour were given, in order to illustrate the decision-making process for India. Based on this richness of the data collected, 5 steps were identified as the most crucial decision-making points. They are meant for the practitioner, in order to get as close as possible to the optimal decision-making process and structure.
The most critical factors to watch out for in each step were gathered from the experience of the companies interviewed. Thereupon, the following guiding principles were uncovered, which proved to add an over-proportionate value to the India investment decision-making process on a practical, operational level.

1. **Generate as much in-house experience as possible:**
   The internal wealth of knowledge of a company can be substantial. Especially, focus on learning from your current activities in India (like export and trading). The local staff can contribute far more than usually assumed. Focus on learning from other FDI decision-making processes of the company as well.

2. **Get help when and where required**
   Most companies do not employ specialists in every area. Taking help in areas where required proves financially more reasonable than a trial and error approach.
3. If trust has been built up: Rely on local employees. But keep control of the happenings
   The cultural proximity and familiarity can lead to quicker trust building. Still, regular commercial due diligence processes need to be maintained.

4. Maintain a staggered investment plan
   A staggered investment plan gives the flexibility of reacting to changes. Changes in a rapidly evolving market can be manifold: government incentives, tax structure, sudden drop or rise in demand, new competitor situation. An investment plan with clear steps helps the company react to such changes. The company should be clear about how many years and which amount of funds it is ready to invest in India until it breaks even.

5. Once minimum requirements to invest are met: implement business plan
   When the minimum requirement for a substantial foreign direct investment into India are fulfilled, act quick. The perfect moment will never come. India is considered to be a growth market. If the company has decided that India suits the strategy, the risk of being a little too late is larger than being a little too early.

6. Avoid common pitfalls
   • Do not blindly believe in volume. Just because the market is large does not mean that your product will sell in large volumes as well. Competition is fierce – you need to find your addressable market.
   • Trust is good, but not too much. Keep a check on your Indian staff or JV partner.
• Intuition is good, but not too much. In absence of data there will be no other option but to decide intuitively. But where data is available it should be part of the decision-making as in every market.
• Do not treat India as that one, big, same market. Customer preferences may differ between the North and the South, the cities and the rural areas, and so forth.

5.3 Limitations and future research

Interviews were conducted and variable researched until nothing new was found. In spite of this thorough grounded research, the results have to be interpreted in the light of a small sample size. A total of 35 interviews were conducted, 29 with company representatives, and 6 with experts. In total, 24 foreign direct decision-making processes were analysed.

A second limitation towards generalisability pertains to the origin of the sample. The FDI decision-making process of Swiss companies was studied. Although it is fair to assume that the decision-making process for India will not differ significantly for other home countries, studies do suggest that there is no single European management style and that significant differences exist (e.g. Myers et al. 1995).

Future research based on the present dissertation should go in two directions – expansion on the qualitative front and on the quantitative front.

For the former, i.e. expansion through qualitative research, the field is wide open:
Having confirmed that differences in the context of FDI receiving countries do have an impact on the homeland FDI decision-making process, future research should look into the contextual impact of other emerging markets on the FDI decision-making model. Especially the large emerging economies with a distinct culture of their own, like Russia, Brazil, or the United Arab Emirates promise to be interesting cases for future context-specific studies.

Also, industry-specific studies may reveal differences in the decision-making processes. A study on the FDI decision-making process for manufacturing companies, or even more specific, like for the automotive industry or the business process outsourcing industry, would provide a more detailed insight for interested decision-makers than this more general study does. The suggestions for management practice could be formulated more precisely in form of a clear guiding document.

Furthermore, the effect of the company size on the decision-making process can be subject to further research. A multinational corporation has different stakeholders, authorisation routines and skill sets than a small and medium enterprises (SME) (Ghoshal & Bartlett 1990). Hence it is to be expected that the decision-making process is different. Schmidli (2005) discusses this impact for FDI decision-making processes of Swiss SME’s investing in China.

Another direction to be researched is the FDI decision-making process into India for home countries of a distinctively different background than Switzerland. It would be interesting to see whether, for example, the prevalence of the English language in the Indian business facilitates the FDI process to the same extent for countries that are much further away from English, say for a foreign direct investment of a Chinese or Japanese company into India.
On the quantitative front, a further validation of this study’s results in order to build a more robust and generalisable theory would be of high interest. Since the results of this study are well grounded in field data, no new relationships need to be discovered. Based on the variables and their relationships, hypothesis could be formulated. They could be operationalised in a well-structured questionnaire and researched with a large sample size.
6 Final remarks

The successful and less successful foreign direct investments of Swiss companies into India pointed in the direction that the decision-making process for India is different than for other markets. The analysis of the different decision-making processes in this thesis supports the hunch that the Indian context does call for a different, or at least adapted, FDI decision-making process in order to reach optimal results. The more the investing company understands on how the decision-making process ought to be structured ideally, and what to be aware of in order to invest effectively, the better is the outcome.

Both sides reap the benefit of a well-structured process – the investing company as well as the country receiving the investment. Considering the significant importance foreign direct investment has for the economic and social development of an emerging market like India, an in-depth understanding of the process and its critical factors enhance the efficient utilisation of resources and therewith increase prosperity – in the receiving country as well as for the investing company. By providing a framework and guidance to structure such an investment, this dissertation hopes to add to the economic and social prosperity in a positive manner.
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170
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Appendix 1: Initial interview guideline

- Company, name, position, country, date, time
- Person/Company:
  - How long in company?
  - Person who established Indian set-up or not?
  - History in India?
  - How many employees in India, Switzerland?
  - 100% subsidiary?
  - JV?
  - Structure in India?
- According to your knowledge and experience, how has your organisation gone about in deciding whether to invest in India or not? What has the sequence of events been?
- In which way did the specific Indian context play a role in determining the sequence of events (as opposed to investing in China for example)?

More specific questions during the second and third sampling phase, like (excerpt):
- Need for FDI
- Decision makers?
- Decision-making time?
- Impulse for FDI from where?
- Intuition vs. methodology?
- What role did the Indian subsidiary play (if applicable)?
Appendix 2: Interview list

Due to confidentiality reasons, this version does not include any names of persons or their organizations that contributed to this dissertation.
Curriculum Vitae

PERSONAL DATA

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Nationality Swiss

EDUCATION

2011 Dr.oec.HSG, University of St. Gallen (HSG), Switzerland
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2002 lic.oec.HSG / Master of Business Administration, University of St. Gallen

PROFESSIONAL EXPERIENCE

Since 1.1.2011 Rieter Automotive India, New Delhi, India: Managing Director
2009-10 Rieter Automotive India, New Delhi, India: Deputy General Manager
2006-09 Rieter Textile India, New Delhi, India: Strategic Advisor to the Chairman; Head Special Assignment
2005-06 Deloitte Consulting, Zurich, Switzerland: Strategy Consultant, Financial Services Industry
2004-05 Naissance Capital Ltd., Zurich, Switzerland: Project Manager, Set-up of India Hedge Fund
2003-04 Law Office Dr. Marc R. Richter, Zurich, Switzerland: Legal (part-time)
2001 OSO Technologies, Rancho Cucamonga, USA: Intern, 3 months
2000 Swissquote Trade SA, Gland, Switzerland: Intern, 4 months
1998 Deutsche Bank AG, New Delhi, India: Intern, 3 months

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German, English, French, Hindi, Spanish