International investments

A location analysis of India

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Abstract

This degree project is written on assignment for IKEA in order to develop knowledge about India as an investment country and recommend which states in India have the most potential for a future investment. Further, we will examine which kind of knowledge approach that is best suited for a foreign investment decision.

The degree project will treat the subject internationalization and establishment in foreign countries. Companies are becoming more and more globalized and the competitive advantages tend to shift from large companies with extensive knowledge and experience to companies with unique insights and knowledge. This means that in order to succeed in the internationalization process, a firm must create knowledge about the foreign country. There exist various theories within the internationalization research, but the most prominent models are the Innovation-relation model (I-model) and the internationalization process model (IP-model).

We have used qualitative interviews and interviewed respondents from IKEA Sweden, IKEA India, IKEA suppliers, Ericsson, Sandvik and the Swedish export council in India and further a short questionnaire have been used in order to reach the result. The result has shown that the states that have the best investment climate, according to our empirical data, are Andhra Pradesh, Gujarat, Maharashtra and Tamil Nadu. Further the result will show the need to use both experienced based as well as objective knowledge to be able to make an as cost-efficient investment as possible.
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1. Introduction

In this opening chapter we will introduce the essay topic, describe the background problem and finally present our purpose with this degree project. This so that the reader will get an idea of what the study is about and why it is needed. The background problem will begin in our assignment, to further lead the reader into the theoretical concepts which ultimately will result in a research question and the purpose of this degree project.

1.1 Essay topic

In the spring of 2008 we contacted IKEA with a request of a thesis within the field of business and administration. IKEA came back to us with an assignment for a pilot study on investments regarding India. “We want to have a top down list of priority of the Indian 28 states where it is the best and worst place from a number of variables to set up different production set ups.” (P. Wisbeck, personal communication, 6 October, 2008). The assignment from IKEA trading India was to identify and recommend in which of India’s 28 states it would be most strategic to make an investment in order to expand IKEA’s business operations within the country.

1.2 Background problem – The internationalization of a firm

“Fewer and fewer industries are by the early 1990s nationally structured” (Porter, 1998). The globalization of today has made the world a smaller place; this has given companies the opportunity to be global. Larger companies cannot enjoy the same advantages they once had. The competitive advantages have tended to shift away from firms with large size and great experiences towards firms with unique knowledge and swift response capabilities (Oviatt and McDougall, 1995, p: 30). The modern technological development has made it easier to keep in contact with people all around the world, the transportation time for both people and goods has developed to a level where you can go from one part of the world to another in a matter of hours and the information flow is endless (Blomstermo and Sharma, 2003, p: 48f).

The foreign investments from Swedish companies increase in a steady pace every year. A foreign investment could e.g. be either a buildup of a subsidiary or a purchase of an already existing business abroad (Blomstermo, Johanson and Pahlberg, 2002, p: 8f). A production setup could be placed in almost every part of the world, and the important aspect is cost efficiency. If a company can produce a product at a lower price it will give the company advantages that it can use against its competitors. A lower production cost will generate either higher margins at the same price or a lower price to the costumer (IKEA trading Sweden, executive vice president, personal communication, 6-13 November, 2008).

One company that has prior knowledge of foreign investments and continues to expand its operations throughout the world is the global furniture retailer IKEA, both by helping its European suppliers to invest and to find new suppliers around the world. IKEA´s business concept is “We shall offer a wide range of well-designed, functional home furnishing products at prices so low that as many people as possible will be able to afford them”. If IKEA are to succeed with their vision an important factor is to find suppliers that can deliver products at the lowest price possible, which is why IKEA search around the world after efficient production line setups (IKEA Sweden, purchaser, personal communication, 6-13 November, 2008). Further, to be able to do this, IKEA need to gain knowledge about the areas that is interesting to operate or invest in i.e. internationalization knowledge.
1.2.1 The internationalization process

The concept of internationalization is defined by Morgan and Katsikeas (1997, p: 71) as the process of increasing involvement in international operations. Within the concept of internationalization the two most common used theories are the Uppsala internationalization process model (IP-model) (Johanson and Vahlne, 1977) and the innovation model (I-model) (Bilkey and Tesar, 1977; Cavusgil, 1980, 1984; Czinkota 1982). Further the IP-model by Johanson and Vahlne is more general accepted because; “the model can be applied on both small and large firms and time and space play a lesser role” (Blomstermo and Sharma, 2003, p: 21). Further Andersen (1993, p: 218) states that the IP-model can be seen as a more general and further developed model than other internationalization models that exist throughout the scientific community. The IP-models strength is its simplicity, Johanson and Vahlne have managed to present reasonable explanations to firm’s internationalization process based on a limited number of variables (Forsgren, 2002, p: 270).

Johanson and Vahlne’s IP-model focus on knowledge, partly on objective knowledge where the emphasis is on fundamental research before making an investment, and experienced based knowledge that focuses more on the concept of learning by doing. In the IP-model, the experienced based knowledge is a fundamental mechanism throughout the internationalization process. Blomstermo et al (2002, p: 53) state that “the experienced based knowledge is important in that sense that it give meaning and interpreted the objective knowledge”. Further a firm develop experienced based knowledge by being present on a market on a day to day basis. Experienced based knowledge allows the firm to easier see and evaluate new business opportunities and further create new marketing efforts, which finally leads to the firm learning new things and seeing new opportunities. Further the IP-model points out that there is a risk when investing in a foreign country if a company have low market knowledge, i.e. no experienced based knowledge (Blomstermo et al, 2002, p: 52ff). On the other hand, according to Forsgren (2002, p: 271) “the firm may choose to invest abroad even if the perceived risk is high due to lack of market knowledge because the firm consider the risk of not investing even higher”. This implies that investing in an early stage in a country that is predicted to have a high developing rate could be of importance for a company in order to gain a competitive advantage in the future.

The experienced based knowledge concept conflicts however, with models that are more oriented towards market research and company strategies. Within these fields, market surveys through detailed data collection are recommended when entering a new market (Blomstermo et al, 2002, p: 52f). For example Kotler et al states that “When making the “go” or “no-go” decisions, the management have to invest time and effort in researching the potential challenges and opportunities facing the company” (Kotler, Wong, Saunders and Armstrong, 2005, p: 222). This raises the question; what kind of knowledge a company should focus on when collecting the information needed to make an investment on foreign soil?

1.2.2 IKEA’s internationalization process

At the beginning of IKEA’s history, the company mostly traded with Swedish suppliers and further went outside Sweden to start co-operations with Scandinavian suppliers. In IKEA’s quest to establish the company as the cheapest furniture retailer on the market an additional step to increase margins and decrease prices was to look even further after possible suppliers to work with (IKEA Sweden, business coordinator, personal communication, 6-13 November, 2008). As one example, IKEA decided to invest in the Baltic States region. The movement
pattern that IKEA used demonstrates a clear link to the concept psychic distance, presented by Hörnell, Vahlne and Wiedersheim-Paul (1973, p: 218), “where a firm’s establishment are made only on mentally nearby markets and then further away”. When IKEA decided to invest in Scandinavia and the Baltic States and began their internationalization process, IKEA made it on a nearby market so that the difference in business interactions and business culture would be as minimal as possible.

After the dissolution of the Soviet Union the Baltic States had a need to boot the domestic production industry to be able to create work opportunities and stabilize the country’s economy. The Baltic suppliers were superior to the Nordic suppliers in terms of price and could compete on the same level when it came to quality. This because of an already functioning industry that was built during the Soviet period which new IKEA’s suppliers could tap on to. The Baltic countries could also offer much lower wages than elsewhere in Europe and the cultural differences between Sweden and the Baltic States were minimal which facilitated the development of trust more easily. The cooperation with the Baltic suppliers was a success and one reason why IKEA is one of the leading furniture retailers in the world (IKEA Sweden, business coordinator, personal communication, 6-13 November, 2008).

Since the cooperation with the Baltic suppliers and IKEA started, the development has moved forward. IKEA has become a global company operating in markets worldwide and further has co-operations with suppliers all over the world. An important part of IKEA’s business strategy is to work closely with its suppliers, the goal is to develop and create the most efficient production set up possible. IKEA is interested in building long term relations with its suppliers and in that process trust is an important factor to consider when making business deals (IKEA Sweden, business coordinator, personal communication, 6-13 November, 2008). This is also confirmed by the revised IP-model where Johanson and Vahlne (2009, p: 1415) state “it is to a large extent via relationship that firms learn, and build trust and commitment – the essential elements of the internationalization process”. Further, Morgan and Hunt (1994, p: 24) states that in order to build relationships with business partners one must work with the establishment of commitment and trust. In this way IKEA has always tried to find new ways of working with suppliers to enable its business concept. On IKEA’s way to achieving lower production costs, one future plan is to move its current European suppliers to South East Asia and IKEA is therefore interested in further research on the future business climate in this area, and why IKEA’s competitors and collaborating partners have chosen different locations for their productions plants (IKEA trading Sweden, executive vice president, personal communication, 6-13 November, 2008).

Countries in Asia e.g. China and India have experienced an enormous social and economical change during the last decades and as a result companies all over the world have become interested to invest capital in these countries. As an example India has in the last three years had over nine percent GDP increase per year (Swedish embassy, 2009). Further, experts predict that India, in the near future, will become one of the biggest economies in the world and within 50 years India could be the world’s largest economy (Carnegie endowment, 2009). In other words, India has enormous potential and a high speed economical growth. This has become a reason why companies all over the world are interested to invest in India and explore the possibilities the country can offer.
1.2.3 Investment variables

In order to make an investment in nations abroad, throughout the internationalization process, it is important to know where to make the investment. To be able to make a good decision a company have to consider different variables that are important to collect information about, either through objective or experience based knowledge (Blomstermo et al, 2002, p: 52f). This process can be seen as a location analysis, where data is collected in order to find the conditions best suited for an investment. What kind of variables is then important in the location decision?

Schmenner (1982, p: 77ff) identifies that variables like favorable labor markets, nearness to markets, quality of life in the area, nearness to suppliers and low labor rates are important variables in the location decision. Further, MacCormak, Newmann and Rosenfield (1994, p: 69ff) argues that a company should not only focus on quantitative variables like transport costs, taxes and labor rates but also on qualitative variables like infrastructure, worker skills, local government regulations and access to suppliers. Coughlin and Segev (2000, p: 323f) presents educational attainment and existing manufacturing base as another set of variables that is of importance in the investment decision for a firm.

Studies have shown that companies that consider adapting to different location variables and location possibilities versus investing only based on one variable as for example cheap labour, gain more benefits and higher performance compared to companies that do not (Bhatnagar, Jayaram and Cheng Phua, 2003, p: 151ff). This is further proven by Ferdow (1997, p: 73) that states “companies that locate plants in foreign countries nearly to benefit from tariff and trade concessions, cheap labor, capital subsidies, and reduced logistics costs do not tap the full potential of their foreign factories”. This implies that when choosing investment location variables like closeness to customers, suppliers and skilled workers could mean that a company enjoys a higher level of performance (Ferdow, 1997, p: 74 ff).

We have now presented the topic given to us by IKEA and further identified that the research on internationalization presents how a firm can create knowledge about a new market. Further, we have showed that there are theories that present important variables to consider during an investment decision. The knowledge gap that exists, as we see it, is how to combine these theories. This raises the questions; which kind of internationalization knowledge approach is then best suited when collecting information about variables needed for an investment and is different knowledge approaches more or less applicable depending on variable?

1.3 Research question

Which of India’s 28 states have the best environment for a potential investment by IKEA or IKEA suppliers and which kind of internationalization knowledge approach is best suited when collecting information about variables needed for an investment?

1.4 Purpose

The practical purpose of this degree project is to evaluate which of India’s 28 states have the best environment for a potential investment for IKEA or IKEA suppliers. The theoretical purpose is to identify which kind of internationalization knowledge approach is best suited when collecting information about variables needed for an investment.
2. Methodological standpoints

In this chapter the scientific values of this degree project will be presented. The chapter will address our perspective and prior knowledge, what approach we will have and our perception of knowledge. This will give the reader a possibility to understand how and why the authors have chosen to use these methods in order to solve the research question. In addition, an understanding and evaluation of the literature section will also be provided.

2.1 Perspective

The perspective is important to a study in that sense that the results differ depending on the perspective e.g. an employee perspective gives different results to a study then a retailer perspective. This makes it important for the reader to know what perspective the implementer of the study has (Bjereld, Demker and Hinnfors, 2002, p: 14). In this degree project two different points of view have been chosen, IKEA’s point of view as well as a corporate business perspective.

2.2 Prior knowledge

The authors of this degree project have very similar backgrounds. We have both studied business administration at a high school and university level and are about to complete our university education with this degree project. Thus, are we partly limited to the area of business administration and cannot complement each other with information that is beyond our area of expertise. We have chosen to work together because both of us attended the same course and had previously worked together in other projects.

Our knowledge of India is limited to knowledge picked up from school and life in general. One of us had visited India, prior to our study. His experience was beneficial to this degree project because of his knowledge and experience of the culture as well as different geographical areas i.e. knowledge of the country that only can be learned from experiences. He also had a reference point in that sense that he could compare the development in the country compared to his last visit. This implies that the two authors had two different reference points, one comparable and one first time experience. We also had a perception that probably many foreigners have about India and that was that the nation still is in a developing stage.

Our prior knowledge about IKEA was that we as Swedes have followed the success story of IKEA throughout the years. The Swedes are in general proud that a Swedish company have created success all over the world and the perception of IKEA is often positive. Ingvar Kamprad is and will remain a role model for the Swedish people because of his class trip from being a small furniture retailer to the founder of one of Sweden’s most successful companies. Further, none of us have any work experience when it comes to the industrial manufacturing that IKEA suppliers use. That is, we have no prior knowledge of the manufacturing process as well as the furniture sales process. When it comes to the materials IKEA works with such as wood, textiles and plastics, we are no experts and therefore have difficulties to put a value on quality and price.

Our pre-understanding and our values may partly have affected this degree project, further our prior knowledge about IKEA and India could affect our result on the empirical data in that sense that it is difficult for us to be totally objective. Peshkin (1988, p: 17) states “that one’s
subjectivity is like a garment that cannot be removed”. This means that one’s subjectivity is operating throughout the entire research process. Further, Peshkin (1988, p: 17ff) points out that notwithstanding the use of quantitative or qualitative research methods, the researchers should try to systematically identify their subjectivity throughout the whole research process. With this in mind we can try to be aware of our subjectivity throughout the research process to be able to be as factual and neutral as possible. The prior knowledge presented above can be seen as guidelines when trying to unveil our subjectivity and with this in mind try to look at our assignment in the most factual way possible.

2.3 Perception of knowledge

By developing methods for how research should be performed, it has been possible to distinguish; how to collect research data in a correct way and therefore been able to shield them from the manner in which the methodological guidelines not follow the norm (Molaner, 2003, p: 134). The perception of knowledge usually deals with how someone perceives their reality and how he studies that reality (Johansson Lindfors, 1993, p: 10). Bryman and Bell (2003, p: 27) describes perception of knowledge as “what is or can be regarded as acceptable knowledge in a research subject”.

Two classifications of epistemology are positivism and hermeneutics. Bryman and Bell (2003, p: 443) states that the central idea in hermeneutics are; "scientists that analyzes a text should try to understand the text's meaning from the perspective of its author". Therefore, one must during analyses of the text, try to understand what intentions the author had with the text, i.e. understand the author (Wallén, 1996, p: 33f; Bryman and Bell, 2003, p: 29). This can be seen as the overall picture which Patel and Davidsson (2003, p: 29ff) mentions, where they state that one must try to understand people in different ways and interpret this in different ways to be able to get the whole picture. Further they state, that the scientist constantly uses his or hers prior knowledge to be able to fully understand he or she (Patel and Davidsson, 2003, p: 29ff). In our case the text would mean our respondents during our interviews and we should try to understand what intentions the respondent have with his or her answers.

Positivism is a reflection of objectivism, Johansson and Lindfors (1993, p: 45) states; “the respondent shall be kept free from the scientists values, which guarantees that the values of freedom is maintained”. The research will thus be free from valuation, it must also be able to be empirically proven, otherwise it does not belong to the scientific realm; examples of this are feelings, values and religious statements (Wallén, 1996, p: 26f). However, we would argue that it is extremely difficult to be objective and just act on a value-free sense, e.g. when getting an answer from a respondent during an interview; one interprets the data through filters of previous knowledge or experience. This is also confirmed by Peshkin (1988, p: 17ff) as mentioned earlier, that states that one’s subjectivity follow the researcher throughout the entire research process. Further, our own opinions should not affect an interview of a respondent; “this because I am, as an interviewer, only interested in what ideas about different phenomenon´s my respondent have” (Trost, 2005, p: 114).

Therefore, in this degree project we apply an interpretive approach where we as authors, partly unconsciously, cannot fully interpret the empirical data objectively which means that personal values can affect the empirical result. We are trying to describe the surrounding world as realistic as possible but we will not be able to frequently triangulate all social phenomenons’s that our respondents’ experience (Bryman and Bell, 2003, p: 310). Therefore we believe that what our respondents are telling us is their truth and their experienced reality (Bryman and Bell, 2003, p: 28, 490ff) (Chalmers, 1999, p: 203ff). Further we have a realism
view of the world. Searle (1997, p: 18) defines realism as “the view that the world exists independently of our representations of it”. This means that if we had never been on site in India, most of the remains in India would still remain unaffected (Searle, 1997, p: 18). Further this means that if we believe that our respondents is telling their truth, it would mean that it is true what they say, then it is the truth (Alston, 1997, p: 54). As a conclusion, our perception of knowledge in this degree project cannot be seen as either positivistic or hermeneutic but rather somewhere in between these extremes (Bryman and Bell, 2003, p: 39ff).

2.4 Qualitative versus quantitative method

The quantitative method is often associated with surveys where a large collection of data is in focus. Rolf Ejvegård (2003, p: 36) defines quantified as “something that can be counted or can be measured with either numbers or in terms that corresponds to numbers”. The results should also be able to be replicated in another place by another scientist and preferable show the same results (Bryman and Bell, 2005, p: 39ff). We argue that this degree project has more elements of a qualitative research in that sense, that it takes into account how interviewed individuals interpret and perceive their reality. Further, the qualitative method is associated with words and interviews rather than figures and surveys (Bryman and Bell, 2005, p: 297ff).

An important part of the qualitative research method is to find an interesting population with knowledge and opinions that are relevant to the thesis, thus the amount of data is not in focus but rather the quality of the data that is collected. Further, it is also important to point out that this study could also have used a quantitative method with an interview guide, so that we could compare these two methods. However, we as authors felt that the qualitative method was the best way to go when following our purpose; this thesis is more inclined towards the qualitative method rather than the quantitative method and has therefore a qualitative approach.

2.5 Scientific approach

The concept of scientific approach involves explicitly the path one chooses to examine the empirical reality, i.e. the phenomena one has in mind (Johansson Lindfors, 1993, p: 54). The two most common methods for approaching the reality are; the deductive and the inductive path (Patel and Davidsson, 2003, p: 23).

The deductive approach typically involves the following stages; theory -> hypothesis -> data collection -> results -> hypotheses are accepted or rejected -> the theories are revised (Bryman and Bell, 2003, p: 23). In a broader perspective, one could say that research is moving from theory to data (Johansson Lindfors, 1993, p: 55). Assuming therefore, that conclusions are drawn from general principles and existing theories about individual phenomena, e.g. the hypotheses that exist at the beginning and that are to be examined through an empirical analysis and eventually lead to a final result. This is the most common approach within the social sciences (Patel and Davidsson, 2003, p: 23). The second of the two most common ways of approaching empirical reality is the inductive path. This path is on a broader perspective the opposite from the deductive path, i.e. from empirical results to new theories. By following this approach, the scientist is somewhat of a Columbus, i.e. an explorer (Patel and Davidsson, 2003, p: 24).

Our purpose of this study is to evaluate which of India’s 28 states have the best environment for a potential investment for IKEA and IKEA suppliers? To be able to do this we felt that the
deductive approach is more evident; partly we based our variables on existing theories. Further, we are not using the typical approach that Bryman and Bell presents i.e. from theory to data via hypothesis, instead we are using Johanson Lindfors (1993, p: 54) perspective were one goes from theory to data. We are not using any hypothesis; instead we are using variables that are based in theory derived from the extended theory research before the variables were selected. We also want to point out that the variables used for our interviews were chosen through theory, before entering India. However, after our interviews with our respondents we have chosen to add the variables: electricity and water, security as well as relationship and culture. We felt that these four variables were mentioned to many times during our interviews to be ignored. Therefore the literature review chapter have been revised so that all important variables are available to the reader. A model will be developed which is based on the results presented. This result will later confirm or reject the need for an auditing on existing theories (Bryman and Bell, 2003, p: 23ff).

2.6 Collection of secondary sources

The theories we have used for this degree project is collected from respected literature mainly from Umeå University. The articles used were collected from Umeå University databases i.e. Business source premier and Emerald, all this in order to implement scientific validity. The search words that were generally used to find the articles were: IKEA, India, establishment, foreign country, foreign direct investment, globalisation, special economical zone, corruption, infrastructure, political stability, safety stability, cluster, ethics, logistics, location and network. Further, internet sources were used to be able to find information that could not be found in the scientific articles or books. Here it should be noted that the internet sources have been highly critical reviewed in order to get as reliable sources possible.

2.7 Choice of theories

Based on the theories chosen, we identified factors that are important for the establishment process when a company wants to enter India. We found the articles, academic journals and books, which were used, through Umeå University databases. These secondary sources have been critically reviewed although no considerations have been taken whether the authors to the theories have been subjective or not.

To be able to examine whether IKEA´s variables were relevant to a location decision we used the article “Relative importance of plant location factors: a cross national comparison between Singapore and Malaysia” (Bhatnagar et al, 2003, p: 147). This article deals with different location decisions in Singapore and Malaysia and should have a relative value for this master thesis. The theory describes which factors that is associated with the choice of plant location.

Another important theory for this study is the internationalization process model also known as the IP-model (Blomstermo et al, 2002, p: 43ff). This theory includes the psychic distance phenomena that deal with a company´s decision process when entering a foreign country (Blomstermo et al, 2002, p: 46f). To understand the motives behind IKEA´s earlier movement towards globalisation the IP model describes the importance of the internationalization process and also what kind of information that is essential in this procedure. Even though there exist, a lot of models regarding the internationalization process, we decided to use the model designed by Johanson and Vahlne, because of its generalisability and ability to be
applied on both small and large firms. Further this is a well known scientific model that is well accepted in the scientific world (Blomstermo and Deo Sharma, 2003, p: 21).

The article "Foreign direct investment in India: a critical analysis on FDI from 2001-2005" (Singh, 2005) addresses a topic that deals with the openness of India to foreign investors. It is important for a company that wants to invest in India that the country is open to foreign capital. We believe that this article present relevant theories to this master thesis.

Another variable that is of interest when studying India is the case with the special economical zones (SEZ). In India the special economical zones have been a debated topic on how and whether they should be implemented or not. The articles "Theory of Enclave" (Vinokurov, 2005) and "Use of SEZ as an economical development tool" (Curtis, Hill and Lin, 2006) deal with questions regarding pro and cons for the zones. The SEZ’s has worked out well in China during the last decades, but there are questions regarding whether the SEZ’s will be as successful in India as in China.

Corruption is a major problem that exists everywhere in the world but more frequent in some countries than others. Transparency International’s (TI) “global corruption barometer” (Policy and research department transparency international report, 2007) measures the corruption rate of countries all over the world. The barometer highlights the importance of treating corruption as soon as possible which is also noted in the article "How companies behave ethically in a corrupt world” (IOMA report, 2001).

2.8 Evaluation of sources

The theoretical frame of reference is the foundation of a research, and that this framework is critically examined is important for the validity of the study. This might sound obvious, but often easier said than done. The theoretical collection has two steps, the theory search process and the theory use process. In our theory search process we have used peer reviewed sources in order to collect as credible sources possible (Johansson Lindfors, 1993, p: 87ff).

In our theory search process, there are various criteria’s that are important to consider. Thurén (2000, p: 11ff) states that the most important criteria’s are authenticity, time horizon, independence and motive freedom. With authenticity he means that the source must be what it purports to be, time horizon indicates that if the source is old there is reason to doubt it. With independence he means that it is important that the source will stand for itself and not be dependent on others, and motive freedom suggests that different motives such as personal, economic or political should not affect the theory (Thurén, 2000, p: 11ff).

The main criticism that could be raised when it comes to this degree project’s theoretical frame is whether the theories that are considered old are valid or not. Most of the references used in this degree project refer to articles that have been written in the 21 century. This could raise the validity of the research because of its relatively newly issuing. When it comes to the IP-model, which is this degree projects main theory, criticism can be raised on whether this model still is relevant due to that it was published in 1977. However, we argue that this model still is relevant in that sense, that it is still considered to be one of the most important models when it comes to the internationalization process for companies (Blomstermo and Deo Sharma, 2003, p: 21). The model has also been revised in 2009, in order to fit today’s business climate and the main argument about the internationalization process still exists (Johanson and Vahlne, 2009, p: 1411f).
This thesis deals with a fairly newly developed concept, the special economical zones (SEZ). We also deal with IKEA which is a non public company; this has led to that there have been some problems with finding information and research about these two subjects. This means that to be able to find information about these two subjects we have been forced to use internet sources and have only referred to a small number of articles. This could be seen as a weakness in the sense that there could be questions rose whether the material findings could be regarded as unbiased. To meet this criticism we have critically and objectively to as large extent possible reviewed every internet source used, and mostly used internet pages from organizations with a good transparency e.g. the Indian government, Swedish trade of commerce and the World Bank.
3. Literature review

In the following chapter, we have gathered relevant theories concerning our degree project and its purpose. The reader will get an understanding to the field of knowledge relating to the study. The reader will first get a view of different types of internationalization models as well as earlier research within this field. Further we will introduce variables that are of importance when making foreign investments and in the end introduce an investment model.

3.1 Internationalization

Johanson and Wiedersheim-Paul (1975, p: 306) refers to internationalization as the attitude or behaviour a firm has towards activities abroad. A pioneer within the area of internationalization, Sune Carlson, discovered that companies that moved abroad often had problems with conducting business in a foreign market in that sense that the company had a lack of knowledge about the market (Carlson, 1966). He argued that firms who tend to take this process gradually, and conquer knowledge about the new country in this way tend to succeed better (Carlson, 1966).

This is also confirmed by J Johanson and J E Vahlne (1977, p: 23) where they argue that the internationalization of a firm is a process that takes one step at the time to increase a company’s international involvement. Carlson (1966, p: 15) further argues that “once the firm has passed the cultural barriers and had its first experience of foreign operations it is generally willing to conquer one market after another”. This is what the internationalization process is all about; how to proceed when investing abroad? We will now present different internationalization models and discuss their theoretical framework.

3.1.1 The Uppsala internationalization process model

In the early seventies a scientific program started at Uppsala University in Sweden about international business establishment (Blomstermo and Sharma, 2003, p: 3). During this time Sweden was dependent on international markets to further develop the economical growth of the country. The Swedish industry saw the potential in investing in foreign countries and wanted to learn more on how to succeed and grow through these investments. The scientists, Johansson and Vahlne, laid the ground for what later was to be known as the IP-model (Blomstermo et al, 2002, p: 43ff).

The IP-model shows a connection between knowledge development and growing foreign involvement. It shows that it is easier for a company to invest in a foreign country if the knowledge level about the foreign country is high. This is a part of the concept of psychic distance. Johanson and Vahlne points out that companies, most of the time, places its first foreign investment in a nearby country, with similar culture and society ground i.e. psychic distance. An example could be a Swedish company that wants to invest in a foreign country and places its first investment in the nearby Nordic region e.g. in countries as Norway, Denmark or Finland. After a successful investment in a nearby region the company makes further investments, but now in countries with a longer distance from the home country. This is a strong indication that knowledge is an important factor in the internationalisation process of companies (Blomstermo et al, 2002, p: 51ff).

Further the researchers Johanson and Vahlne, showed the importance of networking and to have business contacts in the area a company wants to invest in, this is called the networking model. They suggest that it is of great importance for investing companies to establish close
and prolonged contacts in the country that is interesting to invest in (Blomstermo et al, 2002, p: 81ff). The IP-model shows that the internationalisation process is a “learning by doing” process (Blomstermo and Sharma, 2003, p: 39ff). It points out how important it is for a company to create knowledge when entering a new market, and that this knowledge is helpful when the investing companies are about to do new investments in the future.

The IP-model points out the knowledge development process (see figure 1, p: 12). During this process the company is heeding out to unknown territory and will discover business possibilities and problems that are impossible to predict. In this situation the most rational thing to do would be to gather data and carefully plan the internationalization process before entering the territory. However, the IP-model points out that it is only through actions inside the territory that the company can learn how the territory actually work, and through this experience make a successful internationalization process (Blomstermo et al, 2002, p: 50ff). In other words, the knowledge about the market is best learned through “learning by doing” activities inside the market.

The IP-model presents two sets of variables which are state and change variables. These variables influence each other in that sense that the current state has an effect on change and vice versa. The state variable consists of market knowledge and market commitment and the change variable consists of commitment decisions and current activities. The IP-model shows how companies should evolve in market knowledge through “learning by doing” (Blomstermo et al, 2002, p: 50ff).

The left square in the IP-model refer to how internationalized the company are, and the right one describes how the internationalization process occur. At first, the company decides to engage in a market e.g. searching for possible markets to place an investment. When the decision is made the company has made an engagement decision, which describes how the internationalization process has occurred. The engagement decision leads to daily confrontation with problems that can occur. This enables experience based knowledge about the market that can be used by the company in its future internationalization process and further on, this brings reality based knowledge back to the company (Blomstermo et al, 2002, p: 50ff). When presenting the knowledge concept Johanson and Vahlne discusses objective - and experience based knowledge, objective knowledge can for example be learned from reading a book while experience based knowledge can only by learned when acting on a

![Figure 1, The basic mechanism of internationalization: state and change aspect, Johanson and Vahlne, 1977, p: 26.](image)
market through learning by doing. The IP-model presents the importance of experience based knowledge in the internationalization process (Blomstermo et al, 2002, p: 50ff).

When it comes to the sub variables inside the state and change variables, the market knowledge variable is presented as knowledge about customers, suppliers and public authorities in a particular country. Market knowledge is based on a special area and this knowledge cannot be used anywhere else. Further, market knowledge can be divided into market- and internationalization knowledge, where internationalization knowledge is based on the company’s own ability to run and set up internationalized activity. It is this type of market knowledge i.e. experience based knowledge that is important during the internationalization process (Blomstermo et al, 2002, p: 52ff). Further, the commitment decision variable points out that an investment in a foreign market is influenced by the experience collected through earlier operations in this market, i.e. experience from day to day work in the area that the company is about to invest in.

The market commitment variable presents the amount of commitment a company has to a market before the internationalization process, e.g. if a company already has a large amount of resources tied to the market. The market commitment is important in that sense that it shows how much a company is willing to lose if something goes wrong with the investment. The variable “current activities” points out the importance of the day to day work in the market. It is the everyday contact with customers, suppliers, authorities and other important individuals and organizations that eventually creates experience based knowledge (Blomstermo et al, 2002, p: 52ff). The IP-model shows that a company easier develops knowledge about a territory if the company is inside this territory instead of watching outside the circle (Blomstermo et al, 2002, p: 43ff). For example Blomstermo et al (2002, p: 52) states that “the most important statement in the IP-model is that investments in foreign markets is influenced by the experiences the company gets by activities of today and in the past in the territory they are about to invest in.”

The steps in the model can be big, small or even invisible, it affects on how internationalized the company are and therefore affect in which degree the company is internationalized. The idea of the IP-model is to gather information that turns into knowledge about the country that the company is to invest in and further establish prolonged contacts to succeed with the planned investment (Blomstermo, et al, 2002, p: 50ff). The “learning by doing” experience based knowledge conflicts with other theories and books, that present that before a company invests in a market they should collect as much data as possible, and then evaluate the data to make it easier to know where the best place is to invest (Blomstermo et al, 2002, p: 52ff).

The strength of the IP-model is that it is so simple, the authors explained the internationalization process of a firm based on a limited number of variables (Forsgren, 2002, p: 270). However, there still exists some arguments to the IP-model regarding how to collect knowledge about the foreign market. A company can incorporate other units in the thought out investment country with the specific knowledge the company is searching for, or the company could also imitate other organizations (Forsgren, 2002, p: 273f). We have above presented that the experience based knowledge is important when it comes to the understanding of a country and its people. However, in some areas this information of course could be obtained otherwise than by experience based knowledge and further an investment with the experienced approach could imply a high capital investment which for a smaller company could affect the acceptance rate for failure. This indicates that the need to gather information in other ways than by experience based knowledge is vital. This will be further
discussed when presenting more details of the marketing concept, later on in this theoretical framework.

3.1.1 Psychic distance

Early studies in the Uppsala school model showed that there was a pattern between companies when it came to establishing outside the domestic market. When the companies established in another market they moved to a country that was geographical close to them. The companies probably established in a neighbour country because they had better knowledge of the markets in those countries than other countries in another continent. This was very interesting for the scientists because this meant that knowledge were very important in the internationalization of the firm. This was also confirmed by Swedish companies’ dispersal, they often moved from the Swedish market to another Nordic market before trying further down in Europe. (Blomstermo et al, 2002, p: 46ff)

There is a clear link between psychic distance and geographical distance, but there are of course exceptions (Johanson and Wiedersheim-Paul, 1975, p: 308). One example could be; Englishmen, who have no problem starting up or make foreign investment against Australia. This is obviously not depending on the geographical distance, but instead on these two nations’ similarities when it comes to culture, society ground and language. So when psychic distance is mentioned, it is often meant, geographical distance, but often the cultural, society and language comes along with closeness to a neighbor nation. This is why psychic distance and geographical distance often correlates (Johanson and Wiedersheim-Paul, 1975, p: 308).

There could be argued that because of new technology the concept of psychic distance could have a lesser role in a company’s internationalization process. As for example today when the information flow is endless it is easier to operate businesses with greater distance from each other then it was when the psychic distance concept was introduced. But studies still show the same result, today psychic distance is a big part of understanding the company and knowledge is a huge advantage when it comes to foreign investments (Blomstermo et al, 2002, p: 43). The world may have become a smaller place, but the companies still move in the same pattern.

3.1.2 Revised IP-model

Since the original IP-model was created in 1977, both the business practise as well as the theoretical framework for the internationalization process has changed. During the years that have gone by since the original model was conducted, the importance of networks during the internationalization process has developed as a variable that is important to consider. The original authors Johanson and Vahlne (2009, p: 1411) saw this as evidence to that the IP-model clearly had a need to be revised.

Johanson and Vahlne (2009, p: 1411) writes in their updated version of the original model that nowadays business environment is based on a web of network and relationships instead of a neoclassical market where many independent suppliers and customers act. Further they presents that the need for a revision of the original model was necessary in that sense that in the 1977 years model the trust-building, knowledge creation and the need for relationships did not exist (Johanson and Vahlne, 2009, p: 1411).

They also present their believes that the internationalization process of a firm has many similarities with entrepreneurship, namely, that one can see a company going out on a foreign
market as an entrepreneur, where networking is clearly an important factor. However, the old model is still essentially the same although two new perspectives were added; trust building and knowledge creation. Another insight in the revised model is that new knowledge that a firm creates on a new market is essentially developed in relationships. (Johanson and Vahlne, 2009, p: 1411)

The revised IP-model still consists of two sets of variables which are state and change variables (see figure 2, p: 15). The old model stated market knowledge, market commitment, commitment decisions and current activities as the models main variables. In the revised model Johanson and Vahlne present an updated version of the old variables namely recognition of opportunities, network position, relationships and finally, learning, creating and trust building (Johanson and Vahlne, 2009, p: 1424).

![Figure 2. The business network internationalization process model, Johanson and Vahlne, 2009, p: 14.](image)

The first change to the model is that “recognition of opportunities” is added to the “knowledge” concept of the model. By adding this variable Johanson and Vahlne points out that opportunity is an important element knowledge concept. Further they present other components of knowledge that is important as needs, capabilities, strategies and networks (Johanson and Vahlne, 2009, p: 1425).

The second variable in the revised model is the “network position” that was presented as “market commitment” in the original model. With this new variable Johanson and Vahlne states that the modern internationalization process is pursued within a network, and if the internationalization process is successful a desirable outcome of learning, trust and commitment building would end up in a network position (Johanson and Vahlne, 2009, p: 1425f).

The third variable in the model has been changed in that sense that “relationships” have been added. This variable points out that a firm either wants to increase or decrease the level of commitment to the relationships within its networks. A change in commitment to a relationship will make the relationship stronger or weaker and in the end have an impact on the firm’s internationalization process. (Johanson and Vahlne, 2009, p: 1425ff)

In the end the fourth variable “current activities” in the original model was changed to “learning, creating and trust building”. The concept of “current activities” in the original
model was that activities on the market and on a daily basis lead to increased knowledge, trust and commitment. With this change Johanson and Vahlne implemented the dimension of trust building to play a greater role in the internationalization process. Further they highlight the important process of creating opportunities, learning and trust building. (Johanson and Vahlne, 2009, p: 1425)

The core argument in the revised IP-model is that the model is revised on business network research which is divided into two sides. The first one is that markets are networks of relationships, in which firms are linked to each other in various and to large content invisible patterns. With this Johanson and Vahlne (2009, p: 1411) states in their revised model that “insider ship in relevant networks is necessary for successful internationalization and relationships offer potential for learning and for building trust and commitment”. This implies that both trust and commitment are preconditions for internationalization. Further, Johanson and Vahlne also presents that firms existing business relations have considerable impact on the geographical market that the firm decides to enter, this because these business relationships makes it possible to identify and exploit new opportunities. (Johanson and Vahlne, 2009, p: 1411ff)

3.1.3 Innovation-related model

The theoretical framework of this degree project focus on the IP-model as the model used to explain and understand the internationalization process of a firm because this model focus on all types of firms and is not bounded by time. The IP-model is not the only approach that can be identified in the existing literature on foreign market entry. Another model within this subject is the innovation model (I-model) (Bilkey and Tesar, 1977; Cavusgil, 1980, 1984; Czinkota 1982) that has according to Blomstermo and Sharma both similarities and differences with the IP-model. Further, the I-model is an accepted model within the internationalization process field (Blomstermo and Sharma, 2003 p: 20ff). When it comes to the I-model it focuses on stepwise development on the evolution of international involvement, in other words that between each steps, a fairly stable period exists where firms consolidate and gather resources that enables them to continue the internationalization process. The I-model is based on the export development process where a firm goes from no interest in exporting to exporting on a large scale to foreign countries (Morgan and Katsikeas, 1997 p: 72 ff).

The similarities are that both models focus on the experiential knowledge as both input and output in the internationalization process of a firm. Both models are also behavioural targeted in that sense that they take little account to the market and competition variables (Blomstermo and Sharma, 2003 p: 20ff). However while the IP-model is more seen as a behavioural theory the I-model can be seen as more an economic model (Johanson and Vahlne, 2009, p: 1414). The models are also both developed on data from manufacturing industries (Blomstermo and Sharma, 2003 p: 20ff). The differences of the two models are partly that the IP-model elaborates more on the assumptions on incremental development and the dynamics of knowledge as well as learning. While the IP-model presents that experimental knowledge is a factor that reduces uncertainty and develop business opportunities abroad, the I-model focuses more on stepwise development, classifying firms into different stages and further focuses on explanatory factors (Blomstermo and Sharma, 2003 p: 20ff). Further, the I-model is more suitable for small- and medium sized firms while the IP-model can be applied on all types of firms and is more general and more developed than the I-model. The IP-model is also not
restricted by any time horizon which the I-model is, which makes the IP-model more dynamic in general (Blomstermo and Sharma, 2003 p: 20ff).

3.1.4 Objective learning through the internationalization of a firm

In our background problem we raised the question whether a company should make more efforts towards objective - or experience based - knowledge in their internationalization process? There exist different points of views in this matter, where one view, as mentioned earlier, is represented by internationalization theories and campaigns experienced based knowledge, while on the other hand marketing theories campaigns the importance of pre studies. This is shown by for example Kotler et al (2005, p: 222) when they state; “When making the “go” or “no-go” decisions, the management have to invest time and effort in researching the potential challenges and opportunities facing the company”.

Further, Brassington and Pettitt (2003, p: 106) points out that when entering a new market a full analysis have to be made to be able to reach an informed decision and to further make a successful investment decision. The emphasis lies on the research of different investment decisions and that the collection of as much information as possible is done before entering a new market. It is after this a company have the knowledge to make the decision of which investment is more preferred than the other and how should the implementation of the investment be carried out. (Brassington and Pettitt, 2003 p: 106ff)

The information about the future investment country can be gathered throughout different channels. The IP-model prefers experience based knowledge through own experience and other researchers prefers to investigate and gather research before making the investment. Forsgren (2002, p: 271ff) states that the IP-model does not include perceived risk of not investing which could be a reason why companies chooses to invest in certain countries without enough information about the foreign country. Off course this is something that often differ from company to company but we would still argue that there exist unclear research of what information is valuable and how can a company obtain the valuable information. We will therefore develop a model for how to obtain the information in India.

3.2 Important variables during an establishment process

When making an investment in a foreign country there is a lot of variables one need to consider. Studies have shown that companies that consider adapting to different location factors and the locations possibilities gets more benefits and higher performance compared to companies that does not (Bhatnagar et al, 2003, p: 148ff). This means that if a company carefully analyze the area they are about to invest in, they have a much higher possibility to succeed with their investment than if they do not. Bhatnagar et al (2003, p: 148ff) lists variables that are of importance and needs to be considered;

- Costs – Perception of; cost of land, energy, transport infrastructure, business services, Telecommunications and labour.
- Infrastructure – Availability of; land, energy, transport and telecommunications: Quality of telecommunications and transport infrastructure.
- Business services – Availability and quality of; Air freight services, sea freight services, land transport services, financial services, legal services and information technology.
• Labour – Education level, skill level, impact of labour action, availability of engineers, executives, operators, foreign workers and productivity
• Government – Presence of; supporting agencies, stability of government policies, stability of tax policies, stability of fiscal policies and protection of foreign investment. Level of; government support, administrative efficiency and transparency.
• Customer/market – Proximity to market, size of market and stability of market conditions.
• Supplier/resources – Availability of suppliers, proximity to suppliers.
• Competitors’ location – Key competitors locations, likely competitors’ reaction to site.

When a company plans for a production set up in a foreign country these factor plays an important role and needs to be considered before the company pursues their plan into the build up phase. To better describe the factors and why some of them could become a problem an example could be poor energy infrastructure. If a company places a production setup within a country with poor energy infrastructure this could lead to shutdowns of the production lines due to electrical breakdowns, which will affect the performance and the result will be that fewer products are made. This will affect the factory in a negative way if the company would be able to anticipate or more carefully investigate the situation before building the production line, they probably should have chosen a better location to place the production setup. (Bhatnagar et al, 2003, p: 148ff)

Companies’ move their production set up from one country to another for different reasons, but often the ultimate goal is to make better profits due to cheaper labour work and lower overall costs. However, to be more successful there are other factors that needs to be analyzed and considered. Ferdow state (1997, p: 73ff) that if companies invest in a foreign country only to benefit from tariff and trade concessions, cheap labor, capital subsidies and reduced logistics costs avoids the opportunities and full potential of the foreign investment. If instead companies go further and try to tap the full potential i.e. tries to get closer to their customers and suppliers as well as attracting skilled employees that brings talent to the company, the entire company enjoys higher levels of performance. (Ferdow, 1997, p: 73ff)

3.3 The industrial community perspective

To be able to fully make use of the variables we have chosen we have decided use Van de Ven and Garud’s (1989) “The industrial community perspective” (see figure 3, p: 19). The industrial community perspective model emphasizes that the creation of an industrial setup is a process that requires inputs from both the private as well as the public sectors. The model has been revised during the years but consists mainly of three different approaches that are needed for an industrial setup. (Johnson and Van de Ven, 2002 p: 76ff)

The institutional arrangements perspective includes institutional arrangements such as, laws, standards and legitimacy. Further it presents resource endowments which contain financing and insurance arrangements as well as human competence resources. The resource endowment perspective includes the scientific and technical knowledge of a firm and capital for investments. The proprietary activities approach contains vendor-suppliers-distributions channels, technological development function, marketing and manufacturing, further the proprietary perspective includes the commercial perspective of a firm’s existence, e.g. forming the organization, developing a product and establishing the supply chain. (Van De Ven, 1993, p: 338ff)
Further, van the Ven (1993, p: 338ff) states that this industrial community perspective not only includes the industrial sector, but also other public and private sectors actors. The propriety activities can be seen as the economical component of an industrial infrastructure. The resource endowment activity is the social component and the institutional arrangement perspective is the political component. (Johnson and Van de Ven, 2002 p: 76ff)

Van de Ven and Garud’s model can be used in many cases, we have chosen to modify and develop the model so that it fits our purpose better (see figure 4, p: 19). The revised model can easier suit an investment process in India. The chosen variables, taken from theory, are applied to the model and further we have also linked these variables to different areas. Instead of using "industrial infrastructure" as the centre variable of the model, we choose to implement "investments" because the investment decision process is the central concept to this degree project. The different areas are political environment, human relations and infrastructure. We believe that these three areas are of importance when making an investment decision in India.

Within the political environment area we have decided to use political and security stability, openness towards foreign direct investment and corruption as different areas. These variables will show the political environment inside a country. This variable points out the importance of institutional arrangements in an investment process and agrees with the original Van de Ven and Garud model. The political environment area is affected by political and security stability, openness towards foreign direct investment and corruption. These three variables
will affect both how important the area is for an investment and also which state a company will decide to investigate further.

The Business interactions area was created by using the variables relationships, trust, culture and networking. These variables show the importance of human relations when it comes to the investment process for a firm. The important thing to consider is that the company who wants to invest needs to interact with other humans, which means that this variable can be affected by the company. The last area is industry environment, this points out that any investment process is dependent on functioning environment such as roads, rails aviation, ports, special economical zones, electricity and water in order to be successful. The reason for choosing these variables into the industry environment area is that all of these variables create a higher chance of attracting better and more businesses. The industry environment situation in an area is always important for a company in order to be able to perform as well as possible.

3.4 Political environment area

The reason for choosing these three variables for the political environment area is that all of these three variables affect the political environment. As we will point out later on, the political stability affects how attractive a country is towards foreign direct investment, which is also the case with corruption e.g. if a country has a high corruption rate and an unstable government the foreign direct investments will be reduced (Frey and Schnieder 1985, p: 161). If foreign direct investments are reduced, this affects the investment decision (see figure 4.4, p: 30) which is affected by the political environment area.

3.4.1 Openness towards foreign direct investments

The term foreign direct investment (FDI) can be defined as “capital inflows from abroad that invest in the production capacity of the economy” (Singh, 2005 p: 3). It can therefore be described as a source for economical.” Furthermore FDI brings with it modernization, technology spill-over, contributions to international trade and creating of a more competitive business environment. In other words FDI brings development to a country. (Singh, 2005 p: 3)

When it comes to the theoretical framework for FDI, extensive research has been made since the early 1960s. There exist not only one single theory of FDI but instead a variety of theoretical models attempting to explain the phenomena e.g. Robinson (1961), Basi (1966), Wilkins (1970) and Forsyth (1972). The early models was based on empirical studies and
explained the determinations for FDI as cost factors, availability of labour, availability of raw materials as well as a openness towards FDI in general (Faeth, 2009, p: 166). Bas (1966) also found one of the most important determinations for FDI, political stability. Further Frey and Schneider (1985, p: 161) develops these thoughts and argues that if there exists political instability with a country there exists more risks and is therefore less attractive to make an foreign investment in.

The first model to really being accepted when explaining FDI was the OLI (Ownership, location and internationalization) framework made by Dunning. This model explains the link between FDI and multinational enterprises (MNEs), i.e. it is mostly MNE’s that are involved in FDI interactions. This model shows that FDI is influenced by different combinations of ownership advantages, location advantages and internationalization (Faeth, 2009, p: 187). From the OLI framework, alternative frameworks has developed that combines different variables in order to explain different FDI situations and different views for different companies. For example these models could be modified to explain export-platform FDI as well as FDI for outsourcing.

Further, a risk diversification hypothesis was formed which saw firms as risk averse, which implies that the firms want to spread its business risk to foreign locations. Other modifications implied that within FDI two players existed; the MNEs and the host government and those different countries often fought for the same FDI in order to gain economical growth. These modifications all show that FDI is being influenced by many different factors and also that one not necessarily replace another and that in the end all different variables explains FDI. (Faeth, 2009, p: 188)

Foreign direct investments are often the most preferred form of external finance, because they are non-debt creating, non-volatile and the returns of the investment depends on the project financed by the investors. Furthermore the benefits of technology spill over, creation of a more competitive business environment, an increase of the total productivity and improvements of recourse use efficiency, is all variables that a country is searching for, in its ambition toward economical growth (Singh, 2005 p: 12ff). Another important aspect of foreign direct investment is that it enables the possibilities to reduce corruption. Ades and Di Tella (refered by Mauro, 1997, p: 84) states that “greater openness in an economy is significantly associated with lower corruption”. FDI can be explained by many different variables which could be seen as a combination of ownership advantages, location advantages, cost factors, transport costs and finally risk factors (Faeth, 2009, p: 188).

3.4.2 Political and safety stability

An important factor to consider, looking from a business perspective, is the degree of risk organisations may face when investing outside their native country (Brooks, Weatherston and Wilkinson, 2004, p: 231ff). Considering the risk factor on home ground is also important, but the knowledge and understanding of the system is better and this reduces the risk substantially. By risk we mean the policies and attitudes of governments and local authorities towards business investments in general. The fundamental question when making a foreign investment is; do the local government welcome foreign investments or not? If local resistance is an issue, the probability of problems arising along the way is high (Brooks et al, 2004, p: 231ff). There also exist evidence that foreign direct investment inflows is significantly reduced when there exists political instability and as we have mentioned earlier political stability is the most influencing variable when it comes to FDI. (Frey and Schneider, 1985 p: 161f)
A company do not have endless recourses and the decision where to make the foreign investment could be crucial. Factors like health and safety conditions, legislation of working hours, wages rates and union representation is important to take into consideration. These factors can differ from the standard regulations in the organisations native country and could be the difference between failure and success. Therefore companies seek stability, and the fewer unknown factors there is, the better. The significance of government colours is not important for an investing company as long as the government is stable. If the government is stable the company can be sure that the investment is safe. (Brooks et al, 2004, p: 283ff)

There are a lot of things organisations needs to adjust to in order to carry out a successful foreign investment. The main points are that political change can occur at any time on the global, national and local level (Brooks et al, 2004, p: 283ff). Although, Frey and Schneider (1985, p: 173) states that the local ideological position does not affect the political stability. This indicates that political instability, in business related areas, is not created through ideological position but rather on how corporate friendly the politicians are. The changes on a global scale will cascade downwards to lower levels and affect the activities of organisations to a greater or lesser extent. If an organisation wants to be successful it needs to be aware of the political changes and see to that it is not conflicting with the organisations own goals. (Brooks et al, 2004, p: 283ff)

### 3.4.3 Corruption

Corruption is a factor that implies high risk for companies that are about to invest in foreign countries. Corruption as a phenomenon itself deter companies from investing, thus it makes the investment more expensive and less stable compared to other alternatives that exists and this makes the investment less attractive. (Brooks et al, 2004, p: 283ff)

The definition of corruption is when someone uses their position in an organization for their own personal profit, and trough that causes damage and economical loss. Corruption is a human response during different circumstances, especially within circumstances where the conditions of political and economical underdevelopment within the country (Bayley, 1966, p: 731). Corruption exists in countries all over the world but is most common in countries where the legal system, media and government is weak and undeveloped. Corruption can be divided into three different levels of corruption; bureaucratic corruption, political corruption and state corruption (SIDA, 2008).

The first on, bureaucratic corruption is known as government employees in shape of for example a policeman or a doctor taking bribes from the public, for services they should have performed anyway. The second one, political corruption is known as politicians taking advantages of their position for their own personal gain or to continue hold the power of their current position (Government of India, 1964, p: 5). An example of state corruption occurs when a weak government gets influenced by big companies, and let the companies change the laws and rules of the country in favor towards them. This could lead to a competitive failure on the market and could give the corrupted company a monopoly position and enhance the corruption situation even more. (SIDA, 2008)

### 3.4.3.1 Business ethics in a corrupt world

Ades and Di tella (refered by Mauro, 1997, p: 84) have shown that with higher openness within an economy, which is measured by the sum of imports and exports as a share of GDP,
the lesser corruption is experienced. Experts also find that governmental anti-corruption initiatives are viewed as ineffective (IOMA report, 2001, p: 2ff). The way to fight corruption in an effective way is to implement anti-corruption policies inside companies and to make efforts to globalize this knowledge. Anti-corruption policies are necessary because companies, that deals directly with governments and are depending on permits in order to enter certain markets, are the most vulnerable to corruption. Problems that could occur could be that certain countries have deeply rooted customs and practices of giving gifts or paying fees for the approval of government permits. (IOMA report, 2001, p: 2ff)

To be able to succeed with anti-corruption policies it demands high level commitment to the policy by every authority inside the company. Statements, policies and operating procedures have to reach out to employees, suppliers and business partners. The anti-corruption policy needs to be implemented in every part of the company. Managers need to take their responsibility and maintain the anti-corruption policy in every aspect of business situations. Supervision and high resource input is needed to keep up the company policy. If companies work together in the fight against corruption it will hopefully lead to a decreased corruption rate all around the world. (IOMA report, 2001, p: 2ff)

Transparency international (Policy and research department transparency international report, 2007 p: 2-24), is an independent global civil society organization that examines the general public’s attitude towards corruption and to which grade corruption effects public institutions. It also examines the peoples experience regarding bribes on a daily bases and if the people think that the degree of corruption will escalate or not in the future. The way they do this is a public opinion survey that assesses the general public’s perception and experience of corruption in more than 60 countries in the world. (Policy and research department transparency international report, 2007, p: 2f)

The key findings of the study where that the poor people, regarding country they lived in, are the ones who affects the most by corruption. About one in ten people around the world had to pay a bribe in the year 2006 and in some regions bribery has increased. The survey also found that bribery is particularly widespread in interactions with the police, the judiciary and registry and permit services. The public in the undeveloped country believe that political parties, the police and the legal system are the most corrupted institutions in their society. On the question; do you think that the corruption will increase or decrease? The public thought that it would increase within the future and that the political efforts to make it stop were insufficient. (Policy and research department transparency international report, 2007, p: 3ff)

3.5 Industry environment

The three variables, electricity and water, transportation and industry community all affect the industry environment, i.e. they all affect how companies look upon the environment they are about the invest in (see figure 4.2, p: 24). Electricity and water is usually not a problem that exists in the western world, but in India it has shown to have more effect. These two variables is placed under industry resources. The industry community interests a company in that sense that it gives valuable networks, information and gives the possibility to cooperate with other companies as well as the possibility to get cheaper taxes. The transport variable is off course important for the company that produces goods that needs to be shipped. The aspect of transportation will include boat, road, air and train transport.
3.5.1 Transport

The transportation sector is presented by Bjørnland, Persson and Virum (2003, p: 136ff) as; the road sector, the rail sector, the aviation sector and the port sector. The infrastructure in a country is very important because it creates opportunities and limitations for a company. Most often is the infrastructure and the transportation sector in a country not synchronized in that sense that the two sectors are optimized for each other. The reason for this is that the responsibility for the infrastructure often lies with the authorities while the transportation sector often is privatized. Changes in the infrastructure often take a long time to implement while the privatized transport sector often develops in a faster pace. (Bjørnland et al, 2003, p: 136ff)

Transportation has always been an interesting subject in the business culture. In the past, products were traded only in the local region but nowadays the trade is more expanded. A costumer can order a product from another continent and expect a delivery within days. Every time a company needs to transfer their products from one location to another the need for transport is necessary and the transportation of the product has in this way turned into a part of the value chain. The transportation is being handled by trucks, train, boat, and flight which as mentioned are offered by the infrastructure sector. The company that can offer the best supply chain gets competitive advantages against other firms. In several European studies there has been confirmation that transportation will increase more and more as companies locate their goods to central stores that handles every product from the companies. (Aronsson, Ekdahl, Oskarsson, 2004, p: 120ff)

The transportation system in a country is important for a company in that sense that it affects the company’s products delivery time, and also the price that the customer in the end will pay for the product. If the transport system is as effective as possible the company will save money when the stock time for a product decreases. The transport system and the process of getting it effective are important in a company’s way for success. (Bjørnland et al, 2003, p: 136ff)

3.5.2 Industry resources

Water is the foundation for life. Most of the western countries take this rather simple but limited resource for granted. In India however, this is an important issue, several of India´s states face a groundwater crisis today (Dinesh Kumar, 2003, p: 39). This makes water a
limited resource and generates a higher cost for a firm to acquire it. That is why it is of importance for a company to plan for the future when it comes to the limited water supply. The forecasted trends indicates that future water problems will be more and more complex and will intervene with other sectors like agriculture, energy, industry, transportation, education, environment and health on a regional level (Biswas, 2004, p: 249). One issue for India is how this challenge can be successful in a social and economical accepted and efficient manner (Biswas, 2004, p: 249ff). It takes national laws and rules for the water issues to be able to create a better society. The water problems are mostly a state or government issue, this because of all the levels that the water issue concerns, however it is important not to forget that the companies also need to take their responsibility.

Another important variable in a country’s infrastructure is the availability of electricity. India has among the lowest electricity consumption per capita in the world e.g. about a third of China’s. India’s electricity sector is dominated by large government owned utilities at both national and state levels. However, some private distributors exist but are limited to the big cities and most developed states. A big problem within the electricity sector in India is energy shortfalls that increase with every passing year. Further the electricity sector is a difficult market for the consumers with increasing prices due to e.g. electricity theft and can be seen as a major bottleneck for India’s future economical growth. This is something that need to be considered when investing in India and could raise problems for companies neglecting this issue. (Patel and Bhattacharya, 2009, p: 57ff)

3.5.3 Industry community

When investing in foreign countries the need for knowledge, networks and input in general is highly relevant. A company that enters a new territory is vulnerable and could easily fall into loopholes. Collaboration with other already established companies could give the information that is needed for a successful establishment process, in other words entering a cluster setup could be the key to success (Sölvell et al, 2003, p: 19ff). Michael porter (1998, p: 10), considered to be the father of the cluster concept defines cluster as “geographic concentration of interconnected companies and institutions in a particular field”. Further Porter (1998, p: 10f) states that a cluster consists in a critical mass of companies in a particular location that can be located in a state, region or a city.

Geography is an important variable in the formation of a cluster. Companies and industries that are located in one geographical area are close to the competition, products and suppliers. The nearness to universities and research centres are also important as well as the relevance of cooperation and trust among the companies that are involved in the cluster set up. The importance of sharing innovation and knowledge is the foundation of any successful cluster and the companies involved should be open to each other and be able to form and utilize the networks that are created. The natural competition that is established is the lubrication that drives the cluster forward and is a very important factor for any cluster to work. (Porter, 1998, p: 10ff)

The reason why we discuss the cluster phenomenon is that we believe that this is what the Indian government is trying to create when they started to develop the special economical zones (SEZ). Singh (2005, p: 12ff) state that a special economical zone can be looked upon as a tool in the attempt to create a cluster. The SEZ are an area created inside a country where other laws and taxes are applied to make it easier and more attractive for foreign or domestic companies that wants to invest capital in new markets. These zones are often created in regions that have a distinguished geographical position. These regions often have an enclave
status therefore the government tries to compensate these regions by offering them economical benefits. Further, these zones gain the competitive advantages for companies inside the zones that ordinary companies outside the zones cannot compete with. The goal for the SEZ is to increase the foreign direct investment (Vinokurov, 2005 p: 39ff). We would also argue that a reason for the creation of the SEZ is to create some sort of a cluster, because all the ingredients exist if one let them.

The fact that companies that are established in locations with a strong cluster set up tends to perform better than companies that isn’t, is a factor that is interesting to consider. Cluster set ups offer a good ground for innovation and upgrading of competitive advantage to firms. According to Sölvell et al (2003, p 17ff) the arguments to why innovation and upgrading tends to be connected to cluster are:

- The need for incremental reduction of technical and economic uncertainty
- The need for repeated and continuous interaction between related firms and specialised institutions (including research and education)
- The need for face-to-face contact in the exchange and creation of new knowledge

Research on special economical zones shows that the zone will not operate successfully with only tax relief’s and trade advantages. Curtis, Hill and Lin (2006, p: 2ff) states that there are more variables that is important in the process. There exist three factors (Curtis et al, 2006, p: 2):

- Favourable geographical position
- Low development degree
- Central strong leadership

Companies will only be interested in a special economical zone if it has a favourable geographical position. This means that the region should give access to other covet markets and also have established some relations with the business world of industry which will attract the foreign direct investors. These regions are often located near borders or coasts. (Curtis et al, 2006 p: 2ff)

Countries with a relatively low education status tend to have a labour class with middle or low wages. This is why it is interesting for foreign companies to invest in these areas, where the wages are adequate enough to compensate for the education of the labour. To get competitive advantages the special economical zones should be able to compete with their low labour costs. Every aspect of the special economical zone can only be implemented if they are supported by national laws. These laws are to be available for all thus that is interested, this create openness between the investors and the department who controls the laws. When the foreign companies ventures a big capital in a zone they are to be sure that regional and department twists should not lead to any local change in the company climate. (Curtis et al, 2006 p: 2ff)
3.6 Business interaction

The three variables within the business relations area is network, relationships and trust as well as business culture (see figure 4.3, p: 27). One can use its relationships and trust to be able to connect or create different networks, but at the same time, within a network, there is greater possibilities to find other who have the same interests or working in the same field to be able to create new relationships. These two concepts live in symbiosis with each other. The business culture comes in because one must learn to understand the different culture one meets in the foreign investment country. India is often called a relations economy which could indicate that it could be hard to create business opportunities in the beginning but once one is in the “inner circle” the business, network, relationships and trust will come easily. We have therefore chosen these three variables to be included to affect the business interactions area.

3.6.1 Network

The importance of a network during the internationalization of the firm is an accepted fact trough out various literature and books within the internationalization process area. Various studies imply that a rapid internationalization of a firm includes the network approach and that a firm’s internationalization process is driven by the networks that the firm develop. Further, Loane and Bell states that a firm’s investment decision and choice of market are influenced by the firm’s network partner which emphasise the importance of networking in an international market entry (Loane and Bell, 2006 p: 468ff).

A network is defined by Axelsson and Easton (refered to by Coviello and Munro, 1997 p: 365ff) as sets of two or more connected exchange relationships. This points out that a market is a system of relationships between e.g. suppliers, costumers, competitors as well as family and friends. Further, according to the network perspective strategic decisions are influenced by the nature of relationships between various parties. Members of a network most often value the relationship within the network rather than the economic transactions that is the outcome. (Coviello and Munro, 1997, p: 365f)

The IP-model that is presented earlier in this theoretical framework has a subcategory that emphasizes the importance of networking trough out the internationalization process of a firm; the network perspective. The IP-model presents the importance of networking and gaining knowledge of the customers and partners in the area that a company is about to invest in. Further, the IP-model states that this type of knowledge is hard to obtain, it is not objective knowledge a company can learn before entering the area. This type of knowledge is obtained
tough interacting on the market i.e. through learning by doing. In this way the company gain
the experience that are important to the continued expansion of an area (Blomstermo et al,
2002 p: 90f).

3.6.2 Relationship and trust

As presented earlier in this theoretical framework the revised IP-model is presenting trust and
commitment building as a new element of the IP-model. Johanson and Vahlne state that
affective dimensions are important to the IP-model in that way that it is important for the
relationships that are a critical component of the model. Relations goes often hand in hand
with trust, one must create trust to be able to develop a relationship. Berry states (1995, p:
242) that “relationship marketing is built on the foundation of trust”. Blois (1999, p: 197) on
the other hand states that trust is something very complexes that cannot be explained as easy
as one may think. He argues that it exist many forms of trust and this is of importance when
creating relationships.

Further, Johanson and Vahlne (2009, p: 1418) state that “trust is an important ingredient for
successful learning and development of new knowledge”. Further, Morgan and Hunt (1994, p:
24) states that to be able to create a relationship with a business partner, one must first
establish a good commitment and trust with each other. Another important insight is that trust
can work as a substitute for knowledge when e.g. the firm lacks of the necessary market
knowledge and let a trusted local run the foreign business. (Johanson and Vahlne, 2009, p:
1418ff)

The edited Uppsala internationalization process model present trust as the ability to predict
behaviour and further that the human behaviour is characterized by high ethical standards. To
be able to develop commitment lies in the willingness and intentions between the two
participants. Further they state that trust is crucial in the early stage of a relationship and
remain important throughout the collaboration between two partners to be able to create
further opportunities. If then trust leads to commitment this implies that both parties have a
willingness to invest in the relationship and that commitment is a question of more or less
intensive efforts. The IP-model state that the decision makers in the model are rational and
that knowledge in not complete, and with that it concludes that in some cases knowledge does
not exist until the parties that collaborates develop it together. (Johanson and Vahlne, 2009, p:
1418ff)

3.6.3 Business culture

Culture is defined by shared values legitimating different patterns of social practices
(Wildavsky, 1987, p: 5). Culture occurs in social gatherings when people defend or agree with
various visions of life. When major decisions are taken the cultural values, partly
unconsciously, is being a part of the process of making the decision. People often make their
decisions based on how their previous choices have affected them e.g. have these choices
been a success they will continue making the same decision. Thus people create their culture
by making decisions (Wildavsky, 1987, p: 5). However, there is hard to change the
foundations for culture once they have been rooted because changes appear to change rather
slowly (Peterson and Anand, 2004, p: 313). Culture can explain a wide range of political
preferences which implies that it is of importance to understand the culture concept (Laaitin
and Wildavsky, 1988, p: 589f). According to Wildavsky (1987, p: 6) there are only a few
cultures that are filled with human activity.
The strength of group boundaries and number and variety of perceptions are the components of one’s culture (see figure 5, p: 29). The individuals (competition) often fight and are ready to bargain to reduce the level of authority; they often seek out to be different. The hierarchy (collectivism) is an institutionalized authority; people live together as a collective and live for that parts are not greater than whole. The equality (egalitarianism) is a lifestyle where labor is up to the individual, it should be fully voluntary and all forms of authority is rejected. The Apathy (Fatalism) is evolving when people do not have full control of their own life. They often feel that it does not matter what they believe or think, they can not affect or control what happens anyway (Wildavsky, 1987, p: 6f). Conflicts between these cultures are necessary, the conflict defines the differences and distances between the cultures and defines one’s own cultural identity. (Wildavsky, 1987, p: 6ff)

### 3.7 Summary of the industrial community perspective

To be able to gather information about the chosen variables in this degree project it requires different knowledge approaches. When the information is collected about the different variables they will affect the three areas within the investment model, which ultimately will affect the investment decision (see figure 4.4, p: 30). The three areas have different value of importance depending on which company one would investigate. However, we believe that this is a general picture of what is important when it comes to an investment decision in India.
Political openness towards FDI and security stability, transport, industry resources, network, relationship and trust. Corruption affects the political environment area. Industry community and environment area depend on the industry, network, and relationship and trust. Business culture and business interactions area are influenced by business interactions and relationship and trust. Investment decision is influenced by all factors.

Figure 4.4, Investment model, Hedenstierna and Uhrbom, 2010.
4. Practical method
This chapter will be devoted to the practical methodology of this degree project, in other words how the empirical collection was conducted. Further, it is important for the reader of this degree project to understand how and why the respondents were chosen and how many interviews that were conducted throughout the empirical data collection (Bryman and Bell, 2005, p: 377ff). The chapter will also describe the accessibility as well as the empirical data process.

4.1 First contact

During the summer of 2008 we decided to start working with this degree project and contacted the Swedish retailer IKEA to see if IKEA had something they wanted to explore further within the business and administration field. We got in contact with Peter Wisbeck who at that time was purchasing manager for IKEA Southeast Asia. Mr. Wisbeck was interested to further explore investment opportunities in India considering that IKEA should be able to engage in more activities in this area.

After a time of email correspondence with Mr. Wisbeck (6 October, 2008) the task was set to the following; “We Want To Have A top-down list of priority of the Indian 28 States, where it is the best and worst investment from a number of variables to set up different production set ups” as presented earlier. It was decided that we would visit the headquarters in Älmhult for one week in order to gain a deeper understanding of IKEA, and further also visit IKEA's purchasing office in New Delhi along with various other places in India during nine weeks. This in order to collect the empirical material needed.

Before we left Umeå for Älmhult and New Delhi, we began working with the degree project. First, we examined the theories in order to build a theoretical base to which we could anchor the questions that would be used in our interview guide. We picked out seven variables, based on theory, in order to solve our purpose; these variables were the foundation for our empirical collection. However, we decided to stay open minded and see if new variables would appear throughout the process. The foundation variables were; special economical zones (SEZ), foreign direct investment (FDI), political and security stability, corruption, transport and network.

Further, we decided to determine the questions after our time in Älmhult when we had more information regarding the project. We also started to book meetings with potential respondents that we had decided that we wanted to interview. It was mainly Swedish companies and organizations that were picked out in order to broaden our empiricism. We contacted representatives from Ericsson, Sandvik, the Swedish Embassy and the Swedish Trade Council. When we left Umeå we had the literature review completed and a draft of the interview guide we would use.

4.2 Data collection in Älmhult

The persons who were decided as respondents during the week in Älmhult were selected together with Mr. Wisbeck. We decided to use a sample based on personal knowing, i.e. “expert sample” (Merriam, 1988, p: 63). This decision was made so that we could make use of Mr. Wisbecks knowledge about persons that had expert knowledge about different areas within IKEA. During this week we met with six representatives from IKEA with different backgrounds and experiences in order to get a good understanding of how IKEA is working as
well as their vision of India and any future investments in this area. The respondents were representatives from the purchasing- textiles- and lighting department in the Älmhult office.

All respondents had also some kind of link with India in the sense that they originated from the country, had been working in the country or in some way were interested in IKEA's future investments in India. After these interviews, we felt we had a deeper understanding of the mission. Furthermore, we had a better view of how the interview guide should be designed. Here it should be noted that the selection process used in Älmhult became a model of how we worked throughout the whole empirical data collection.

4.3 Data collection in India

In late November 2008, we travelled from Gothenburg (Sweden) to India and its capital New Delhi. During the first visit to IKEA's head office in New Delhi, we were presented for most of the office personal and further we sat down with Mr. Wisbeck to go through the project and how we should conduct our research for the next coming weeks. We decided that we would start by interviewing employees from different departments at IKEA's head office as well as the "second office" in the city Chennai, in the state of Tamil Nadu. Furthermore, we also decided that we would interview various suppliers to IKEA from different parts of the country as well as respondents from different Swedish companies and organizations operating in the country, all this in order to fulfill the purpose of the study.

The total sample of all respondents in India were picked together with Mr. Wisbeck i.e. we used the same selection technique as used in Älmhult. The reason that we used a expert sample was because of the magnitude of IKEA's organization in India as well as our lack of knowledge about India. This made it easier for us during the empirical collection process and we felt that Mr. Wisbeck had a better judgement than us to choose the right respondents for the purpose, this because of his experience in both the organization IKEA as well as the country of India in which he had worked for several years. During our first days in the head office, we worked with planning and organizing the coming weeks that we would be in India, this in order to be sure to get the information that we wanted. Meetings and travel plans was booked and a schedule was set so that everything would run as smoothly as possible.

Looking from a general perspective we wanted to find respondents with as much knowledge possible about India as well as India's business climate in order to fulfil our purpose. As mentioned earlier we used Mr. Wisbecks knowledge and expertise that comes with his profession to be able to do so. We also wanted to visit as many states as possible during our stay in India, this in order to get as much input possible from different locations. This was from a logistic perspective impossible. First because of the limited time restriction we had for our empirical collection and further it also came down to a limited budget. This has affected the result of this degree project because with more time and resources a higher number of states could have been visited and also respondents from different states could have been interviewed. To solve this we decided to follow the compass. We visited states in the north, south and west, this in order to try to capture the different business climates, cultures and people in different locations. This was necessary to be able to get as much variety as possible. We were not able to visit any states in the eastern part of the country because of security reasons which can be seen as a fall off. However we tried to as a large extent possible ask the respondents interviewed about the eastern part of the country to be able to get the empirical data. This technique was also used for the whole part of the country in general.
4.3.1 IKEA employees

The respondents that were selected at the head office in New Delhi were representatives from the management, wood, plastic, lightning, textiles and transportation departments. These respondents were selected on the basis that Mr. Wisbeck felt that these respondents would provide the empirical collection as a comprehensive picture as possible. We decided not to choose respondents from the administrative departments e.g. finance department, because we did not think that the respondents from these departments would contribute significantly to the study. The number of respondents from the headquarters in New Delhi was twelve which of three were Swedes and the remaining nine were Indians. Further, during our trip to Tamil Nadu and Chennai city, we visited IKEA’s second office in India. Here, we interviewed two respondents who had already been selected after the thinning the first week in Delhi. Both respondents were Indian.

4.3.2 IKEA suppliers

During the process of selecting which of IKEA’s suppliers we wanted to use as respondents we decided that we wanted to get as a wide range as possible represented. We chose suppliers from various parts of India and represented states are; Punjab, Haryana, Delhi, Uttar Pradesh, Rajasthan, Maharashtra and Tamil Nadu (see figure 6, p: 33). All suppliers were manufacturing companies supplying products to IKEA. However we decide to choose suppliers producing different products. The outcome was that the suppliers represented the metal, textile, and lightning industry, and the number of suppliers represented during the empirical collection were eight.

4.3.3 Swedish companies and organizations

We agreed upon, at an early stage, that we wanted to have representatives from Swedish companies active in India represented among our respondents. In order to make contact with these companies, we used Mr. Wisbecks contacts within the business community in India. We contacted several companies and were able to meet with representatives from the Swedish company’s Ericsson and Sandvik. We met with two respondents from these company’s were
the interview procedure had the same structure as that of the suppliers. These companies are located in the states of Rajasthan and Maharashtra.

During the weeks of planning in the beginning of our time in India we booked meetings with representatives from the Swedish Embassy and the Swedish Export Council, both located in New Delhi. We got these two contacts from Mr. Wisbeck. It is important to point out that we could not interview the Swedish embassy because of the terrorist acts that took place in Mumbai during the time we were in the country. This was nothing we could plan for, and we tried to reschedule the meeting and take it on different occasion from both sides, but unfortunately this was impossible to solve. The interview with a respondent from the Swedish Export Council where however conducted. The meeting at the Swedish Trade Council was interesting in the sense that they are working to get Swedish companies to India and had a lot of information regarding this process.

4.4 Interviews

We have used Steinar Kvales (1997, p: 84ff) seven stage interview process as guideline for our interview process. Kvales seven stages are; thematizing, planning, the interview, print out, analyze, authentication and the report e.g. the result. The stage that took the most time for us was the “print out” i.e. the transliteration. The transliteration is an important part because; this text is what the empirical data is based on and also the text that the analysis is based on. If the questions are good and the interviews are working out well it is still the “print out” that will form the empirical data.

It is important for us as layman to do all the above mentioned stages correctly and therefore we have used Kvales (1997, p: 84ff) ideas as guidelines for the interviews. Generally speaking, we mostly have interviewed male respondents. This is obviously nothing we have chosen, but it has partly been depending on that IKEA’s suppliers in India are only managed by men. The interviews have only been exercised near the respondents “home” territory, i.e. where IKEA employees work, where IKEA’s suppliers have their headquarters or where the companies or organizations have their headquarters. We felt that this was the best way to get the respondents relaxed and to be as comfortable as possible (Kvale, 1997, p: 137). The respondents did not have to leave their offices; instead we visited them. The interviews were usually performed at their working desk or in a conference room if it was available. We always used a voice recorder during our interviews in order to have access to what was said after the interview. This partly because it is easier then to take notes, but also so that we as interweavers could listen better when we did not have to write down everything that was said, instead we could transcribe the interview later.

When it comes to using the voice recorder there could be argued that this is not an optimal way to perform an interview. The respondents may not feel as open minded or will not be able to speak as freely as they would have if there would not have been a voice recorder in the room. However, we have before we used the voice recorder, explained why we are going to use it at every interview and did not receive any complaints when using the tool. In some cases, the respondents have said that: “you may record but cannot quote me on this in the degree project”. When this has happened we have chosen not to publish the respondents name so that he or she will not be recognizable (Kvale, 1997, p: 109).

We began each interview by introducing ourselves and what assignment and purpose we had. However, in some cases, we kept some things for ourselves. For example, when we interviewed IKEA suppliers, we did not say that we wrote on behalf of IKEA, because this
could affect the corruption variable. Instead, we described the assignment as a research of the possibility for European companies to move their production to India. We said we had the help of IKEA in order to reach out to Indian suppliers. Kvale (1997, p: 107f) states that; “In some interviews the respondent is withhold from the specific purpose with the interview so that the respondent could give their unadulterated opinion about the subject.

Further, our interviews with our respondents had a mean length for about an hour in time. When it came to IKEA's suppliers, we were presented at the factory and often got a tour of the facilities and had lunch or dinner with our respondent before we did our interviews. This may have meant that we created a better relationship between us and the respondents. During the tour where the suppliers showed their factory or during lunch or dinner we did not have the voice recorder with us. This meant that the supplier spoke very openly and freely and we believe that the supplier then felt more relaxed when we let them talk about what ever came to their mind. What was said during this time, we tried to remember until we left the supplier, we then sat in the car on our way home and tried to discuss among ourselves what was said and recorded it with the help of the voice recorder. Through this approach, we think we could have a relatively comprehensive picture of how our respondents felt and thought.

Further, when it came to the interviews with IKEA employees and the Swedish companies and organizations we used the same interview technique as we did with the suppliers. The big difference when it came to IKEA employees where that we could build a broader relationship with them. This because we spent most of our days on the IKEA office where our respondents worked, which gave us the opportunity to get to know them better. This may have lead to that we have been able to build up a higher trust level, which of course is to our advantage. More generally speaking we got the best contact with the Swedes during our interviews at the office.

4.5 Interview guide

In qualitative interviews a questionnaire does not exist, instead the author uses an interview guide, where the respondent’s comments and thoughts are the empirical results (Holme and Solvang, 1997, p: 100f). We have based our questions on our theoretical framework and further used a semi-structured interview technique and have therefore constructed some general questions (see appendix 2) and alternative substances that have served as the basis for the questions asked during the interviews (Kvale, 1997, p: 121). We used the semi-structured technique because we wanted to create openness in our interviews, where we were not bounded by questions that were decided before the interviews. Instead we had themes with questions that were interesting and the questions were often adjusted to the situation during the interview. It happened that we got deeper into certain areas and made a lot of follow-up questions when we felt that the respondent had a lot of information about a subject or were passionate about it. One thing that is positive with the interview approach is that if we would lack of any form of data the chance existed to come back and discuss the topics with the respondent again. This means that by using this kind of technique, one can stay flexible (Holme and Solvang, 1997, p: 100; Kvale, 1997, p: 82). However, this was no option for us since our interview objects are located in India. Hence, it was important for us to get it right from the start.
4.5.1 Topics for interview guide

The questions regarding generality is of interest when choosing which questions that are more relevant to ask a respondent. These types of questions are regarded as introductory questions, where the researcher gets to know what experiences and knowledge the respondent have. Further these questions create an image of questions that could be asked later in the interview, so the rest of the interview could be used to make follow-up questions if the subject is relevant to the research (Kvale, 1997, p: 124). However, we would argue that we have addressed all the topics with all of our respondents.

When it comes to the SEZ’s there exist a various amount in India, and we have been interested in what the weaknesses and opportunities are for these zones. We also wanted to learn about the respondents own experiences. We could have got this information through a desktop study but would then only get information from a source that wants to promote the zones. These types of questions, where the interviewer asks for the respondent’s opinion and further if the respondent has any own experiences are called probe questions and are asked so that the interviewer can probe the content of the interview without give away which type of subjects that will be observed (Kvale, 1997, p: 124). It was more interesting to us to be able to access this information through interviews, instead with help of a desktop research. We were also interested of knowing how the political climate affected or can affect the SEZ’s. Other issues that came up during the interviews were also whether the zones really were essential to an establishment.

Further, we thought that it was essential to understand how our respondent felt about how the community and how the politicians looked upon foreign direct investments. We found it interesting to understand the political climate in India and if the politicians encourage foreign investors to invest in the country. When doing research on political stability it is important to understand which political parties that is in favor of foreign businesses. This also depends on if the company is working at a state level or in a national level. We have also been asking questions about safety and security problems. How safe is India and how is the best way to go when solving these issues? How can a company turn these problems to an advantage? And how should a company handle this issue? Another thing that has been especially interesting is the Indian bureaucracy. India is a very bureaucratic nation; hence we asked very detailed questions about this phenomenon.

When it comes to corruption one may think that the questions that have been asked may seem too aggressive or offensive, here it is important to point out that we spent a lot of time with the respondents before making the interview. This may have caused them to open up more. There is of importance in India to be straight when asking the questions in order to get some answers. It is fair to say that some of our respondents have been offended by the questions while others have opened up and told us about the different corruption issues they had experienced. This has obviously helped us to establish a picture as reliable as possible about India’s widespread corruption. We have also been interested in the states that have the highest corruption ratio and why this is? This because we wanted to see if there are any correlation between corruption and which political party that are ruling the state at the moment. This is interesting because foreign companies can understand why corruption exists and how they should handle it in the best possible way.

Industry environment is a broad area so therefore we decided to split the questions between transportation and road networks. Another part is electricity and water which will be presented later. Transportation is a key variable for a company; goods being shipped, people
get to work, raw materials coming in and goods are delivered. This means that it is important for a company that the transportation infrastructure is well developed and has a good quality. Hence, we had a lot questions about how our respondents perceived the Indian transportation system and road network today and also how they predicted the future. This question is difficult because it is relative, one must be able to relate or have a reference point to be able to understand whether the infrastructure in a country is good or not, e.g. an Indian who have lived in India his or hers entire life have one reference point, while one who lives in another part of the world may think differently. In this section we have mixed our own opinions and views on the empirical data because of our own experience during our two months in India. We were also interested in the various shipping companies that exist in India. How widespread is this business and how do they operate? What is handled by the government and what is privatized? How do the respondents look upon this and what do they think will be privatized in the future?

Since India is a relational economy, we were further interested in how a company can create a network in India (IKEA employee, personal communication, 6-13 November, 2008). This is relatively difficult and therefore we used the Swedish export council of India. It is also important for foreign companies to establish Indian relations, in order to create better knowledge about the domestic market. Another important question is; if other networks exist and how a company can use them?

In the beginning of the work with this degree project we had chosen the above mentioned variables that we wanted to collect empirical material about. However from the interviews that was conducted in Almhult and India new variables came into the picture that we found to interesting and important to neglect. These variables are; electricity and water i.e. industry resources, relationships and trust as well as the business culture perspective. Since these variables was not in the plan when we designed our interview guide the questions for these variables emerged during the empirical collection. We wanted to know: how the water and electricity situation is in India? And further if companies should see these variables as problems when making an investment in the country. When making a foreign investment it is important to create trustworthy relationships, especially with the locals that exist within a country. The way to look at relationships and especially trust vary depending on country and therefore we have found it interesting to see how Indian suppliers and IKEA workers look at these issues. Further, it often exist cultural differences between people regarding which nations one arises from. The most usual cultural differences are norms, values, attitudes and social learning’s.

In the end of every interview we gave the respondents a map of India so that they could point out the states that had the most potential for investments in the near future. They were also given the opportunity to point out the states that were not recommended or suitable for a foreign investment. Every respondent chose for themselves if this was something that they would like to do. There were no limits on how many marks they could set. This was done so that we easier could compare the interview results to the results from the map. These results will also be presented in our conclusion.

4.6 Data processing

The material that was collected during the empirical data collection has been processed as follows; the recorded material that was recorded on the voice recorder was downloaded to a computer. After this was done, we did a back up of all the recorded data so that nothing would
be lost. Furthermore, we divided all the material between us and started the transcribe process. One thing that is important in this stage is that everyone who is intended to transcribe should be aware of the procedures and the language used. This so the transcribe process will be conducted in the same way, so that everyone in the team will be able to make comparison between the different interviews (Kvale, 1997, p: 156). The transliteration was conducted through a process were the taped interviews was written down word for word, this was done so that no important information would go to waste. We tried to as a large extent as possible note feelings, moods, etc. this in order to try to convey the subtleties of the transcribed material (Kvale, 1997, p: 155ff). In the end all the processed data where used as input for table X in order to make a conclusion in this master thesis.

**4.7 Access**

When it comes to the access of information for a thesis, it is important to be able to gain access to institutions and to individuals (Flick, 2006, p: 113ff). The institutions we wanted to access were IKEA, IKEA's suppliers, Swedish companies and Swedish organizations currently operating in India. Within these institutions, we wanted to have access to respondents who could give us the best possible information for our purpose. We believe that we got this access because of Mr. Wisbeck in his role as chief executive officer of India trading. He vouched for us and added the importance of this work, in both our first contact with the institutions and with those respondents who were interviewed. We often had a full day with the respondents which gave us a good contact with them. Besides the interviews with the respondents, we got to follow their daily work closely to be able to create our own view of how things worked. This led to that our respondents, according to us, felt very open towards us. We believe we gained the access we wanted for this thesis (Flick, 2006, p: 113ff).
5. Desktop research

This chapter will present a desktop research regarding India, IKEA and the infrastructure variable, in order to present information for the reader with the purpose that the reader will be able to create an understanding of what will be presented in the chapters to come.

5.1 India

India is one of the most populated nations in the world with approximately 1.2 billion inhabitants. India is geographically located in Southeast Asia and the nation’s capital is New Delhi. The official language is Hindi and English. The political arena in India is structured with a central government that controls the whole country and the state governments that control the 28 states. The states are relatively independent, which reinforces the image out of India as several countries united under one flag.

The economy of India has had an average growth of six percent a year since the beginning of the nineties and during the last years the growth of the economy has been approximately nine percent a year. This means that India is one of the biggest growing economies in the world. This is a result of the Indian government’s political reforms that have made it easier for both private and corporate investments (Swedish embassy in India, 2009). Further, experts predict that India will be among the biggest and most influential economical markets in a time period of 50 years. India has an enormous potential but needs to transform this potential into actual results. One factor that has affected the growth of the Indian economy is the special economical free zones that the Indian government has put a lot of resources into. One example of a successful special economical free zone exists inside Bangalore where the computer industry has gained great success during the last years. The reason for the success is that this special economical free zone works as a cluster set up for the computer industry. The Bangalore computer cluster is often compared to Silicon Valley in USA, and is predicted to grow even further (Carnegie endowment, 2009).

5.2 IKEA background

IKEA was founded in 1943 by Ingvar Kamprad, and has made an astonishing journey from a small company to one of Sweden’s largest companies with a turnover of approximately 21 billion Euros for the year 2008 (IKEA key figures, 2009). It has a great entrepreneurial history and is still breaking new grounds all over the world. IKEA is designing, manufacturing and selling furniture’s and has a unique concept that allows the customer to assemble the furniture’s themselves. IKEA started out as a mail order company but in 1958 Ingvar Kamprad opened his first store in Älmhult, Sweden. With its unique concept of involving the customer in the value chain, Ingvar Kamprad managed to keep prices low which turned out to be the success behind the company (IKEA employee, personal communication, 2008). After the success in Sweden the first IKEA store opened abroad in Asker outside Oslo in 1963. This was the start of IKEAs journey towards a global international company.

5.3 India transportation

India’s infrastructure is poorly developed, the lack of infrastructure may cost India a reduction of 1.5 to 2 percent per year of future GDP growth (Ernst & Young, 2008, p: 9). To avoid this, the Indian government needs to increase investments in infrastructure by about 4.5 percent of GDP to around 8 percent by 2012 (Ernst & Young, 2008, p: 7). This has led to that the
Government will invest a total of up to 150 billion dollars over a six year period for investment development in the infrastructure sector (Ernst & Young, 2008, p: 8).

5.3.1 Flight infrastructure

In 2002, the Government launched a major effort with the goal that the aviation sector in the country would maintain high international standard. An upgrade of all infrastructures at airports and modernization of navigation-, communication- and monitoring-facilities were the results that the government wanted to achieve. During the period until 2007 was the following actions completed: (Ernst & Young, 2008, p: 13ff)

- Seven new terminal buildings have been built at various airports in the country
- Two new runways were completed in Mangalore and Amritsar
- Reinforcements and extensions of runways at 14 airports
- Expansion of car parking and taxi stations at 26 airports

The investment in infrastructure in the aviation sector has enabled so that the transport possibilities in the country has increased. However, these measures will not be adequate and the need for more development and increased efforts are still strong. With a 20 percent increase in passenger traffic every year, it will require additional future ventures to fill the need (Ernst & Young, 2008, p: 13ff).

5.3.2 Road infrastructure

In India, almost 70 percent of all freight is transport by road, which is one of the largest road networks in the world. The national highways consist of only 2 percent of the total road network in India, but burdened with 40 percent of all traffic traveling in the country per year. As the network demand significantly increasing for each year, is the need for more and bigger roads is great (Ernst & Young, 2008, p: 23ff). The biggest infrastructure project in progress for India in recent years is the construction of "The Golden Quadrilateral" which is India's largest infrastructure project ever, and stretches 5486 km throughout the country. The road links Delhi-Kolkata-Chennai and Mumbai with each other. There are other major road projects as well, "the north-south corridor" and "the east-west corridor" are under construction or already completed. These projects aim to bring together the country and make access for the transportation of both goods and people easier. The government has a plan to invest approximately $ 50 billion dollar during next ten years' period of further development of road network in the country (Ernst & Young, 2008, p: 23ff).

5.3.3 Train infrastructure

The rail transport is an important means of transport in India where it is a relatively cheap way to send goods and to travel as a passenger. The Indian government has set a target that the train sector in the country will carry about 1100 million tons of cargo in 2012. To achieve this objective, the transport capacity must be doubled. The government is right now spending money on approximately 260 different projects at a cost of 12.6 billion in dollars. The most important improvements the Government again to make the rail sector is: (Ernst & Young, 2008, p: 37ff)

- Approximately 8000 km of new lines
The Indian train ministry also has large investment plans that until 2015 expand capacity further: (Ernst & Young, 2008, p: 37ff)

- Doubling and port connectivity – 6000 km
- Gauge conversion – 12000 km
- Dedicated freight corridors – 11500 km
- Modernization of passenger and freight terminals

5.3.4 Boat infrastructure

In India the export to foreign countries has increased dramatically in recent years which has led to that India's ports charged harder every year that has passed. The government is clear about the fact that the ports need to be expanded to keep up with the development of exports. One of the major bottlenecks is the process for handling loads which takes about two to three days to handle. Although number of tons of cargo each port can handle is too small, which may cause the export sector in the country will be affected (Ernst & Young, 2008, p: 31ff). The four largest ports in the country are Visakhapatnam, Mumbai, Chennai and Kandla. These harbors are strategically located to reach most parts of the world (see figure 7, p: 41).

<table>
<thead>
<tr>
<th>Port</th>
<th>000 tonnes</th>
<th>% change</th>
<th>% share</th>
</tr>
</thead>
<tbody>
<tr>
<td>Visakhapatnam</td>
<td>46,005</td>
<td>0.5</td>
<td>12.1</td>
</tr>
<tr>
<td>Chennai</td>
<td>43,938</td>
<td>12.5</td>
<td>11.6</td>
</tr>
<tr>
<td>Kandla</td>
<td>43,185</td>
<td>14.7</td>
<td>11.4</td>
</tr>
<tr>
<td>Mumbai</td>
<td>42,928</td>
<td>16.5</td>
<td>11.3</td>
</tr>
</tbody>
</table>

Figure 7, Port-wise traffic April-January 06-07, Ernst & Young, 2008, p: 31.
6 Empirical findings

This chapter will start with a desktop research about India and IKEA, this so that the reader will get background knowledge about the nation and the company. After this section the reader will get the essential information from the empirical collection. Finally, the empirical material from the location analysis will be presented.

6.1 Foreign direct investment

It is like the two shoe salesman that came to India, one said that India is a bad country because no one wears shoes, and the other one said that India is a great country because no one wears shoes. – (IKEA India, lightning supplier, personal communication, 2009)

India’s liberalization in the beginning of the nineties was seen as a time of change in terms of planning the future of the country. At this time the government started to point out the importance of foreign investments in the pursuit to gain economical growth. This led to significant protests, that the opposition called “the fight against globalization and privatization”. Criticism also came from local businessmen who claimed that foreign direct investment threatened the domestic companies. After a few years the criticism started to fade, and an understanding of foreign direct investment started to form. An important thing in the debate was the importance of holding the profits of the investments inside India. The investments should only be permitted if they could generate labor opportunities and production setups. The government realized that the providing of land area, water, electricity and infrastructure was of great importance. In the middle of the nineties the government started to report statistics about foreign direct investment and it showed that the economical growth of the future and the foreign investments were correlated, which gave new life to the debate. The government wanted to invest more capital into projects that gained more foreign investments. At the same time the opposition claimed that this would take India closer to the western society, and that India’s agriculture would suffer great losses.

In the beginning of the new century foreign direct investment had been an accepted part of India’s political agenda. In the election of 2004 the foreign investments issue had turned from a highly debatable election question into a natural part of the society. Today politicians and economists in the country overall agree over the advantages of foreign direct investment to India and willingness to attract investments to the country has resulted in a foreign direct investment industry.

The reforms in India during the past years have made it easier for foreign investors to make investments in the country, still however political resistance could appear depending on which state the investment is planned to be implemented. There are still some parts of the left wing government that raise critical voices against foreign direct investment. Other factors like access to water and land area could also be a problem, as well as poorly developed infrastructure and electrical systems.

The respondents agree on that India in general is open and receptive to foreign direct investment and that the openness towards it has become much better over the last decade. In some sectors, like the industry sector, the development when it comes to FDI has made huge progress; an example of this is the automobile industry, at the same time there are other sectors that has not developed in the same pace when it comes to foreign investment. An example of this is the textile industry which has been and still is India’s largest industry. A number of respondents believe that the reason for the Indian government’s interest in bringing
foreign investors to the country is to secure jobs and growth in the future. The foreign direct investment advocates are particularly BJP (Bharat Janata Party) and UPA (United Progress of Alliance) which are middle and right flank parties on the political arena. However, the opposition has also begun to endorse this policy approach, even though the left side is known for its protectionist thinking. An example of protectionist thinking from a historical perspective is the soft drinks manufacturer Coca Cola which were thrown out from the country in the early nineties because of its competitiveness towards the domestic soft drink manufacturers.

Today foreign companies are allowed to establish businesses with one hundred percent foreign ownership in corporate form in almost all sectors. However, there are exceptions in certain sectors were the Indian government has decided that the need of protection is a necessary instrument in order to keep the domestic industry. An example of this is the retail sector, where a foreign company is only allowed to own fifty percent of the company's shares and the remaining part must be owned by a person from India. This has affected IKEA's establishment process in the country. IKEA demands one hundred percent ownership in order to setup retail. This is one of the reasons why IKEA's retail sector still has not invested in the Indian market. Only when the retail sector opens up to a hundred percent ownership an IKEA retailer would become possible.

Respondents further argued that one of the reasons why the government does not allow one hundred percent foreign ownership in the retail sector is to protect jobs. In India there are about 20 million families within family corporate and within each company it works approximately four to six persons. These families have small shops all over the country and it is a typical class that the politicians do not want to have against them. If the retail sector were to open up, the government fears the risk that these small businesses will get driven out by the big international companies. Further, another group that the politicians do not want to offend is the farmers. In India every farmer owns their own small part of soil. This is because the Government once legislated that no one should be able to take on large domains of land. These laws were created for the people so that the wealthy people with large assets would not be able to leverage their position and buy huge areas of land. The government decided that everyone should be able to own their own land so that every man could be able to survive and feed their family. This was a good idea when India still was an agriculture society. Today however, these laws are abolished, but the small land owners still exist. This has made the land question when building new industries, a very sensitive issue and the transition from agriculture to industrialization harder. The problem is that it has become difficult to gain access to land when the purchase process requires approval of all parties. When an industry is to be built it requires thousands of acres, which has led to that it is difficult to carry out the procurement process in a fair manner. This has created a market for companies with negotiating skills. These companies manage the procurement process and negotiate with each individual farmer. In this way the companies buy up large areas of land and further on sell it for industrial use.

Our respondents think that one problem that the Indian government may want to prevent is that too many international company’s moves to India to fast. This because of these companies creates higher demands further back in the manufacturing production chain. This could lead to that the agriculture needs to be significantly more efficient. The problem is that if this process goes too rapidly or happens too early it could lead to a lot of farmers without work and income. The respondents believe that the government wants to build up the industry before the release of hundred per cent owned retail stores. This because of if the industry is already up and running it would be able to provide work for those farmers who become
unemployed in the event of a more efficient agriculture. This means that the improvement of the agriculture sector goes hand in hand with the development of a hundred per cent foreign owned retail stores.

One of our respondents who work for the Swedish Export Council in Delhi says that many Swedish companies’ tries to make it on their own when trying to start and register a company in Indian (Swedish export council employee, personal communication, 2009). This procedure has shown to be very time consuming and first after a long time the companies turns to the export council for help. If a company instead would turn to the export council earlier the export council would be able to register the company within two months. The export council could also provide additional assistance during the establishment. The process is not particularly difficult but the only difference between the export council and the companies are that the export council has registered companies before. They have to learn the system, which is typical for India. The process is often not as easy as the companies had in mind, but if you find the shortcuts in the system, it is not so difficult. In the start-up process, it is wise to use the Indian authorities. The state Governments in the country are good at offering foreign companies help through the start-up phase, especially if you're going to do bigger investments. There are also some start-up subsidies to benefit from when investing in India, especially when it comes to the environment, such as water purification equipment. These grants can be applied for at organizations like ASIA Development Bank and SIDA.

“Indian manufacturers have good designing skills, India can provide raw material and has low labour costs. The only thing that’s needed is technology and if European suppliers could bring that from the west you have a good setup.” – (IKEA India, material manager, personal communication, 2009)

The respondents all agrees on that the openness towards foreign direct investments in India has only become more accepted in the political sector. This can be generalized on all states, in other words if a company decides to invest in a state the FDI issue is one of the smallest problems. Protectionism decreases for each year and the realization that foreign investments won’t be detrimental, but instead beneficial for the economical development increases each year. The entrepreneurial spirit in India is high and there is great knowledge on how to run a successful business. In the start-up phase of a joint venture the thrust issue are of great importance. It is therefore essential to find local people that the investors trust in order to get a successful collaboration. The suppliers interviewed were all united in favor of a possible collaboration with a European supplier. The suppliers felt that the ability to learn from each other as well as the access to the European market was major advantages. Another factor that is important is to utilize the assistance available on site in the form of Export Councils or similar organizations.

6.2 Political stability

“It all depends on the leadership in charge of the state at the moment; if he is business-friendly it does not matter who takes over after him. If the reforms are already completed it’s like a poison, once it enter it has to stay” – (IKEA India, purchaser, personal communication, 2009)

According to the respondents the political arena in India is constructed with a central government that controls the whole country and state governments that control the states. The states are relatively independent, which reinforces the image out of India as several countries united under one flag. The two largest parties are the United Progress Alliance (UPA), which
is on the right side of the political spectrum and the Bharat Janata Party (BJP) which is a Hindu party in the middle on the political scale. Historically, the winning party has had difficulties to form a government on its own and has instead been forced to form a coalition. In general the states are controlled by UPA and BJP in coalition together with other small parties. Further, the politicians in India have a length of office of five years, but sometimes the government collapse before that period is over. This could lead to that a company cannot be certain that what is agreed before the collapse are still in force afterward. This can lead to a time-consuming process. However, if a reform has worked well and then the opposition takes over the power, they will probably never change the laws, even if they are conservative. It would be political suicide when the people would react strongly.

The majority of our respondents agree on that large multinational companies would easily receive a lot of assistance from both the central government and state governments in an establishment process. However, it would be more difficult for a small or medium sized company, which easily could get caught in bureaucratic rules and regulations. Although reforms have been made and the Government of India is trying to make it simpler, it is still a lot of bureaucracy in the country. According to the respondents the bureaucratic system in India is not easy. Rules can be interpreted differently, it not black or white. This may mean that you can be seated with politicians and bureaucrats for months to try to get your wish accepted. Indian suppliers who were interviewed believe that it is in these situations they could be of help in a possible collaboration with a foreign company. That is to ensure that the bureaucratic problems affect as little as possible on a day to day basis. An investing company should try and use the resources available. For example it is recommended that a Swedish supplier to IKEA would use the export Council and the Swedish Chamber of Commerce and also use IKEA's network of contacts to climb in the political hierarchy. This because it is much easier to get somewhere if the company has contacts in the higher levels of the political rank, it is therefore important for the company to meet with senior political leaders, so that they know the company's agenda and what the company can offer to the country.

The respondents agree on that the political situation between Pakistan and India are very unstable, as we experienced during our stay in India. The terrorist attack in Mumbai November 27, 2008 was a terrible attack that shook India, as well as the rest of the world. Terrorists armed with machine guns, automatic weapons and grenades went to attack on the port city Mumbai. They hit against densest populated areas of the city and acted quite mercilessly. A large number of people lost their lives. In the aftermath Indians demanded retribution and wanted the Pakistani government to dispense the persons who were suspected to have participated. Pakistan refused which led to a media drive of the conflict. As a result, both sides began to strengthen its border controls and security tightened dramatically across the country. Security checks were everywhere. IKEA forbade all employees in India to travel to Pakistan and vice versa. The situation was intense and is a reminder of how fragile the political situation is between the countries. One effect of the conflicts with Pakistan throughout the years is that the natural way to Europe do not exist, India has not the best relationship with China either, which means that India is dependent on and must use its coastline. This is, as pointed out by our respondents why the western and southern states could be more attractive for investment than the other parts of the country.

In the east the political situation is very unstable, while the western side of the country has the most politically stable states. – (IKEA India, purchaser, personal communication, 2009)

Further, the majority of the respondents agree on that Gujarat is the most politically stable state of all Indian states and that the government which governs Gujarat is the best in the
country. Many also believe that the political leader of Gujarat Narendra Modi will be a potential Prime Minister in a few years. It is also the western and southern parts which are most advanced in its political development in general. The majority agree on that it is these parts of the country that has the best investment environment for businesses. The States' leaders have recognized the importance of industrialization and want to develop the states through industrial growth, and are therefore happy to welcome new investment. The respondents further argue that some states have a better way to attract industries through providing the support that is required by funding land area and condition or warranty on electrical support. These states see the industry sector as a foundation of social development and improved welfare.

Some of the respondents feel that the political situation in India is good and stable. These respondents think it is good when there is a strong opposition, so that different views can come up and all classes of society are represented. They also argue that the politicians in the country often are business-friendly and want the business sector to develop. The politicians want to focus on industrialization and the expansion and renovation of infrastructure in the country. However, the general view during the interviews has been that it is hard to run a business in several of the eastern states, particularly in Bihar and West Bengal. The majority of the respondents agree on that these states are very politically unstable, which has led to a very difficult business environment. One reason for this is that the unions are very strong in the eastern regions, leading to frequent and long strikes. Further, there are respondents who did not agree on this and argued that the Tata story (see appendix 1) was an isolated case and that West Bengal as well as other areas in the east can be attractive for investment. However, it may be relevant to say that these respondents are few in number. The ones interviewed that think that the eastern parts of India is unstable mean that states in the area are very poor, and that these states has not kept pace with the development that have occurred in the rest of the country.

6.3 Security

According to our respondents is the relationship between China and India relatively stable. Although some border disputes are not resolved, it is extremely doubtful that these two countries could, or even would clash in a major conflict. China is at this moment one of the major economies in the world, but they are also undergoing a tremendous growth which makes the country dependent on commodities and foreign investment. Any conflict with India would harm economic growth for both nations and possible sanctions would affect commodity trade, which makes this scenario even more unlikely.

“The history of the conflict between Pakistan & India is a historical legacy. Five years ago it was impossible to think that you could do trade between India and Pakistan. But things are improving. It’s like West and East Germany, one person just has to come and say; break this bloody wall.” – (IKEA India, cotton purchaser, personal communication, 2009)

The respondents agree on that the threats from Pakistan are close at hand, and historically it is a charged conflict. After the Mumbai attack 27 November 2008 that were carried out by terrorists from Pakistan the patience run short of India's population who claims that they cannot cope with more suffering, and believe that this must stop. Respondents also believe, that the Indians believe, that the Pakistani government indirectly protects and helps the terrorists by addressing the terrorism issue silently. The Indian people believe, according to some respondents, that the Pakistani government is complicit. However, a war between the parties could have devastating consequences when the two nations unofficially own nuclear
weapons. So this is a sensitive diplomatic issue that politicians around the world want to solve in a peaceful manner.

Some respondents believe that it would be a good idea to place a factory within a SEZ when it comes to the security aspect, then the zone could provide better security for the factory and its employees. Respondents believe that these areas often have more knowledge when it comes to security issues in India. However, one can never be sure where the attacks will occur or when bombing occurs. When to establish a company in a country like India one must also take into consideration that the company will need to send so-called "experts" to the country. These experts often have the task of running the company on site and to pass on their knowledge to the local employees. An important factor to consider when "experts" are to feel secure, satisfied and able to do a good job is that safety can be guaranteed. This could turn up to be one of the most important questions when it comes to the decision of if the “expert” will move with his/her family to India or not.

Further some respondents argue that the media often show an exaggerated picture in television and newspapers. India is really a safe country, where most feel safe. They believe that when terrorist acts occur, the conflict between Pakistan and India becomes a media hype that usually lies down for a couple of months. We as observers in the country have a different picture of this. Only during our time in India the bombing in Mumbai claimed approximately 150 lives. Another example is that all the armed guards standing outside almost every house in New Delhi. We never felt afraid when we were in India but would still like to point out that there were times when we avoid certain places that IKEA’s risk manager had advised us to stay away from. IKEA’s risk manager has the task to keep track of each staff, where they are and where they are to be to travel. The risk manager should be able to tell the workers if it’s a safe places to travel to. He should be able to predict which places are potential risk areas.

When it comes to the question whether there are places a company should avoid due to security reasons in India, our respondents are somewhat divided on the issue. But nearly all believe that a company should avoid the northern parts of the country, where the conflict with Pakistan is palpable. Some also believe that there could be a mistake to set up a factory in West Bengal. This is because of all the strikes that often goes on in the area and that the strikes often degenerate and can have catastrophic consequences. Further the respondents pointed out that Bihar is a poor place to invest in when it comes to safety because of widespread corruption and lawlessness. The respondents also told us that the security risk is high partly because of the so-called Maoists, who are robber bands that sweep around and harass people. The Maoists are extremely Communistic and is not afraid to use weapons, the lawlessness is widespread.

Opinions about the safety of the country differ, but what can be discerned from the interviews is that it has neither become better or worse over time and that it comes and goes in cycles. The respondents are somewhat negative to states like Bihar and Kashmir and that they should be avoided from a safety point of view. A few respondents also argued that there exists a much less terrorist act in the southern parts of the country. A basic problem from a security perspective is the relations between India and Pakistan. These relationships take root far back in time and are difficult to influence.

6.4 Corruption

“\textit{It is not possible to refuse paying a bribe if you need to have the license for something. It is a part of the society}”. – (IKEA India, metal supplier, personal communication, 2009)
When it comes to corruption in India the majority of the respondents agrees on its existence. However, some respondents believe that it represents a bigger problem than what others believe it does. Corruption seems to exist in a variety of ways but the most common form of corruption is bribery. The bribes are “everyday bribes” were it is not a lot of money involved. For example it can be a company who need to have a permit stamped in order to expand the factory, but the civil servant that shall stamp the document wants to get paid an extra fee for the work. Corruption also exists when it comes to inspections, for example, if a company does not want to pay bribes to inspectors that comes once a year, the inspectors may visit a lot of more times during the year and disapprove of things that would not be rejected in normal cases, which can be seen as a form of harassments from inspectors. Corruption does not exist at all in the range between the companies as it does when bureaucracy is involved according to our respondents. According to them, the bureaucracy is highly exposed to corruption.

The first time IKEA was exposed to corruption where during the 70’s when IKEA started to invest in the Baltic countries. IKEA were often offered money to choose a particular supplier. When this happens it is critical to make it very clear for those who use corruption against the company and its employees that it is not accepted. The company should show that it has good morals and that no form of corruption is acceptable. This proved to be a good way in the fight against corruption. In those days no policy’s or anticorruption agreements existed, but when suppliers began to realize how IKEA worked they started to follow, and acted the same way towards their sub-suppliers, which led to a domino effect. This behavior later developed into IKEA’s anti-corruption agreements. This agreement requires all employees and suppliers to follow IKEA’s standard, which means not having to do with or to perform any form of corruption at all.

"Corruption definitely exists, but not 100% corruption. The problem is that corruption exists in all levels of the society in India." - (IKEA Sweden, textile manager, personal communication, 2008)

The corruption rate in India is high. And one of the biggest problems is that there exists corruption in all three levels; Bureaucratic corruption, political corruption and state corruption. The Global Corruption Barometer shows that India has a low ranking on the list of least corrupted countries in the world and that 25 percent of the respondents participating in India, reports that they have paid a bribe to obtain a service (Policy and research department transparency international report, 2007, p: 2f). Another diagram presents that the police, judiciary and permit services in India are top ranked when it comes to taking bribes from the Indian people (see figure 8, p: 48).
The percentage of the Indian people who think the corruption rate will increase in the future is 90 percent and only 11 percent thinks that the rate will stay the same or decrease. On the question if the Indian public thinks that their government’s efforts to fight corruption is effective, 68 percent answered that they think it is insufficient. Further, the neighbor countries of India is also ranked low which points out that the problems exists in the hole Asia-Pacific area. The high corruption rate in India can be explained by its bureaucratic system. The bureaucracy is instituted to control every aspect of economical life which leads to individual and institutionalized corruption. A part of the future development in India depends on the efforts made by the Indian government to reduce the high corruption rate (Policy and research department transparency international report, 2007, p: 2f).

“I think the bottom line is that as long as monopolies exist in some sectors corruption will always exist” – (IKEA India, purchase manager, personal communication, 2009)

Our own observations during our stay in India have shown that all companies have some form of anti-corruption agreements. IKEA requires all their suppliers to sign an anti-corruption agreement before any kind of cooperation. Outwardly all suppliers welcome the anti-corruption agreements, but at the same time many suppliers have indicated that they do not understand why such contracts exist. They believe it is superfluous. Our result has shown that there is a cultural difference on how the respondents look at corruption between Indians and Europeans. Some Indians believe that corruption exists throughout the world and that it does not have to be taken so seriously. Many of the respondents agrees on that corruption is best fought through various corruption agreements or policy’s where it clearly shows what is accepted and what is not accepted by the company. If a company is new in the country and in the beginning of an investment the respondents recommends that the company should try to find a partnership or someone how knows the laws and regulations in India, so the company will be able to avoid the suffering from corruption and avoiding time delay. Our interviews with IKEA workers have shown that if any supplier is trying to circumvent IKEAs code of conduct and product quality the probability is also high that the supplier tries to circumvent the anti-corruption agreement. However, IKEA has never had a case where a supplier has been caught using corruption and meanwhile managed the code of conduct and the product quality in a good way. In other words the code of conduct, anti-corruption agreement and product quality goes hand in hand, which has led to that IKEA has changed its purchasing patterns and the first priority right now is the social and environmental ambitions.

Another aspect that has come up during the interviews is the caste system, which according to some of the respondents still exists, even if it is officially prohibited to discriminate people after their caste according to the Indian constitution. Some of the respondents launched the theory that a cause to why corruption still exist at company level and continues to show up year after year, were that those who got caught were often of a low cast rank. It is extremely difficult for one with a lower caste to tell a person of the higher caste that he is opposed to corruption. An example would be a customs inspector, with a low caste, that is to inspect a company's goods. If the inspector finds something wrong, and the company's owner, who has a high caste, wants the inspector to against payment approve the goods anyway, it is very difficult for the inspector to oppose. The caste system is very deeply rooted, and extends far back in time. This opinion can also be confirmed by our own observations during our interviews in India. When we interviewed one low and one high caste person at the same time, where not the low caste people heard particularly often, and that the people with the high caste dominated the conversations, even though the low caste people had higher positions in the company. There are also differences in how society looks at corruption when it comes to gender and whether it is accepted or not to deal with corruption. If a woman
receives a bribe it is totally unacceptable and if she gets caught it will bring dishonor to her and her family. However, if a man gets caught he is just seen as a businessman who likes to take risks.

The respondents are united in the opinion that it will be better in the future when it comes to corruption. The people of India will get it better in the future because of India’s economical growth, which will probably lead to higher wages and with higher wages people may not have to live on the minimum limit and will not be forced to use corruption as a survival income. The differences between now and the past is that today, many people are given small bribes on a day to day basis, while a few years back it was more common to give larger bribes to fewer people. The reason why the corruption rate is slowing down goes hand in hand with the economical growth of India. The states which according to our respondents are most exposed to corruption are Bihar, Haryana, Uttar Pradesh and the eastern part of the country. There are also some differences between northern India and southern India. According to our respondents this is because in northern India money is more important and also to show that you have money while in the south this is not the case, for example it is difficult to distinguish who is rich and who is poor. Many of the respondents believe that this may have led to that the corruption rate is more widespread in the north than the southern parts of India.

6.5 Transport

In today’s India is a functioning transport sector more important than ever. India’s economical development the recent years has enabled stricter requirements when it comes to train, flight, sea and road transportation. Being able to transport goods for export but even to domestic soil in a cheaply, efficiently and environmentally manner is an issue that needs be solved by the Indian Government for maintaining future economical growth. The majority of the respondents think that the infrastructure is poorly developed in the country and believe that India is far behind other parts of the world on this issue. One example of many is poorly developed highways that has no proper on and off slip roads, there are also no restrictions about what types of motorists who can travel on the road or not. This means that cars, trucks, motorcycles, mopeds, cyclists, pedestrians and animals all travel on the same road which leads to that the average speed a truck can hold is very low. This fact means that a distance of 200 kilometers can take five to six hours to drive and be very demanding for the driver. It is therefore very important to carefully plan the journey from one point to another.

The respondents point out other factors that also requires planning, e.g. that it is prohibited to drive with trucks through certain cities during certain times. Neglecting this can mean that a truck jams at a zone and may not be able to drive through in several hours. According to the respondents the reason why the infrastructure is poorly developed is that the government has not prioritized this issue. Although the infrastructure has been a part of the government's agenda during the last years, the government has not devoted the resources required for the infrastructure to be developed at the pace that the rest of the country's economic development. This makes the infrastructure issue more a hurdle for companies in India and limiting further development.

Respondents also believe that a major problem is that the planning and implementation of a new road takes a very long time. This means that when the road is finished, it is usually already more demand on the road than it can handle. This is because the number of cars to be charged to the roads has increased so significantly during the time it took to build the road and due to the economic development of the country, the transport sector in general has also increased sharply. This leads to that a new road almost is overburdened at the opening.
However, there are respondents who believe the country's infrastructure is very good. IKEA’s transportation director believes that the majority of the country's roads have a very good standard. It is important to remember to look at this variable from different perspectives. When you look at India's Infrastructures what do you then compare it to? If you compare it with Europe, the infrastructure in India can be seen as flawed. Looking, however, how it actually works in the country, the country’s roads are getting the job done.

"Transportation is affecting our product quality, and it will do so for a long time" – (IKEA India, purchase manager, personal communication, 2009)

Respondents from IKEA believe that the quality of their products is influenced by the country's roads due to poor asphalt spreading. This leads to that the load can be damaged due to the roads and trucks are not having sufficiently high standard. The trucks are usually very old and not in particularly good condition. It is not usual with covered trucks, so most trucks are open or at best covered with tarpaulin. This may mean that the cargo can be damaged in rains and where there is high humidity. This makes it possible that manufacturers must expect to strengthen the packaging during transport. All respondents from Europe confirm that the packaging’s they use in Europe have not worked in India, and reinforcements have been required. It is one thing to carry carpets, but when it comes to glass and other similar materials it can be critical. Because out of the trucks poor quality and the affect on the load IKEA has created requirements for the transport companies which say that a truck cannot be older than ten years old. This may be one way to try to reduce the number of damaged goods in transit.

According to our respondents are transport duties between states common, even though there are some states that have negotiated non tariff agreements between them. The cost of transporting goods between states is not high but there are other risks. The trucks can easily get caught in controls at the transport tariff stations, and if no bribes are paid the truck could be standing in the same place for several hours. It is also recommended not to take the cheapest option in the choice of transport companies when the risk is high that the cargo gets stolen during transport to its final destination. Further, the weather is a factor that is uncontrollable, but it is important to consider because of India's geographical position. Respondents argue that many roads become impassable, and in some cases completely destroyed when heavy rainfall happens during the monsoon period. This often leads to that the traffic can be much delayed. It can be strategically to take the weather factor into account when choosing location for an establishment, then you may want to avoid the worst affected parts of the country. The parts most affected, according to respondents are the western and eastern parts, which may be subjects to major flooding.

When it comes to rail transportation the respondents think that it works well. Indian Railways is one of the largest employers in the world with approximately 1.5 million employees. There are up to eighty thousand kilometers rails around the country which makes the accessibility good. The negative things respondents point out are that it takes a very long time when shipping goods with rail transport. This is due to delays that occur frequently. The government has begun to allow investment to refurbish the tracks and to build and dedicate some tracks only for freight. Private companies have also begun to gain access to the railway market which will probably mean that rail transport becomes more efficient in the future. From an environmental perspective Rail transport is the absolute best way to transport goods, and when environmental awareness has increased in India more heads have turned to rail transport as an alternative to trucks for carriage of goods. The respondents believe that this will mean that the train sector will evolve significantly in the future.
The transport sector that has developed the most in recent years is the aviation sector, which all of the respondents agrees on. Our own observations also confirm this when we visited a number of airports across the country. The Indian airports are of good international standard, which was not the case a few years ago. When it comes to transporting goods by air, this also works perfectly even though it is very expensive when compared with the other transportation options. The respondents we interviewed further agree on that closeness to the port are a very important factor to consider in any establishment process. This in order to get the transport costs as effective as possible. However, if the value of the product is high in relation to the transport cost it is possible that the need isn’t that great. The respondents think that the biggest problem in India is that the ports are ineffective. In other words it takes a very long time to turn on a load. This procedure may take several days in India, unlike other parts of the world where this can go on a couple of hours. The government is clear about the fact that the ports need to be built out to cope with the export development and have plans to develop the ports further together with the rest of the infrastructure in the country.

According to IKEA's transport manager, IKEA uses train, truck and boat, as the main means of transport for their goods. The goods are shipped by truck from the suppliers directly to port or a "dryport". These "dryports" works in all respects as a normal port, the difference is just that they are land-based and can therefore be located anywhere in the country. The dry ports serve as a collection point for goods and then get shipped to a standard port or vice versa. The transport manager also told us that IKEA has introduced so-called "Consolidation points" that serves as a collection point for IKEA products. When the supplier has delivered their goods to the consolidation point IKEA takes over the responsibility for the shipment. IKEA currently has three "Consolidation points" in the country at three different locations, Mumbai, Delhi and Tutikurri. The reason they are where they are is that most of IKEA's suppliers are close to these areas. IKEA put a lot of energy to get transport as cost effective as possible. One goal is to create a similar model that is used in the Baltic countries where IKEA handles all transport from the supplier to the IKEA stores. This is to be able to pack the goods as efficiently as possible in order to use fewer containers for more efficient transportation.

"When we look at the western coast we look at huge possibilities and huge plans of port development, Bombay is the gateway of India when it comes to trade." – (IKEA India, transport manager, personal communication, 2009)

The respondents believe that it is mainly the western and southern coast that has the most attractive ports in India. The ports that are recommended the most by our respondents are; Kandler (Gujarat), Mumbai, Chennai and Visakhapatnam (Andhra Pradesh). If an investing company wants to focus on exports, it is in the western and southern parts of the country a company gets the most benefits. Some respondents also believe that a future port that is interesting is Tuticorin down in the south of the country; many believe that Tuticorin will be greater than the port of Chennai in a couple of years. Respondents further believe that the difference of infrastructures may differ widely among states. Setting up a factory in a state that is more advanced in the field, can be a great advantage strategically. Respondents agree on that the east and some parts of northern India have the least developed infrastructure in the country. There is also a great risk of becoming a victim of robbery when transporting through the eastern states.

When it comes to the future development of India's infrastructures, all respondents agree on that it will get better. India's government has begun to let private operators, both domestic and foreign into the market to accelerate infrastructure development in the country. Many refer to "The Golden Quadrilateral" which is a road network linking four major cities in the country,
Delhi, Mumbai, Chennai and Kolkata. Still, the infrastructure is a major bottle neck when it comes to the establishment process in India. If the economical growth is to continue in the same pace as earlier, infrastructure needs to develop significantly.

6.6 Industry resources

Electricity supply is a clear problem in India and making an investment may cost you more than you think according to the respondents. If you have a business that is dependent on power 24 hours a day the company probably will run into problems unless the company invests in a backup generator. However, the government has special laws regarding special economical zones so the businesses within these zones have much better infrastructure and has a higher standard for electricity and water than if you are located outside the zone. The respondents also believe that this only works in theory but that it probably will be better in the future. Through our own observations, we can also confirm that the electricity supply is deficient. In the areas of the country we've visited it was only one supplier to IKEA, which did not have a backup generator. Respondents agree on that if you invest in a factory in India, inside a zone or not you should take into account the current shortage and invest in a backup generator.

The basis for the electrical problem is that India generates too little electricity; the demand is much higher than the supply according to the respondents. One of the problems is the industrialization that has gone so fast that the government has not had time to develop electric power plants at the pace that actually would be needed. The respondents believe that a privatization of the electricity sector would lead to a better working electricity sector in the future. Another problem is that not everyone pays for their electricity consumption in India. The people who earn below a certain income ceiling are entitled to free electricity. This means that approximately 800 million Indians do not pay for their electricity consumption today. Many respondents believe that this is why the Government has not privatized the sector when it probably would have major political implications, which makes this a very sensitive issue. Further, the respondents points out is the huge loss of electricity. When the government sends 200 volts at one end, there will only come out 20 volts at the other end. An example that demonstrates this is that the grid is only dimensioned for 100 households, but used by 1000 households. This requires enormous amounts of power to the 100 households that pay for their power and should have access to it. The system is not sufficiently developed and many of the respondents think that this could threaten the future growth of India.

India currently imports about 75% of its electricity, and the consumption is increasing every year that passes. Almost all of our respondents believe that electricity in the country is at poor quality; however, some argue that it varies between the states in which some states may have higher standards than others. Most respondents believe that electricity is generally better in the northern, southern and western parts of India, an example of a state in which generally offer a higher standard when it comes to electricity is Gujarat which. Some considers Gujarat to be the only state that has a well-functioning electricity market. However, respondents believe that the Guajarati industry is still small enough in size so that it has not been out to test of any major trials. As the industry expands to the point that it becomes as big as in New Delhi or Mumbai, the supply of electricity will probably not be as good as it is today. Electricity costs have according to our respondents increased in recent years, but it has also been an improvement in the electricity grid, which has led to that power cuts has fallen. The cost of electricity in India is around the same level throughout the country; however the differences lie in the availability of electricity.
All respondents agree on that the supply of electricity will improve in the future, especially when India is through its negotiations regarding the expansion of nuclear energy with France and the United States, which would mean that many more nuclear power plants can be built in the country. This would lead to a significant improvement. India uses around 500kWh per capita annually, compared with Sweden, which has an annual consumption per capita 17000kWh (Industrial Electrical engineering and automation, 2008, p: 7). In the future, expects annual per capita consumption in India to rise markedly, due to the expected economic growth in the country. Respondents believe that if consumption exceeds to rise this sharply during the 5 to 15 years it will take to expand nuclear power; this would mean that India would still have a lack of power. Therefore, it is also important to expand and develop the electricity grid so that no energy is wasted.

When it comes to the water issue many of the respondents believe that there is not a problem yet but it may be in a long term perspective. For some, it has already become a problem as for example Ericsson. The Ericsson factory has to refill their water reservoirs every day, by a tanker truck that comes with the water. This is due to that the water shortage is high in the state of Rajasthan. The respondents further believe that it is a big difference in water shortage depending on where in the country you are. It is a serious shortage of water in Tamil Nadu in southern India, while the north of India has rich water resources. This is due to various natural conditions such as the northern India gets much of its water from the mountains. According to respondents it requires smarter investments and better visions for water use in the future than what exists today.

6.7 Industry community

The special economical free zones is a concept that the Indian government has been inspired to create, with China as a role model. In China these zones have been very successful helping developing the country’s economical growth. The idea is based on a geographical area that may import and export completely tax-free, with the purpose that the local industries will be able to compete on the global market. Today India has approximately four hundred existing special economical zones, but there are plans for a lot more. The Indian government see these zones as the future and are ready, and willing, to invest a large sum of money to create the environment that is suitable for the demands from foreign companies. The goal is to receive further growth of the Indian economy. The government usually takes actions when it comes to start up a special economic zone and this is the most common way, although anyone who is willing to agree of the terms and conditions the government has set to create a special economical zone is able to. Key features of India’s SEZ Policy are: (Government of India, 2008)

- Imports of all industrial inputs exempt from customs duty, no import licenses are required.
- On fulfilment of certain conditions the Special Economic Zones are exempted from payment of corporate tax for a block of five years in the first eight years of operation, export earnings continue to be exempt from tax even after the tax holiday is over
- Land is available on lease and no worker unions are allowed
- Manufacturing, trading and services activities are allowed
- Full freedom for subcontracting, including from abroad, is allowed
- Special economical zones will include support services such as banking, post and In-house custom clearance
• The developer of the special economical free zones and units set up within it are exempt from levies, taxes and duties, including stamp duty, under various state laws
• Performance of the zones, including customs, will be monitored by a committee under the development commissioner

Our interviews in India revealed that the concept of the special economical free zone is a vague concept that is difficult to get a general view over. Even though the majority of our respondents had a lot of opinions about these zones, nobody really knows what applies. This reflects the reality pretty good, in that sense that rules and regulations around the special economic free zones vary between situations, places and businesses. Although, general rules exist, that should be the same for every company, a large proportion of our respondents claim that the large and important company’s can negotiate the conditions for their zone at any time. The SEZ’s main task is to make Indian local produced products competitive in the global market, through taxes and levies such as customs and VAT are removed so that the exported product may have a low and competitive price on the global market. The idea is also to avoid the bureaucratic hassle and paperwork by remove inspections on the goods when entering or leaving a zone. In the areas we visited in India, it was agreed that this worked well and that it facilitated a lot to avoid customs when importing raw materials and exported products.

When developing a zone the government allocates land, then private organizations can apply to have the right to zone. This may be organizations or companies wishing to operate the zone as a business, it could also be a large company who would want land to create a cluster similar concept within the zone. An example of this could be an automobile manufactory who would want to build an automotive industrial area where the automobile company plays a central role and subcontractors build up their activities in the same zone. The private organizations that leases the land from the government then leases out the land to companies that want to build a factory in the special economical zone, the land is leased out on a period of 99 years. Zones that are larger than 1000 acres, is called a multi zone. In multi zones companies may manufacture all kinds of products within its borders, if a zone is smaller than 1000 acres it has to have a product-specific manufacturing, for example, focuses entirely on the textile industry. It is common that there are different zones for different industries. The government can make inspections in the zone after a period of 15 years, if a company has performed poorly during the last 5 years the government can exclude the leasing contract and a new company will be given the opportunity to operate within the zone, this is also one reason why the government does not want to sell the land, the government wants have control over the land and have the right to decide whether a company should be moved or not.

Historically the special economical free zones have been a sensitive politically issue. The zones obtained a bad reputation when the government bought up land cheaply from farmers in order to build zones, when the land value within a few years increased dramatically because of the land demand, farmers felt cheated and demanded to get more compensation. The political opposition reacted strongly and demanded a change. So there is a disagreement in India about what the next step should look like when it comes to the economic zones. There are many thoughts on the subject and one idea is to develop another model that in the future will make the farmers shareholders of the zones and then free to choose when or whether to sell the shares. Some respondents further state that the Chinese government has been crystal clear when it comes to where the zones should be built and what their purpose should be, in other words the Chinese government build their zones as more cluster like areas, because of the advantages of having front edge competence in one congregated area. In India however, the zones could end up anywhere in the country and focus on all kinds of possible
manufacturing. For an example this could lead to difficulties in obtaining labor, when the zone may lie in a distant place and all factories within the zone struggle for the same small amount of workers. The respondents point out that the economical zones purpose and underlying political thinking is very unclear.

When it comes to infrastructure within the zones, should the Indian government by law provide zones with uninterrupted electricity, but the survey data indicates that this is not the case, one should therefore ensure that you have a generator for temporary interruptions in power supply. The material that the Indian Government has made available regarding special economical zones shows that it would be more advantageous to be located in a zone when it comes to the infrastructure, in other words that this variable would be much better developed within a zone than in the rest of the country. However, it appeared that almost all respondents except a few exceptions, agreed that the differences in infrastructure in the economical zones and outside them are non-existent; no decisive advantage in that respect. Our own observations on the infrastructure when we visited a number of zones in our time in India suggest that the respondents claim can be substantiated. However, one should take into account that if a zone were to be built today, this zone of course has better infrastructure just for the reason that it is new. Opinions on the economic zones are many but the majority of the respondents think that you should not put too much emphasis on these zones when to invest in India, however, one can see the Indian Government's efforts in the development of these zones as an indication on the government’s positive attitude towards investment in the country.

The respondents claims that there are some advantages in the economic zones, especially if you only focus on exports, but if you would like to enter the Indian domestic market, which is a big market, the question is, should it even be worthwhile to produce products within the country if you will then resell the products to the domestic market? Some of the respondents claim that the Indian market's potential is too great an interesting to be ignored. A company within a zone may sell their products to the domestic market if a specific approval has been given by the government. If the company would want to sell products manufactured in the zone, the taxes and charges may be levied. The possibility could be that it would be cheaper to manufacture the goods in another country and then import and sell the product to the domestic market according to respondents. The respondents agree on that a good solution when it comes to investments in a zone is large companies which create their own zones. If you are a big company on the market, you can negotiate through roughly any favorable condition at any time, such as no tax or very low tax on sales to the domestic market. But this applies mostly for large companies such as Nokia, Wal-Mart and IKEA that creates a lot of work opportunities for the population, so the population can afford to buy the products produced in the factory. However, this requires that it is a major company on the market and the respondents believe that these favorable conditions do not exist for small-and medium-sized enterprises.

From IKEA's point of view, there are some perceptions that it would be unwise of a supplier not to place themselves in a zone, because the IKEA supplier would probably sell the majority of its production to IKEA, and approximately 90% of this would be export and 10% would go to the domestic market, this implies of course that IKEA were to start retail operations in India.

"Up to now, very few Swedish companies have chosen to establish their business in a special economical zone" – (Swedish export council, personal communication, 2009)
Some of the respondents think that the special economical zones can be a good alternative in the event of a fresh start, then you can use the tax advantages it receives as well as the infrastructure already established. While another part of the respondents believe that the special economical zones should not have a central role in the decision making of an initial investment, instead it should come in fourth or fifth hand. It is more important to choose the place based on other factors and possibly see the special economical zones as an alternative to look at if a zone would be in the vicinity of this location.

6.8 Network

The empirical data collection has shown that when it comes to creating business networks the best places to be located in India are;

- Delhi
- Mumbai
- Chennai

This because New Delhi is the capital of India were a company can get connections with all kinds of organizations both domestic but also organizations from the native country operating in New Delhi, India. Further Mumbai and Chennai are according to our respondents the best two cities after New Delhi where companies are able to create lucrative business networks.

"It is important to be open to the Indians so that you do not get stuck the Swedish network circle; you gain an awful lot of contacts with Indians if you are open minded.” – (Swedish export council, personal communication, 2009)

Some respondents believe that a company can easily go the wrong way in India. It is important to have respect for India as a business country. It can help a lot if a company acquires a local network with good connections which representatives from the company can talk informally with about difficulties it may encounter. The respondents also believe that it is not good to only try to create contacts from the native country, but also make sure to get Indian contacts to further expand the company’s network. In this way, it is easier to get into the society and also to understand it. Companies should also make use of the Indian authorities, particularly for large investments e.g. a construction of a factory. The company can then turn to the state governments who are good at helping companies in the beginning of an investment.

6.9 Relationships and trust

Many respondents have pointed out the importance of having good relationships at an establishment abroad. IKEA's previous foreign ventures have proved that this was a very important variable to consider. At the establishment in the Baltic countries IKEA often employed a person with local ties as plant manager. It was also important to have a knowledgeable person at IKEA, which was the link between the supplier and the Baltic people. Respondents also believe that another important factor is to build trust with their partners in the country that they want to invest in. It is about to promise a little and then show that you can deliver. A critical question is what the two parties get out of the collaboration; what is interesting business for both parties. If this is not clear there is no point to collaborate.

"When I asked him where he produces his rugs, he replied, from the border to Nepal to the border of Mumbai” – (IKEA India, purchase manager, personal communication, 2009)
Respondents also indicate that India is largely a relational economy, where it is important to have a good trust between each other. Much of India’s business world is family businesses. This means that many companies have very few employees that do not often exceed more than twenty. Instead of expanding its business by hiring more people when the need exists, the Indians create a new company which another family member or relative takes over. In this way many small clusters and small business relations are created with such volume that it ultimately may involve four to five thousand employees and may extend over the entire country.

6.10 Business culture

The business cultural between countries can differ a lot from each other. The differences may lie in how people think and act at curtain times and situations. The respondents from IKEA that has been with the company in other countries believe that one problem could be that people did not care so much about what was promised. The attitude was that if a company did not deliver something that was promised this was not important. This attitude was IKEA forced to deal with and learn from. Some respondents also believe that there are cultural differences that are important to learn from which can further advance the development of an enterprise. Implementing a good work culture and leading as a good example could lead to that other companies imitate this behaviour. Some suppliers to IKEA highlighted during the interviews the importance of this. When IKEA is acting as a good example and not accepting child labour, poor and unsafe working environments and unacceptably low wages this thinking gets implemented in their collaborating partners as well. The suppliers also believe that even though they often reluctantly changed their approach on some issues they have after some time recognized the importance of these changes and that there has been only for the better.

We observed how important a good work culture can be for a company and its workers when we visited the company Sandvik that has a factory in Pune, in Maharashtra. Sandvik has established a corporate culture that is not at all common in India. The company invested in building a modern factory from the beginning with a standard that is equivalent to the factories Sandvik has in other parts of the world. The company also put a lot of emphasis on that the workers in the factory should feel as good as possible, that is, the workers comes in the first place. Sandvik said that with this attitude, the company receives the best out of their workers which has led to that the product quality standard is one of the best in the world compared to other factories Sandvik. Workers we spoke to were also very proud to work for Sandvik and their faith in the company were high.

Overall, the respondents feel that the cultural differences are big between India and Europe and a great challenge for a European company is to understand and adapt to the culture of India. Some respondents believe that a big mistake many foreigners do when they come to India is to see India as just one country. It is important to think about that the differences when it comes to food culture, customs and traditions between southern and northern India are as big as in the southern and northern Europe. An example could be that when a person goes from Chennai in southern India to Delhi in northern India, it is equally to a European that travels from Rome (Italy) to Copenhagen (Denmark). Regardless of this it there is a very strong link between Indians where as the country has agreed under a common flag. When it comes to the future the respondents argue that the cultural differences between India and Europe will decline. The old traditional ways will disappear in times of globalization. The
Indian society is, despite wheatear it is good or bad, heading more and more against the western society.

6.11 Location

The respondents agree on that in an investment situation, the site selection is a very important factor. This can even be decisive for whether the investment will be profitable or not. When selecting a suitable place, there are many factors that come into play. Respondents argue that it partly depends on what type of production that will be performed and on which services that are necessary. Other things to consider might be whether the company will import or export their products and how the cost structure looks like in different places. For example, it can cost more to locate a production site in the larger cities. However one should bear in mind when choosing the smaller towns, that it could be a risk that it will be difficult to find skilled labor.

“Haryana, Delhi, Punjab, Gujarat, Maharashtra, Karnataka and Tamil Nadu are the most stabile states when it comes to investments and also getting support for investments.” - (IKEA India, metal purchaser, personal communication, 2009)

Figure 9.1. Respondents recommendation for an investment in India, Hedenstierna and Uhrbom, 2010.
The total percentage of respondents that recommended a future state in India to invest in 23% recommended Gujarat followed by Maharashtra and Tamil Nadu on a tied second place with 16% of the votes. Further, Karnataka came on third place with 14% and on fourth place Haryana and Andhra Pradesh with 6% of the total votes (See figure 9.1, p: 59; figure 9.2, p: 60).

The variables that were important to the respondents when they decided on the above mentioned states were that the state should be politically stable. The government should also be open to foreign investments. Some states have a way to attract industries and to provide the support needed. Examples of this can be to obtain funding or assistance to obtain the necessary permits. Other factors that have been important are that the location should be close to a port in order to reduce transport costs in the longer term and whether the location should be near the raw materials used in the eventual production.

"Blindly if I had to throw the dart, ten times out of ten it would be Gujarat" – (IKEA India, purchaser, personal communication, 2009)

The state recommended most times of the respondents were Gujarat. The state lies on the west coast towards the border to Pakistan and has in recent years become one of India’s most promising future state. One reason why is Narendra Modi who is state governor of Gujarat. The respondents believe that Modi runs the state like a business and has succeeded in creating a stable and good business environment. This has proven to be a successful concept in which the state has attracted many of India’s major industries. The state is politically stable, which often creates a calm and safe working environment for a new business. The state government has also recognized the importance of timely offer interested companies the resources necessary for an establishment. This became very clear when the Gujarat State was the first state to offer Ratan Tata (see appendix 1) a complete solution when leaving West Bengal.

*Gujarat is the only state in India that has setup a single window service for Industries. If you want to setup an Industry in for example Haryana you will have to go and visit 10 different offices, but in Gujarat you go to one office and talk to one person and he will get the job done for you.* – (IKEA India, purchaser, personal communication, 2009)

Further reasons for Gujarat’s success lies in a traditional approach of doing business according to the respondents, historically people from Gujarat have always been good businessmen. Doing business and taking risks was a natural part of the everyday life for a Gujarati. Businessmen from the state traveled a lot with the intention to take impressions and ideas from other parts of the world back to Gujarat. This has led to an expression often used in India, which reads; wherever you are in the world you will meet a potato, a rat and a Gujarati.
“From my point of view I think that investment in the south will be the best way to go, it is not because I’m from this area because I’m not, I was born in the north and has lived the most part of my life up there, I think about the commercial aspect. If I was an investor I would invest in the south.” – (IKEA India, metal purchaser, personal communication, 2009)

Respondents agree on that the west and south sides have the absolute best investment climate in the country and further that these places has the most interesting states when it comes to an investment. Many respondents also argue that the farther south you go, you encounter more honesty and sincerity. The people in the south have a long term approach, taking stands for what is promised and always deliver what it is contracted. The northern part was not mentioned as often, even if some respondents believe that there are very good businessmen in this area. Some also believe that some of the northern states are also inaccessible due to the nature. The geographical location is also not optimal when there are long journeys to the nearest port.

**Percentage of the respondents; based on our variables, which state they would not recommend for an investment**

![Bar Chart](image)

The total percentage of respondents that recommended a future state in India not to invest in 35% placed Bihar and West Bengal on a tied first place followed by Kerala on a second place with 19% of the votes. Further, Orissa, Jammu and Kashmir and Himachal Pradesh came on a tied third place with 4% (See figure 9.3, p: 61).

The majority of respondents agreed on that the eastern parts of the country have minimum investment opportunities. This because it is a very poor and undeveloped part of the country and the lawlessness is great which means risks for an entrepreneur many ways. The respondents also state that it is common that businesses often are threatened by angry workers or political activists. When the British Empire had its grip on India for about 100 years ago they decided that two trading centers should be built in the country. One set in Calcutta and the other in Mumbai due to these two cities’ geographic locations. This allowed ships to reach India on both sides of the country from anywhere in the world. When the British Empire left the country West Bengal developed into a communist state while the eastern part of the country developed a culture more towards capitalistic thinking. This has left footprints that can be traced all the way to today’s modern society, in that sense that the western side of the country still is more orientated towards business culture.

Figure 9.3, Percentage of respondent; based on our variables, which state they would not recommend for an investment, Hedenstierna and Uhrbom, 2010.
7. Analysis

The analysis will return to our research question and purpose of this degree project. To start with, the material collected through the empirical collection will be analyzed and compared to the theoretical framework of this degree project. This will lead to a location analysis where we will present the top four states that will be used as input for IKEA and IKEA supplier’s establishment process in India. Further we will analyze and discuss which kind of internationalization knowledge approach we have found best suited when collecting information about variables needed for an investment decision. This will lead to the conclusions of this degree project.

7.1 Political environment area

7.1.1 Foreign direct investments

This degree project’s theoretical framework presented that important factors for FDI are cost factors, availability of labour, availability of raw materials, political stability as well as a openness towards FDI in general (Faeth, 2009, p: 166). The empirical data collection shows that although India has been a conservative country regarding foreign investments, it has become more open towards FDI during the last decade. However, it is important to point out that some sectors still are restricted as for example the retail sector which affects IKEA. The main reason for this is that India’s government have to deal with the issue that a big part of the country still is in a development stage.

Furthermore the theoretical framework pointed towards the benefits of technology spill over, creation of a more competitive business environment and improvements as factors that a country is searching for in its ambition toward economical growth (Singh, 2005, p: 12ff). This indicates that in today’s modern world countries fight for the chance to get FDI inflow to its country. This was confirmed by the empirical collection where the car industry in India stands a good example with its fast development during the last decade and is a sector where India has received technological inputs during the last years. The respondents also indicated that India as a country India is in need of technology spill over to be able to maintain its economical growth. This can be seen as an indication that the Indian government has realized the importance of foreign investment inflow.

Further a connection that can be made between FDI and corruption in theory is that greater openness toward FDI is highly associated with a lower corruption rate (Mauro, 1997, p: 84). This is interesting in that sense that the empirical material presents a result of more openness towards FDI in India this variable also affects the corruption variable in the future i.e. if the Indian society gets more open and transparent in the future the corruption should decrease.

When looking at the FDI variable from an investment location point of view the empirical findings as presented above, indicates that the openness towards FDI in India in general is good. However, it is still important to remember that the eastern parts of the country still is in a stage where foreign companies can meet resistance from both the locals as well as the state governments.

7.1.2 Political and security stability

We have earlier pointed out that political instability means that foreign direct investments are reduced (Frey and Schneider, 1985 p: 161f). This indicates that if there exists political
instability in a country it will affect the political environment area which consequently would affect our investment model in a negative way (see figure 4.4, p: 30). This points out that this is a critical variable for an investment. We have noted, during our empirical collection, that some states in India realize more than others the importance of political stability. The empirical data further shows that a company should think twice before entering the eastern states and especially Bihar and West Bengal where the political climate is very unstable.

Further the empirical data has shown a disagreement regarding state governments’ ideology. One side believe that it is hard to withdraw a political motion once the wheel is moving, which indicates that if a business friendly motion has been ruled there is pointless for the opposition to remove the motion. On the other hand, the theory discusses the problems with political change and that these changes can lead to conflicts with companies own agenda (Brooks et al, 2004, p: 231ff). We believe that there exist problems regarding state government’s involvements in corporate business. Despite of this we believe that if a company chooses to place an investment in a stable state, e.g. in the western or southern parts of the country, these type of problems can be avoided.

The data collection has further shown that questions regarding safety have differed a lot between our respondents. The government put far too little resources into the security issue and only reacts when something terrible has occurred. The security issue is being handled mostly at a state level and the states have in many cases difficulties to collaborate between each other. This is of course something that is hard to affect as a company within a foreign country. However, we believe that if way a company wants to affect this issue it needs to take the issue seriously and work out safety regulations for the employees. Most IKEA employees feel that even if the security in the country is a problem, the problem can be handled. We believe that the reason why IKEA employees feel this way is because IKEA puts a lot of resources into the employee safety. If a company wants to invest in a foreign country the firm must see to that the employees can live in the area.

When it comes to location recommendation for the security variable the problem is that it is almost impossible to recommend a place where that is totally safe. The security issue is difficult to avoid geographically, in other words it is an issue a company have to work actively to prevent.

### 7.1.3 Corruption

Corruption is a factor that implies high risk which makes an investment more expensive and less stable compared to other alternatives which could make the investment less attractive (Brooks et al, 2004, p: 283ff). Corruption can be divided into bureaucratic corruption, political corruption and state corruption (SIDA, 2008). Our respondents have argued that 100 per cent corruption does not exist in India; the problem is that corruption exists in all levels of the Indian society. This indicates that corruption is spread in all three levels stated in theory; bureaucratic, political and state corruption (SIDA, 2008). A company that wants to invest in a foreign country needs to look into the situation of all three levels of corruption before the decision of investing is made (IKEA Sweden, textile manager, personal communication, 6-13 November, 2008).

It is the poor people, regarding country they live in, that are the ones who are affected the most by corruption (Policy and research department transparency international report, 2007, p: 2ff). Corruption is also particularly widespread in interactions with the police, the judiciary and registry and permit services. The theoretical framework also points to an indication that
corruption will rather increase in India instead of decrease in the future (Policy and research department transparency international report, 2007, p: 2ff). The empirical findings have shown that corruption is very common in India and it mostly appears in the form of small briberies on a daily basis, and that the most corrupted parts of India is the eastern parts of the country, followed by the northern parts. The briberies exist in a lesser extent in the southern parts of the country. Further it has been indicated that the corruption rate has been decreasing in pace with the economical growth of India. The findings contradict with the transparency internationals (2007, p: 2ff) findings regarding India. This could be because the research has been made 2007 and it has happened a lot since.

The important thing is to focus on; what the company can do to reduce the corruption rate? The theoretical framework present that corruption is best fought by anti-corruption policies (IOMA, 2001, p: 2ff). This does most of our respondents agree on and recommend using various anti-corruption agreements and policies to fight corruption. Our own observations during our stay in India have shown that all companies have some form of anti-corruption agreements. This could also give an indication that corruption exists in an extended way and that these policies and agreements are needed to be able to keep the corruption rate under control. However, not everyone believes in the anti-corruption agreements. IKEA requires all their suppliers to sign an anti-corruption agreement before any kind of cooperation, and outwardly all suppliers welcome the anti-corruption agreement, but at the same time many suppliers have indicated that they do not understand why such contracts exist and believe they are superfluous. This result has shown that there are clear differences between how our respondents look upon corruption and how one should manage the corruption situation. We believe that one must be very clear when it comes to creating the message that corruption is not an option and why the need for an agreement is necessary.

There are also differences in how society looks at corruption when it comes to gender and whether it is accepted or not to deal with corruption. If a woman receives a bribe it is totally unacceptable and if she gets caught it will bring dishonor to her and her family. However, if a man gets caught he is just seen as a businessman who likes to take risks. Further the empirical findings have shown that the caste system, even though it is official abolished, still exists and is deeply rooted in the Indian society. This fact can also be confirmed by our own observations during our interviews in India. When we interviewed one low and one high caste person at the same time, were not the low caste person heard particularly often. The person with the high caste dominated the conversations, even though the low caste person had higher positions in the company.

When looking at the corruption variable from an investment point of view the corruption rate is according to the empirical findings more or less spread over country. Therefore it is important for an investing company to address this issue in an active matter and try to make a change starting from within the company.

7.2 Industry environment

7.2.1 Transportation

The theoretical framework points out the importance of infrastructure for any country because it creates both opportunities as well as limitations for a company. Changes in infrastructure often take a long time to implement while the privatized transport sector often develops in a faster pace (Bjørnland et al, 2003, p: 136ff). Further, the transportation system in a country is
important for a company in that sense that it affects the company’s products delivery time, and also the price that the customer in the end will pay for the product (Bjørnland et al, 2003, p: 136ff).

The empirical findings show that the majority of the respondents find the existing infrastructure in India poorly developed, although there are respondents who argue contrary. However, developing India’s infrastructure is one of the most important tasks the Indian government has to deal with in the future. The empirical findings show that IKEA’s product quality is affected by the transportation through India which confirms the theory by Bjørnland et al (2003, p: 136ff). Further, the empirical data show that a company should consider factors like the weather in terms of monsoon seasons. It is also important to calculate with tolls that are located between every state border.

From an investors point of view the sector that is currently working most preferable in India is the train sector although the aviation sector has grown stronger the last decade. When it comes to ports, the respondents agree on that it is an important factor to consider in any establishment process due to the that India is a big country and choosing an investment location far away from the coastline will mean high transportation costs and according to the respondents, are the most developed ports located in the west and south. Another thing pointed out by the empirical findings is that the standard of infrastructure can differ a lot between states; the findings show that the most poorly developed infrastructure is located in the northern and eastern states. This indicates for that for any investing company that an investment location close to the eastern and western coastline could mean cost efficiency.

7.2.2 Industry community

The theoretical framework presented SEZ as an area created inside a country where other laws and taxes are applied to make it easier and more attractive for foreign or domestic companies that wants to invest capital in new markets. One goal for the SEZ’s is to increase the foreign direct investment (Vinokurov, 2005, p: 39ff). The advantages of SEZ’s are tax reliefs and trade advantages as well as favourable geographical positions and an indication of strong central leadership (Curtis et al, 2006, p: 2ff). Further, if a company is located in a SEZ the closeness to other companies could generate advantages e.g. theological spill over and also access to a educated human capital.

The empirical findings show that the Indian government see the SEZ’s as a tool to gain the economical growth of India. This indicates according to theory as well as the empirical conclusions that the government is willing to invest large sums of money to create the environment that is suitable for the demands from foreign companies (Vinokurov, 2005, p: 39ff). Despite this, the findings show that SEZ’s are a vague concept that many people has strong opinions about but in the end does not know much about, which reflects the reality in a good way in that sense that rules and regulations around the SEZ’s vary between situations, places and businesses.

Further the empirical data indicate that the SEZ’s strengthen the Indian export sector. This is implemented by removing taxes and charges, which is confirmed by the theoretical framework (Curtis et al, 2006, p: 2ff). The Indian government leases the land for the zones for a time period of 99 years. The government then guarantees good infrastructure such as constant electricity flow (Curtis et al, 2006, p: 2ff). Despite this, the empirical findings show that the infrastructure within the zones does not differ from the outside and that the electricity
condition most often is not fulfilled which shows that backup generators is something that a foreign investor must calculate with when making an investment decision.

The empirical data also points out that the SEZ’s have been a sensitive political issue throughout the years, and that the political motive behind the zones is unclear unlike the political motives from the Chinese government that have been crystal clear when it comes to the zones purpose and geographical position.

When looking at the industry community variable from an investment point of view the opinion about the economical zones are many, but we would argue, based on the empirical data, that a company should not put too much emphasis on the SEZs when making the investment decision. Instead one could look at SEZ possibilities after the decision is made in which region the company will invest in.

### 7.2.3 Industry resources

The theoretical framework points out the water issue as a serious problem for India. Water is a limited resource in the country which implies the importance to plan for when making an investment decision (Dinesh Kumar, 2003, p: 39). Further the framework points out that the water supply for India will be more and more complex and will intervene with other sectors like agriculture, energy, industry, transportation, education, environment and health on a regional level (Biswas, 2004, p: 249). When it comes to electricity, our theoretical framework points at issues like energy shortfalls that increase with every passing year as well as electricity theft and can be seen as a major bottleneck for India´s future economical growth, this is something that need to be considered when investing in India and could raise problems for companies neglecting this issue (Patel and Bhattacharya, 2009, p: 57ff).

When it comes to water supply the findings agree with the theoretical framework and points towards the lack of water within the country (Dinesh Kumar, 2003, p: 39). However, the findings show that the water supply is greater in some parts of the country than others. For example is it a big difference between the northern and southern states, where the problems are greater in the south. The majority of the respondents was despite of the critical situation today optimistic about the future and sat high hopes to the government to make it better. This however contradicts the theoretical framework that expects these problems to be greater in the future (Biswas, 2004, p: 249).

The empirical findings show that India´s electricity supply is to a large extent imported, which shows that India´s own energy production is insufficient. The power lines are of poor quality which as the theoretical framework points out leads to energy shortfalls, the empirical findings also confirms that energy theft is a usual phenomenon (Patel and Bhattacharya, 2009, p: 57ff). Due to this fact, the majority of respondents interviewed recommended backup generators for every company with operations in India. For an investing company an important for fact given by the empirical findings is that the Gujarat state is the state with the most efficient power market which gives Gujarat points in the choice of future states to invest in.
7.3 Business interactions area

7.3.1 Network

The theoretical framework presented that a firm’s investment decision is influenced by the firm’s network partner. This emphasise the importance of networking in an international market entry (Loane and Bell, 2006, p: 468ff). Further it emphasise the importance of a network approach throughout the internationalization process. The IP-model points out that it is through interactions with others, experienced based knowledge is mostly gained and that it is through networks a company gain the experience that is important to the continued expansion of an area (Blomstermo et al, 2002, p: 90f).

The empirical findings show that networks is most easily accessed within the big cities e.g. cities like Delhi, Mumbai and Chennai. Further it shows that networking is important in India because of the common family businesses which go in line with the standpoints of the theoretical framework (Loane and Bell, 2006, p: 468ff). This points out that it is important for a foreign company to not only gain networks within its own ranks but also gain networks with the natives. However, the findings also points toward the importance of utilize the help that a company’s own country can offer on sight. Creating contacts and gaining networks within the political sector could also help in form of more easily administration processes, in other words is the networking approach important in any investment decision as pointed out in theory (Blomstermo et al, 2002, p: 90f).

Further the empirical findings points out the importance to utilize the assistance available on site in form of Export Councils or similar organizations, the state governments and local business men which also Faeth stated in theory by (Faeth, 2009, p: 188). The perception that it is difficult to establish a business in India because of difficult bureaucracy, rules and documentation are partly true. But if a company that invests in India manages to create a good network and explore all the help available the establishment process will go more smoothly and will lead to a more flexible investment.

7.3.2 Relationships and trust

The theories regarding relationships and trust presented that trust works as a substitute for knowledge when e.g. a firm lacks of the necessary market knowledge and let a trusted local run the foreign business (Johanson and Vahlne, 2009, p: 1418ff). It also presented that trust is crucial in the early stage of a relationship and remain important throughout the collaboration between two partners, this to be able to create further opportunities. (Johanson and Vahlne, 2009, p: 1418ff).

The empirical findings showed that good relations and trust creation is the foundation for IKEA’s thinking when making abroad investments. Creating good relations have been proved times and times again to be the key to success for IKEA in different foreign investment decisions which go hand in hand with the theoretical framework presented (Johanson and Vahlne, 2009, p: 1411ff). It is about promising a little and make sure to deliver. It is also important for a foreign investor to find collaborations where both parts feel that they gain from the relationship. Does this not exist there is no sense of cooperation. These findings further agree with the theoretical facts stated by Johanson and Vahlne (2009, p: 1418ff).
7.3.3 Business culture

When it comes to the business culture the theoretical framework presents the culture variable as important in the process of making a decision. People often make their decisions based on how their previous choices have affected them e.g. have these choices been a success they will continue making the same decision (Wildavsky, 1987, p: 5), it further state that it is hard to change the foundations for culture once they have been rooted (Peterson and Anand, 2004, p: 313).

The empirical findings show a not surprising result that the cultural differences between e.g. India and Europe are very big. One big mistake foreigners assume about India is to see the country as just one country, when there are huge differences between for example the northern versus southern parts. When looking at for example the corruption variable the culture differences are big i.e. the way to look at the phenomena differs a lot between countries and continents. When it comes to such cultural differences the findings show the importance of strong business cultures. It is from within the organizations a change can occur and the findings show that although business partners are unwilling to change culture behaviours it is possible if a company like IKEA is setting rules in order for a collaboration. This partly is contrary towards the theoretical framework that state that changes in culture behaviour is difficult to change (Peterson and Anand, 2004, p: 313). However, the empirical findings point out that even though partners to IKEA showed resistance to changes in the beginning they agreed to that many changes has been for the better.

7.4 Location analysis

In this part we will give the writer our points of view when it comes to the location of an investment in India i.e. our analysis of the empirical collection. If a company decides to implement their plan of an investment in India, where should they implement the invest plan? The empirical collection has shown that when choosing a location for an investment, which IKEA alternatively IKEA’s suppliers have in mind, it is of importance, according to our respondents, to be located with closeness to ports. This must obviously counter prices that exist on the market but despite of this the ports have played a big role in this location analysis. At the same time we have found that a key area has been the political environment area. This area is important for creating a corporate culture that is continually growing. Further we have our respondents, which argued that it is approximately six states that could be recommend for a future investment. These states were: Gujarat, Maharashtra, Tamil Nadu, Karnataka, Haryana and Andhra Pradesh (see figure 9.2, p: 60).

When we have investigated the possibility to evaluate where the best states within the country exists, we have used our empirical data, variables and our own observations. Gujarat has come to terms in many respects as a very reliable and good place to make an investment. It is this state that has been mentioned most times in the interviews with our respondents. The political environment area in the region is good as well as the infrastructure. However, we have found it difficult to find any empirical data that suggests that the business interactions area would be either bad or good in the region. This has also been a throughout picture of what it looked like when it comes to the business interaction area.

One thing that has been of interest to this degree project and has played a big role is corruption. Since we have found, through this degree project, that it is difficult to prevent corruption, we have immediately rejected the states where the empirical data has shown it exist a high level of corruption. This has led to that the states Bihar, Haryana and Uttar
Pradesh has been rejected. This because we believe that for an entrepreneur, who is new to India, to be able to grow and function, organizational wise, needs to drastically reduce the possibilities for corruption.

The special economical zones has also been a wide discussed topic where people have had very different perceptions of what it really means and if the SEZs are a good or bad choice when making an investment. However, what can be discerned is that placing an investment in a SEZ should not come in first hand for a company that should try to find a suitable place for an investment. However, if a SEZ is located within the area the company has set out for the investment, the company of course should look into the possibilities.

Electricity and water is a problem in India. A company needs to have a backup generator to be able to create the electricity that is needed throughout the production. This because the electricity could shut down or only come sporadically. The electricity issue is generally better in the north. However, with a generator a company can produce the electricity needed from a place within the country, which means that with electricity in mind, one can place themselves anywhere in the country although this alternative could be costly. When it comes to the water issue, there exists a water shortage in the southern parts of the country but the shortage is rising throughout the entire nation. Therefore the water issue is not just an issue for the companies but an issue for whole India.

Our respondents often pointed out the importance of placing an investment close to a port. They argued that it is almost essential to how profitable the company will turn out to be in the future. The empirical findings presented that new port is under construction that will be more efficient than the current ones. The ports that are of importance and have the highest capacity that exist today are: Visakhapatnam, Chennai, Mumbai and Kandla (see figure 7, p: 41).

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<td>1</td>
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In order to evaluate the collected data we have created table 9.4 "Evaluation of states". This table ranks the states of India in the political environment area (PEA), industry area (IE), business interactions area (BIA) and the location analysis (LA) based on the empirical collection as well as our own observations during our stay in India. Table 9.4 is structured as
follows: 1 point equals a bad future state for an investment, 2 points equals an intermediate future state for an investment and 3 points equals a good future state for an investment. Table 9.4 will be the base of the conclusion. The states which are not included in table 9.4 are excluded because these states are according to the empirical collection as well as our own observations too undeveloped in either one, two, three or all areas and will not be able to compete as states for potential investments in a foreseeable future. Other reasons for excluding a state is that it is simply too unstable or has a high corruption rate which is not accepted. Table 9.4 will be used as input for the conclusion of this master thesis. (See table 9.4 p: 69)

With this in mind and by assessing the important results from the empirical collection; we have come to the conclusions that the following four states could be recommended; Andhra Pradesh, Gujarat, Maharashtra and Tamil Nadu (see figure 9.5, p: 71). There is no individual arrangement between them; they are the four states that we believe has the most potential for the future when it comes to an investment decision.

All of these states have prerequisites for success in the future. They have relatively stable political environments, they have a relatively developed infrastructure and they have, to the extent we have found, good opportunities to create business interactions. The states that we have found best suitable for an investment also have the largest ports in India. Each state has at least one of the ports that have the highest capacity in the country: Visakhapatnam (Andhra Pradesh), Chennai (Tamil Nadu), Kandla (Gujarat) and Mumbai (Maharashtra) (see figure 7, p: 41). This is obviously an advantage for a company that wants to invest in the country.

As the attentive reader may have noticed, we have chosen almost exactly those states that our respondents had recommended during our interviews. The three most recommended states are chosen as well as Andhra Pradesh that replaces Karnataka and was suggested by our respondents. The reason for choosing Andhra Pradesh instead of Karnataka is because the state has more opportunities and developmental opportunities. Further Andhra Pradesh also has a major port (see figure 7, p: 41). Another reason is that Andhra Pradesh has the so-called automobile cluster, where India produces many of the cars and trucks that are exported all around the world. There is no secret that the car industry has suffered from the recession during the last years, which also has affected the suppliers to the automobile industry. This creates an opportunity for companies who are about to invest in India. The company can take advantage of the skills required that already exist within the automobile industry and tap on to existing industry infrastructure.
We have above presented the result to our practical purpose of this degree project. Our second purpose is theoretical and is based on the IP-model presented in the theoretical framework Blomstermo et al (2002, p: 53). Throughout this degree project we have been interested in how a company should be able to collect the information needed for an investment decision, this because we as authors have had an ambition to be able to give recommendations about this process to the readers of this degree project. We have noted throughout the work with this thesis that different areas, as presented in the investment model (see figure 4.4, p: 30), require different levels of commitment of objective- and experienced based knowledge Blomstermo et al (2002, p: 53). Because of this insight we have developed a model that can be seen as a contribution to the science of internationalization. We call the model “the internationalization knowledge model” (IK-model) which presents the importance for a company to both use objective- and experience based—knowledge Blomstermo et al (2002, p: 53), to be able to evaluate the possibility of an investment decision.

Figure 9.5. Respondents top four recommendations for an investment in India, Hedenstierna and Uhrbom, 2010.
The IK-model is important because it can show an investing company how to get the information needed from a particular area. We believe that the two methods need to be combined in order to make an as cost efficient investment as possible. Therefore we have developed the IK-model that presents what a company should focus on to investigate before making an investment and what can only be known, investigated and understood when a company is on site (see figure 10, p: 72).

The political environment area will demand both experienced based knowledge and objective knowledge. Further this is also the most important area in the sense that the area can affect a company the most in an establishment movement according to the empirical data collection. The political environment is based on the variables corruption, FDI as well as political and safety stability. These variables have shown, through our empirical findings, to have a higher importance when making an investment. This because he investment climate need to be as good as possible when making an investment, there should be as little or no corruption as possible as well as political openness towards an investment. Because of this areas importance, this “bubble” is bigger than the other two.

The business interactions area is clearly more experienced based knowledge based where it is important to interact within the country a company wants to invest in, in order to be able to see and understand how to handle the different issues regarding this category. The reason that a company must try to interact to understand this area is that all variables within the area are connected to humans. To be able to fully understand the depth of a country, the company must interact on site for a longer period of time. This indicates that the business interactions area demands high level of “learning by doing” interactions.

The industry environment area is the opposite towards the business interactions area. This area could be researched almost entirely by objective knowledge, e.g. one do not have to make an investment to investigate where a SEZ are located. This knowledge exists everywhere and there are people who are experts in these matters. Further there exists a lot of information about this area which could be useful for a company that does not have the
resources needed to interact in the country. Inside the industry environment area we have placed; industry resources, transportation and industry environment. The special economical zones and the cluster concept is placed within industry environment, this because both of these variables are affecting how interactive and attractive the area are.

The purpose for creating this model is so that future investors can get a clear and fast visual picture of what to think about in the internationalization process. All the three areas are of importance, and can off course be modified depending of branch. The objective is to see that all three parts affect the end result and that it is important to investigate all three areas to be able to create an opinion of where an investment should be placed.
8. Conclusion

The goal of this chapter is to present our conclusions about this degree project as a whole based on our definition of our research question and purpose. The conclusion is divided into two parts; one practical- and one theoretical part. Finally we will present how to develop the concept of internationalization knowledge as well as suggestions for further research.

8.1 Practical conclusion

The practical purpose of this degree project has been to find which of India’s 28 states have the best environment for a potential investment by IKEA or IKEA suppliers. The first question that needs to be answered is; what is meant by “best environment”? This concept is built upon our variables that have followed the reader throughout the entire thesis. Further the variables and the respondents have shown which states are best for an investment. Based on the analysis discussion the following states have the best environment for a potential investment;

- Andhra Pradesh
- Gujarat
- Maharashtra
- Tamil Nadu

8.2 Theoretical conclusion

The theoretical purpose has been to research which kind of internationalization knowledge approach is best suited when collecting information about variables needed for an investment. By developing the IK-model we were able to answer the research question (see figure 10, p: 72). We argue that a company need to use both experience based and objective knowledge to be able to collect the information needed for an investment. To be able to make an investment decision a company could use the IK-model so that the information about the variables can be collected. Further, a company can use this information to be able to make an investment decision.

We have developed a model to show how to integrate this degree projects different purposes (see figure 11, p: 75). The investment decision model (ID-model) show the relationship between the investment model (see figure 4.4, p: 30), variables and the IK-model (See figure 10, p: 72). The idea of the ID-model is that the variables, areas and the IK-model will lead to an investment decision. To further demonstrate the process of the ID-model we will clarify our thoughts about the model. In the first step, the variables, we have used the theories regarding which variables are of importance. The second step is the areas; these areas are created by the help of Van De Ven and Garud’s “the industrial community perspective” model (see figure 3, p: 19). This is used to be able to combine the different variables that affect each other. The third layer is the IK-model which is based on the IP-model, presented by Johanson and Vahlne (See figure 1, p: 12). In this step, a firm uses the knowledge that is best suitable to be able to gather information about the variables, i.e. the areas. The idea is that a firm initially chooses the variables that are of importance for an investment and then uses the IK-model to understand how to collect the needed information about the variables. After this process, the company will be able to make an investment decision.
8.3 Authors suggestions for further research

In conclusion, we would like to say that this has been an enormous assignment, which would require a huge amount more time than we have had at our disposal. In this degree project we have highlighted India as an investment country and how to proceed in order to create an impression of an investment decision. Based on our results, we have recommended four states where one should invest if it determines that an investment would be feasible and to the company’s advantage. The problem of an investment is often that it is costly and can be risky.

For future research, we would recommend, that one could examine whether there are more variables that are important in an investment decision then the ones used in this degree project. The variables we have chosen, do not say that there exist other variables that are of importance for other companies. Further we would recommend testing the presented ID-model on other countries and companies, in order to discern how the ID-model works in other environments. When it comes to the IK-model it could be interesting to investigate whether other variables and areas will affect the investment decision in the ID-model.
9. Truth criteria

In this chapter we will present the criteria of truth of this degree project. We will address the credibility criteria’s of this thesis regarding the transferability and dependability. Finally we will address the authenticity criteria where the fair image will be further addressed.

9.1 Credibility criteria

Since we have had many different descriptions of realities from our respondents, it is important that we as researchers describe in detail how the process has been done and how the results have come to the conclusion that it has. One can also make use of respondent validation, participate validation or alternative triangulation as a tool to be able to confirm that what has been said during the interviews has been the truth (Bryman and Bell, 2005, p: 307). We believe that this could have been done in a better way; we have not made use of any respondent validation or triangulation. To be able to see if the result from the interviews could be confirmed, we used a map at the end of each interview. This was done so that we could compare what the respondent said during the interviews regarding which states that was preferable. After the comparison of all interviews, most of the respondents agreed on which states are the future, which could indicate that our result has a high credibleness.

We believe that we have a good transferability when it comes to our interviews, as we have done a very detailed transcription of what our respondents discussed during our interviews. The words, pauses and coughs that were made were written down and you can get a good understanding of how our respondents argued and perceived our questions. However, due to that we perform a form of case study; it becomes harder to get a good transferability, especially to other situations, organizations or locations (Bryman and Bell, 2005, p: 306ff). This study is limited to the location India, which likely will lead to that the result will be difficult to apply on other locations. This could imply that the study will have low transferability.

When it comes to the study's dependability, which means that a colleague or a reviewer is given the opportunity to review the material in the process which is important to be able to get a higher dependability and create a clear review of all the stages throughout the work (Bryman and Bell, 2005, p: 307). We have not been able to do the auditing process. This was not done because this is a very demanding that demands a researcher that is not involved in the process, and we were not able to find one. Even though this is not a common technique within the research field, we believe that this technique would have given this degree project a higher dependability. This because of the two authors prior knowledge, which may indicated that we think more or less equal, which could make the auditing process more important. Although, we believe that we have managed to create a clear view of all the stages throughout this degree project, where most of the stages are described in chapter four.

9.2 Authenticity criteria

The authenticity criteria are whether the authors have given the reader a fair image (Guba and Lincoln referred to by Denzin and Lincoln, 2003, p: 278). We believe that this depends on how the reader perceives this degree project. If the readers believe that we will explore the possibilities for all types of businesses to relocate to India, then the fair image starts to disappear. As mentioned earlier, we have interviewed mostly IKEA employees; this has probably led to that our respondents’ think from an IKEA point of view. Further, we have also
asked some direct or indirect questions that are pointed towards an IKEA supplier investment. Therefore, we cannot give a fair picture of how we should proceed at an investment if it is another business or another company. However, we hope that we can give a fair picture to the suppliers to IKEA who are prepared to move their production to India. We have interviewed IKEA’s existing suppliers in India, IKEA staff from two offices in India, other Swedish companies and two Swedish organizations in order to achieve the best reliability and as a fair and clear image as possible when it comes to IKEA’s suppliers.

This study will help IKEA in their venture in India, it will help IKEA to focus on those states that we have recommended and also which areas that has a lesser corruption rate than from which they are buying today. We believe this is an important part of a process that continually changes in IKEA India today. This study has thus created a good catalytic authenticity (Bryman and Bell, 2005, p: 309). Further we hope that this degree project have created a better understanding of why the states that we have chosen are future states. However, we do not believe that this thesis gives an explanation of why IKEA has chosen the approach in India they have during the last three decades, but we have explained the movement patterns and why firms move as they do through psychic distance and the internationalization process. We also hope that IKEA can take advantages of this thesis to understand how one could think and reason about the variables that were presented, and through that knowledge try to further develop and advance IKEA in India. With this in mind we believe that we have a fair ontological and educative authenticity (Denzin and Lincoln, 2003, p: 278f§).
10. References

10.1 Books


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Ketels, C., Lindqvist, G. and Sölvell, Ö. (2003),”The cluster initiative greenbook”, Bromma tryck AB.


10.2 Scientific articles


10.3 Reports

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10.5 Newspaper article


10.6 Other thesis


10.7 Internet sources


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Appendix 1: Case 1, Ratan Tata

The Tata Group was founded in 1868 by Jamsetji Tata, also known as the father of the Indian industry. At the start the turnover consisted by various shops in the cotton industry. This was the foundation of the Tata Group as it is known today. Tata Group currently has 96 subsidiaries and is India's largest company and produces or do business with almost everything from tea to airlines. During the 150 years that the Tata Group has existed have almost all the chief executives been from the Tata family. The current president is Ratan Tata and has been since 1991. The most famous titles in the Tata Group are Tata Steel (TISCO) and Tata Motors which owns brands such as Jaguar and Land Rover (Tata group, 2009)

When looking into the economical situation of India there is a need to understand the Tata Group’s project with the Nano car, which is an Indian produced car that is known all over the world. When the Tata Group launched the Nano car project the Group encountered a great deal of complications and struggles. This story will be addressed further in this essay and the question that we will raise is that if it is so complicated for a noble and honorable family like the Tata’s who has done business for generations and have dealt with many hurdles; how should then a foreign company be able to handle these hurdles?

“Ratan Tata looked at the families who drove two-wheelers - the father drove the scooter, his young son or daughter standing in front of him, his wife sitting on the back with a small child in her arms. It made him think whether it is possible to create a safe, inexpensive, all weather vehicles to transport such families.” – (IKEA India, purchaser, personal communication, 2009)

As the quotation above indicates came Ratan Tata’s idea of the Nano car when he went out and drove on one of India's many roads. The car is in its structure very simple and lacks many parts such as airbags and power steering as other modern cars have as standard equipment today. What, however, makes the car unique is the price. The car costs about 1,600 Euro and is a vehicle for the whole family, as all people should be able to afford. According to our respondents the Nano project was very prestigious. They believe that this car will be known throughout the world and will bring India on the map when it comes to innovation and engineering.

West Bengal and its problems

“Tata probably got a lot of benefits placing the factory in West Bengal, like tax reduction, maybe cheap land etc. But it turned out not working anyway. This event must be an example for other big companies that these states hasn’t a good investment climate.” – (IKEA India, purchase manager, personal communication, 2009)

The reason, according to the respondents, why Tata Motors wanted to put up the Nano car factory in West Bengal was that Ratan Tata wanted to give something back to society by supporting one of the poor parts of India. The company also wanted to position themselves close to the raw materials needed to produce the Nano car. One reason that other companies have failed to establish themselves in West Bengal is because West Bengal is considered as a state that is politically influenced of communism. Although other companies had tried to start up a business in West Bengal and failed, Ratan Tata believed that he would succeed.
Another reason why the Tata group located the factory in West Bengal may have been according to our respondents that the company had enormous benefits from the state to place it there. When such a large group wants to place itself in a state it is not particularly difficult to negotiate such benefits. Another advantage for the state would be the suppliers to Tata Motors, which also probably would have become established in the state. Often, these large companies create a cluster and this could create huge employment opportunities for the people.

The fight of the land

“Tata Motors chairman Ratan Tata today said that he was moving the Nano project out of Singur because of the agitation by the Trinamool Congress, led by Mamata Banerjee, and not because of any failure on the part of the West Bengal Government.” – (Swedish export council employee, personal communication, 2009)

The State Service officers who had tried to attract Tata Motors to the state had promised the Tata Group that they would get the land they needed to build its cluster. The problem was that the farmers did not accept the payment they received, but was still driven away from their homes. When the opposition with Mamata Banerjee in the front realized that the farmers reacted strongly against that reading, the opposition also began to attack the Tata Group with the statement as to how the farmers were ignored in the state and demanded that the Tata Group would return the 400 acre land which they had taken from the farmers. During one and a half year the conflict went on between the farmers and the Tata Group and Tata spent billions on separate plants in West Bengal until Ratan Tata finally gave up and moved from the state. Some of our respondents believe that even though Ratan Tata had invested a lot in the state he did the right decision when moving from West Bengal. Many of our respondents also believe that what can be learned from the Ratan Tata story is; that if Ratan Tata isn’t able to start up a factory in West Bengal, how can others succeed?

The move

“Ratan Tata was caught in a political cross fire. India has always been agriculture based economy but during the last years it has changed into a service based economy. When you change into Industrial setups you will have to take agriculture land. So this problem will come up in India for a long period of time, because this is the primary use of land so far. Tata got aligned to the government, too much probably, there was some ego involved as well. If it had been another industrial manager it could have worked out, because I think it was Tata’s pride that also held him back to go to the opposition trying to solve the problem. He didn’t please the opposition.” – (IKEA India, purchaser, personal communication, 2009)

All of our respondents say that they believe that the people and parties in West Bengal realize that they lost a huge project. When it became known that Tata Motors would move from West Bengal stood most of the Indian states on queue trying to attract Tata Motors to just their state. But according to our respondents, it was only one state that could offer a good suggestion for the Tata group in just seven days and it was Gujarat. With that respondents believe that this demonstrates the strength of the Gujarat state.
## Appendix 2: Interview guide

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<th>Question</th>
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<tr>
<td>What is your position on X and what is your area of expertise?</td>
<td>General</td>
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<td>What is the society’s opinion towards FDI in India?</td>
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<td>How is FDI seen today compared historically and how do you think it will be looked upon in the future?</td>
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<td>What is your personal opinion about FDI in India?</td>
<td>FDI</td>
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<td>Which states would you say are more or less actively searching for new FDIs?</td>
<td>FDI</td>
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<td>What bureaucratically issues exists during an establishment process? Could you give any examples?</td>
<td>Political</td>
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<td>Does any political hurdle exist and if so where lay the hurdles and how could these become a problem?</td>
<td>Political</td>
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<td>Is there any political party who is more in favor towards foreign companies? Why is that?</td>
<td>Political</td>
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<td>What kind of issues exists in India when it comes to security and safety stability?</td>
<td>Security &amp;</td>
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<tr>
<td>Is there any part of India that you would not recommend or should be avoided because of security matters?</td>
<td>Security &amp;</td>
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<tr>
<td>How can a company create a safe and stable environment for their co-workers and factory?</td>
<td>Security &amp;</td>
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<tr>
<td>How are the border relations between India and Pakistan, China and Bangladesh?</td>
<td>Security &amp;</td>
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<td>What are your thoughts about corruption in India today and can you compare it to the past?</td>
<td>Corruption</td>
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<td>What kind of corruption exists and which kind are more common than others?</td>
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<td>Have you been exposed of corruption? Could you give an example?</td>
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<td>What are your thoughts about IKEAs anticorruption policy and what is your experience of it?</td>
<td>Corruption</td>
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<td>How would you describe the best way of solving corruption issues?</td>
<td>Corruption</td>
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<tr>
<td>Question</td>
<td>Topic</td>
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<tr>
<td>Is corruption more spread in some states than others, that you know of? Which ones? Why do you think that is?</td>
<td>Corruption</td>
</tr>
<tr>
<td>How do you look upon India’s infrastructure?</td>
<td>Infrastructure</td>
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<tr>
<td>What would you say are the pro and cons when it comes to India’s infrastructure?</td>
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<tr>
<td>Is there any difference between the infrastructures on state level? Could you give any example?</td>
<td>Infrastructure</td>
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<tr>
<td>What ports are important for your company today and which ones do you think will be important in the future?</td>
<td>Infrastructure</td>
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<tr>
<td>Where are your factories placed today in India and have you taken into account how provided you are with electricity and water supply?</td>
<td>Electricity &amp; water</td>
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<tr>
<td>How can a company create a safe environment when it comes to constant electricity and water supply?</td>
<td>Electricity &amp; water</td>
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<tr>
<td>India has problems in different states with power supply, how do you believe India is going to manage the electricity problems in the future?</td>
<td>Electricity &amp; water</td>
</tr>
<tr>
<td>The Indian government has put a lot of efforts into SEZ developments, what is your experience of these zones? Could you give any examples?</td>
<td>SEZ</td>
</tr>
<tr>
<td>What is your own opinion about the SEZs?</td>
<td>SEZ</td>
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<tr>
<td>What are the pros and cons regarding the SEZs? Could you give any example for both domestic and export companies?</td>
<td>SEZ</td>
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<tr>
<td>Do you think that the SEZs are of importance when considering an establishment in the country? Why/ Why not?</td>
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<tr>
<td>How does your company work with establishing good network connections?</td>
<td>Network</td>
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<td>What kind of networks are of importance in India?</td>
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<td>The need for a trustable and creative network is vital, how do you look at the possibility to create such a network for a foreign company in India?</td>
<td>Network</td>
</tr>
<tr>
<td>How is the best way to go when creating a trusty and healthy relationship with another company in India?</td>
<td>Relationship &amp; trust</td>
</tr>
<tr>
<td>Is trust an important factor for your company when dealing with other companies, if so why?</td>
<td>Relationship &amp; trust</td>
</tr>
<tr>
<td>How would you describe your relationship with IKEA, and how do your businesses work to improve this relationship?</td>
<td>Relationship &amp; trust</td>
</tr>
<tr>
<td>Question</td>
<td>Category</td>
</tr>
<tr>
<td>------------------------------------------------------------------------</td>
<td>----------------</td>
</tr>
<tr>
<td>How do you look upon the cultural differences between Europe and India?</td>
<td>Culture</td>
</tr>
<tr>
<td>What is the pro and cons with different cultures in a company?</td>
<td>Culture</td>
</tr>
<tr>
<td>How can a company overcome the culture boundaries here in India?</td>
<td>Culture</td>
</tr>
<tr>
<td>What do you think can be the biggest problems for European companies when they come to India?</td>
<td>Culture</td>
</tr>
<tr>
<td>Which states, based on the variables, would you recommend when making an investment and which states would you not recommend?</td>
<td>Location analysis</td>
</tr>
</tbody>
</table>
Appendix 3: Map of India
## Appendix 4: The respondents

<table>
<thead>
<tr>
<th>Company</th>
<th>Position</th>
<th>Time</th>
</tr>
</thead>
<tbody>
<tr>
<td>IKEA IOS Älmhult</td>
<td>Vice President</td>
<td>1 hour</td>
</tr>
<tr>
<td>IKEA IOS Älmhult</td>
<td>Senior Business Developer</td>
<td>1 hour</td>
</tr>
<tr>
<td>IKEA IOS Älmhult</td>
<td>Business Developer</td>
<td>1,5 hours</td>
</tr>
<tr>
<td>IKEA IOS Älmhult</td>
<td>Textile Expert</td>
<td>1,5 hours</td>
</tr>
<tr>
<td>IKEA trading service AB</td>
<td>Senior Business Developer</td>
<td>1 hour</td>
</tr>
<tr>
<td>IKEA trading India</td>
<td>Material &amp; Production Manager</td>
<td>1 hour</td>
</tr>
<tr>
<td>IKEA trading India</td>
<td>I-Way &amp; Q-Way Manager</td>
<td>1 hour</td>
</tr>
<tr>
<td>IKEA trading India</td>
<td>Manager of Cotton forming projects</td>
<td>1,5 hours</td>
</tr>
<tr>
<td>IKEA trading India</td>
<td>Purchasing Manager</td>
<td>2 hours</td>
</tr>
<tr>
<td>IKEA trading India</td>
<td>Global Category Leader - Purchase Development</td>
<td>1 hour</td>
</tr>
<tr>
<td>IKEA trading India</td>
<td>Business Development Manager - Metal</td>
<td>1 hour</td>
</tr>
<tr>
<td>IKEA trading India</td>
<td>Purchaser - Lightning</td>
<td>2 hours</td>
</tr>
<tr>
<td>IKEA trading India</td>
<td>Purchaser - Metal</td>
<td>1 hour</td>
</tr>
<tr>
<td>IKEA trading India</td>
<td>Finance Manager &amp; Purchaser - Textile</td>
<td>30 min</td>
</tr>
<tr>
<td>IKEA trading India</td>
<td>Trading Manager for South Asia</td>
<td>1 hour</td>
</tr>
<tr>
<td>IKEA trading India</td>
<td>Purchaser - Textile</td>
<td>1 hour</td>
</tr>
<tr>
<td>IKEA trading India</td>
<td>Manager</td>
<td>2,5 hours</td>
</tr>
<tr>
<td>IKEA trading India</td>
<td>Supply Development</td>
<td>1,5 hours</td>
</tr>
<tr>
<td>IKEA trading India</td>
<td>Transport Manager &amp; Material Area Manager</td>
<td>2 hours</td>
</tr>
<tr>
<td>IKEA Textile supplier</td>
<td>President &amp; Vice President</td>
<td>2 hours</td>
</tr>
<tr>
<td>IKEA Textile supplier</td>
<td>CEO &amp; Managing Director</td>
<td>1 hour</td>
</tr>
<tr>
<td>IKEA Metal supplier</td>
<td>President &amp; Managing Director</td>
<td>3 hours</td>
</tr>
<tr>
<td>IKEA Metal supplier</td>
<td>General Manager</td>
<td>2 hours</td>
</tr>
<tr>
<td>IKEA Metal supplier</td>
<td>General Manager</td>
<td>1,5 hour</td>
</tr>
<tr>
<td>IKEA Lightning supplier</td>
<td>President &amp; Managing Director</td>
<td>2 hours</td>
</tr>
<tr>
<td>IKEA Lightning supplier</td>
<td>Chief Executive</td>
<td>1 hour</td>
</tr>
<tr>
<td>IKEA Wood supplier</td>
<td>Managing Director &amp; DGM Admin</td>
<td>1 hour</td>
</tr>
<tr>
<td>Sandvik Asia LTD</td>
<td>Vice President</td>
<td>3 hours</td>
</tr>
<tr>
<td>Ericsson India</td>
<td>General Manager</td>
<td>2 hours</td>
</tr>
<tr>
<td>Swedish exportcounsil India</td>
<td>Head of Swedish export council in India</td>
<td>2,5 hours</td>
</tr>
</tbody>
</table>