

Location factors of Finnish firms in India's three business regions

Erja Kettunen, Anu Penttilä, Riitta Kosonen
Aalto University School of Business
Center for Markets in Transition (CEMAT)

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1 Introduction

“India is like a continent. There are many different nationalities and languages and religions and cultures. You cannot take India from one location.” (Fin 2)

India is the seventh-largest country in the world by geographical area, and the second biggest by population. The nation's identity and social structure are based on a rich cultural heritage that dates back at least 5,000 years and makes India one of the oldest civilizations in the world. India is known for its huge, young and widely English-speaking population that potentially provides a vast pool of labour force for foreign companies operating in the country. However, India is also recognized for its regional diversity in terms of religions, languages, customs and ethnic groups that shape the country into a mosaic of potentially diverse business cultures. In addition, being a federal state, the individual Indian states have diverse political systems, governments, administrations, and investment policies that affect the businesses, both local and foreign.

The growth of the Indian economy has been partly spurred by a rapidly growing foreign trade and international investments. Also Finnish firms are increasingly investing in different parts of India, and the stock of Finnish direct investments in India has grown over 20-fold during the last decade. Considering foreign investors, including Finnish ones, the regional variation of the Indian economy is an interesting aspect. What are the factors that drive firms to invest in specific locations? How do companies choose between various potential localities, and what criteria are used in location decisions? In previous literature on the attractiveness of particular locations for businesses, the explanatory factors have been grouped under three main categories: production costs, local markets, and policies of the host government (see e.g. Dunning & Lundan 2008, 324). Some have also added barriers to trade as a fourth factor (Hood & Young 1979). These factors are assumed to be crucial in Finnish firms' decisions to invest in particular locations in India, and are considered in this paper.

In this vein, this study focuses on the factors behind the companies' location decisions and the regional differences that they find when operating in India. The emphasis will be on three main business centres; Delhi and its surroundings, the Mumbai region, and South India (see Map 1 in the Appendix). For many Finnish firms, Delhi is the natural administrative center due to its status as a national capital, whereas Mumbai is a business center where India's most important stock exchange

is located, while also being famous for its cultural industry. South India has an agglomeration of e.g. information technology (IT) and related industries, including Finnish ones.

As to research design, the study employs a longitudinal qualitative analysis that is made to point out the aspects that the companies have indicated as significant in their location decisions in the different Indian regions. The primary data consists of interview records from the database of the Center for Markets in Transition, Aalto University School of Business. The original interviews were conducted between 2007 and 2010 and deal with e.g. investment motives and the challenges that companies face in their relations with the state, other companies and labour force in India (see Korhonen et al 2008). For the paper, data on location decisions were picked from the database.

The data source consists of altogether 24 interviews of which 17 were made with Finnish managers and 7 with Indian managers of Finnish firms established in India in various industries. Table 1 below presents the regional distribution of the respondents; several respondents commented more than one of the selected regions. Interviews were conducted either face-to-face, or over the phone, in Finnish or English based on the interviewee's nationality. The semi-structured open-ended interviews allowed the respondents to identify key issues in the companies' location decisions in India. Interviews were tape-recorded, transcribed word for word, coded by key words, and stored in the database. All data was handled anonymously. In addition, secondary data such as statistics and various economic reports were used as supplementary information.

Table 1. The number of interviewed persons, by industry, commenting each region.

Industry	Delhi and NCR	Mumbai region	South India
Electronics	2		1
ICT	2	2	1
Engineering	3	3	3
Services	9	9	9
Paper	1	2	-
<i>Total *</i>	<i>17</i>	<i>16</i>	<i>14</i>

* Altogether 24 persons were interviewed, of whom 15 commented more than one region

As in qualitative analysis in general, the data reduction process involved the coding of the interview material, i.e. breaking it down into discrete chunks (Malhotra & Birks 2006). Analytical categories were produced from the respondents' statements, and findings were grouped according to relevant

categories. While the companies represent various ownership structures and industry branches, we do not elaborate on sectoral differences, but rather, focus on host country specific issues.

This paper is structured as follows: in the next section, we briefly discuss the business environment in India at the national level, its economic structure, as well as the three major business regions selected for the study (chapter 2). Then we present, based on the company interviews, the factors that Finnish firms have indicated as crucial in their location decisions in the three main regions (chapter 3). Finally, we discuss the findings, and elaborate on the similarities and differences between the three regions (chapter 4).

2 Business environment in India

Administratively, India is divided into 28 states and 7 union territories. The most important areas for industries are in the South (cities of Bengaluru, Chennai and Hyderabad) and in the West (Mumbai). Also New Delhi in the North is an important area as the capital city. The states and union territories have some level of independency in legislation, such as in policies regarding foreign direct investments.

2.1 Formal business environment

The legal system in India is based on English common law which, for Western companies, is a potentially familiar basis of legislation. There are separate personal law codes applicable to Hindus, Muslims and Christians, however. Legislation concerning labour is relatively strict, being originally designed to protect employees by regulating withdrawal from the market. Labour laws form a complicated net and the implementation of the legislation is incomplete. While the government has tried to implement reforms, various political bodies and lobbying groups resist any worsening conditions of employment, and strikes and demonstrations are common. The strict labour legislation concerns industrial companies, in particular, and it is very difficult for industrial firms with large personnel e.g. to lay out employees. This does not apply in the service sector, however. (Finpro 2009) Also Special Economic Zones (SEZ) can have exemptions from the labour law.

The Indian business environment is generally considered difficult regarding legislation, bureaucracy and foreign trade, as shown in Table 2 below. For example, it is very difficult to enforce contracts, deal with construction permits or start a business in India, when compared with other countries. India's overall ranking as to the ease of doing business is 132nd among the total of 185 countries. Hence the score is worse than for the other so-called BRIC countries, i.e. China (91st), Russia (118th) and Brazil (128th). However, in two aspects India ranks well: it is reasonably easy to get credit, and the protection of investors is at a relatively good level. In all other aspects, India's rankings are lower than average in comparison to other countries.

When India's various regions are compared, the differences between the main cities as business environments are obvious. In the latest ranking in 2009, the city of New Delhi was ranked as 6th among a total of 17 Indian cities, while Mumbai was 10th. In addition, the Southern Indian cities Bengaluru and Chennai were ranked relatively low, 13th and 15th, respectively. There are various reasons for these results. For example, New Delhi's good standing is based on the ease of starting a business - which is regarded as the best among the 17 cities - as well as the ease of dealing with construction permits, registering property and taxation. In contrast, Bengaluru has very low scores as regards starting a business and enforcing contracts, and Chennai as regards taxation and registering property. Mumbai stands in the middle of these two ends: it performs very well in foreign trade, taxation and registering property, but has a low ranking in how firms need to deal with construction permits and to enforce contracts.

Table 2. Ease of doing business in India, rank among 185 countries.

	Rank in 2012
Starting a business	169
Dealing with construction permits	183
Getting electricity	99
Registering property	97
Getting credit	23
Protecting investors	46
Paying taxes	149
Trading across borders	125
Enforcing contracts	184
Resolving insolvency	109
Overall rank	132

Source: World Bank 2012

The Indian economy has been gradually opened for foreign investors after a series of reforms since 1991, and basically, inward foreign direct investment (FDI) is supported by the central government. Foreign investments are vital for the economic growth of India e.g. in infrastructure development, because the government cannot afford to do this without private investors. The central government has set laws to regulate foreign investments, but the states can decide on incentives they are willing to offer to attract foreign investors.

The gradual liberalization of inward FDI means that nowadays up to 51 % foreign ownership is automatically allowed in all areas in India, and up to 100 % in Special Economic Zones. Investments in the energy sector are encouraged by allowing 100 % foreign ownership, and by providing a fastened and simplified service for investors in the so called “build, own and operate” (B.O.O.) projects. Also many industrial sectors have been opened for 100 % for foreign investors, such as electronics. In telecommunications, 74 % foreign ownership is allowed, except in space and defence technology.

Some other sectors remain under heavier constraints, yet are partially opened, such as investments in retail trade, banking and insurance. In retail trade, as an exception, 51 % foreign ownership is allowed in international single brand products. Services and infrastructure have traditionally been subject to heavy government intervention, but have been opened for private sector and for FDI. Investments in business services in IT-related businesses and consultancy services are allowed. Even the defence sector has been opened for 26 % foreign ownership.

In contrast, wholly forbidden businesses are nuclear power, certain financial services, gambling and lottery games. Agriculture sector is partly prohibited. Licences are needed in investing in public sector companies, small and medium-sized enterprises (SME) and industries with strategic, social or environmental effects.

As for taxation, the marginal tax rates are high: local companies pay totally 33 % of income, and foreign companies 42 %, although the statutory corporate income tax rate is 35.9 %. Personal income tax varies between 10 % and 31.5 %, but the tax base is relatively narrow with 40 million tax payers. The system is highly dependent on indirect taxes (Poirson 2006). The gross domestic saving rate was 32.5 % of GDP in 2008-2009, mainly saved by households.

2.2 Economic structure

According to latest available data, the value of India's total gross domestic product (GDP) was 1.8 trillion USD in 2011. The economic structure of India is reflected in the breakdown of the total production: services form 59 %, industrial production 25 %, and agriculture around 16 % of the annual GDP (Ministry of Finance 2012). The biggest sector, services, has been growing fast in recent years. Trade, hotels and restaurants, transport storage and communication, financing, insurance, real estate and business services as well as construction sector have grown at double-digit rates since 2005. A new fast-growing sector is community, social and personal services, reflecting the expansionary fiscal policy of India. (Ministry of Finance 2009)

The share of industrial production, 25 % of total GDP, is expected to grow, although growth has been unstable because of the lack of inexpensive loans and the constraining labour laws. India's most important industries are textile, chemical industry, food processing, steel, transportation equipment, cement, mining, petroleum, machinery, software and pharmaceuticals. The main industrial products are steel, aluminium and electronics. In recent years, the most rapidly growing industries have been textiles, base metals and alloys, and vehicles. Heavy industry is still largely owned by the state, with inefficient and unprofitable companies that would need massive restructuring.

Regionally, industrial production is somewhat concentrated to certain states in South and West India, especially Maharashtra, Gujarat, Tamil Nadu and Karnataka. Together these four states produce around half of the value added of industrial production in India. While also Central and North India encompass some significant industries, the most Northern tip of India and Northeast India have less industrial production. (Ministry of Statistics and Programme Implementation 2010)

In terms of regional distribution, some industries are more concentrated than others. Extractive industries such as iron and steel, cement, lime and plaster are highly agglomerated in the regions with abundant raw materials available. In the case of coke, refined petroleum products and nuclear fuel, which together form the most important individual industrial sector comprising 16 % of all industrial output, half of the total output of the industry is produced in West India, in the states of Gujarat (31 %) and Maharashtra (21 %). Similarly, the chemical industry that forms a significant share of India's industrial value added is largely located in West India in the states of Gujarat

(30 %) and Maharashtra (18 %). Further, textile and apparel industries are mostly clustered in the state of Tamil Nadu, whereas rubber products are mainly produced in Kerala and Delhi. Pharmaceutical industry is agglomerated in the states of Maharashtra and Gujarat, whereas motor vehicles are produced in Maharashtra (28 %), Tamil Nadu (24 %) and Haryana (20 %). In contrast, the basic metals industry is more widely spread, and the largest producers in the basic metals industry are located in the middle of India, e.g. in the state of Maharashtra (16 %), as well as several other regions. (Kathuria & George 2007, Ministry of Statistics and Programme Implementation 2010)

Agriculture forms 16 % of GDP, but it is the largest employer of the work force. Indian agriculture is still very much dependent on the monsoonal rainfall, and its productivity is low. While structural change has lessened the Indian economy's dependence on agriculture, India is still one of the largest foodstuffs producers in the world. It is the largest producer of milk, pulses, sugarcane and tea, and the second largest producer of rice, wheat, fruits and vegetables. Because of its aim to be self-sufficient in foodstuffs, India exports relatively little of its production; for example, only a few per cent of fruits and vegetables are exported. Moreover, as much as 30 % of the crops are wasted during transportation - due to the poor condition of infrastructure - before the product ever reaches the domestic market. (Finpro 2009)

2.3 Three major business regions

India's economic activity is regionally concentrated in the major growth centres. The three regions selected for the study are delineated as follows:

- The National Capital Region (NCR), including the city of New Delhi in the state of Delhi, as well as four surrounding metropolitan areas;
- Mumbai region, including the city of Mumbai in the state of Maharashtra, and its neighbouring state of Gujarat;
- South India, including the cities of Bengaluru in the state of Karnataka and Chennai in the state of Tamil Nadu, as well as the state of Andhra Pradesh.

The delineations are based on the importance of the regions for Finnish businesses, and do not necessarily follow the formal administrative boundaries or geographical definitions of Indian regions. The selected regions are further characterized below.

2.3.1 The National Capital Region

The National Capital Region comprises of New Delhi and four major industrial metropolitan areas surrounding it. The population of Delhi's urban agglomeration is estimated to be 12.9 million people (in 2008), and the whole national capital territory is estimated to have a population of 17.1 million people. For decades, Delhi has received a significant number of immigrants annually due to the influx of Hindu refugees since the partition of Pakistan from India.

The National Capital Region is the second largest recipient of foreign direct investments in India, after Mumbai, receiving 21 % of all FDI. The state of Delhi and its neighboring state of Haryana are considered relatively liberal in terms of product market regulation (Conway et al 2008). The government of Delhi has set environmental and space constraints to lure industries producing high-value added high technology in low volumes. The region is an agglomeration for various types of industries and manufacturing. For example, the bulk of Indian vehicle production is concentrated in the Delhi region. Also electronic industries, pharmaceuticals, and food industries are largely located in the region. According to available data, around 27 Finnish companies are located in the region, representing various industries.

2.3.2 Mumbai region

The city of Mumbai and the region surrounding it is considered a major business hub in India. Together, the states of Maharashtra (where Mumbai is located) and Gujarat (where the city of Ahmedabad is located) form one fifth of the total Indian GDP, making them significant players in the national economy. Historically, the areas of the current Maharashtra and Gujarat have belonged to the same administrative or functional region at several times in history, and were separated into two states in 1960.

The Mumbai region is important in India's economic history. In Maharashtra, industrial production in the 1960s was largely dominated by consumer goods. However, national economic policies steered the state to gain a prime position in India's industrialization in the 1970s, and a variety of industries were pushed to grow in Maharashtra, supported further by the reforms in 1991. Nowadays, intermediate goods dominate the industry composition, while the significance of consumer goods has decreased. Major industries today include chemical industry, electrical and

non-electrical machinery, textile industry, petroleum and allied industries and information technology. The diversity of the industrial structure of Maharashtra also includes metal, wine, jewellery, pharmaceutical, engineering, machine tools, steel and iron casting as well as plastics industries, which are significant for the state economy.

Also Gujarat is among the most industrialized states in India, as its level of industrialization (38 %) is well above the national average, and even higher than in Maharashtra (28 %). Industrial activities form the backbone of the economy, and industry forms as much as 41.5 % of Gujarat's GDP, the most important sectors being chemicals, pharmaceuticals and textiles. Industries locate typically in the southern part of the state.

Around 27 Finnish companies representing various industries are established in the two states. The majority of those in Maharashtra are located in the largest cities: Mumbai, Navi Mumbai and Pune. Those in the state of Gujarat have more varying locations.

2.3.3 South India

Two major business regions in South India are the cities of Bengaluru (Bangalore) in the state of Karnataka, and Chennai in the state of Tamil Nadu. Both of them have developed into relatively specialized industrial hubs. Until the 1970s, Bengaluru was known as the "Pensioners Paradise", pleasant to live in and profiled as a city of retirees (Swaminathan 2009, 17). The situation changed a decade after, when Texas Instruments started the trend of offshoring software coding work in India. For this, the company needed telecommunication connections, and Bengaluru was chosen as the location to build the infrastructure. In the 1990s, however, the inadequate supply of connections turned as a bottleneck to foreign companies' establishments, as it could take years to get a simple landline connection. The technical solution to this was to start to collect and transmit signals via wireless radio waves and to beam them via satellite to Europe, and further via submarine cables to the US. After the problem was solved, a large number of foreign companies started their offshore operations in Bengaluru. The operations have spread from software coding to other types of production and services, such as call centers, medical billing and insurance claims processing. Today, over 1,200 foreign companies have offshore operations in the city, which has been named as "the Silicon Valley of India".

Similarly, Chennai has evolved as a specialized industrial region for car production in India. It is said that at the eve of India's industrialization, the nation's first Prime Minister Jawaharlal Nehru persuaded an industrialist to establish a company for automotive manufacturing in Chennai. The factory produced buses and other vehicles for the domestic market. The Indian automotive industry was protected by high trade barriers, notably import tariffs, to diminish foreign competition in car manufacturing and related industries. The sector was also supported by port facilities and the abolition of the so-called License Raj in 1990,¹ after which several car manufacturers got interested in the area. Also other kinds of industries were attracted to the city. Nowadays, the state of Tamil Nadu is considered relatively liberal in terms of product market regulation.

Around 35 Finnish companies are located in South India, many in IT related industries and being follow-source subcontractors. Several of them have more than one office in the region: around 24 offices are located in the state of Tamil Nadu (of which 20 in Chennai), and 19 in the state of Karnataka (mostly in Bengaluru). Many of the firms moved to Chennai after the mobile phone manufacturer Nokia had established a SEZ there. According to a Nokia representative, Chennai was chosen because the state of Tamil Nadu was able to offer the best combination of incentives and practical functionality in India. The state offers, for example, single window facilitation for investing companies (Government of Tamil Nadu 2010b). In contrast, while the city of Hyderabad is a growing information technology center, only six Finnish firms have established an office there; four Finnish companies have established office in the state of Kerala.

3 Location factors of Finnish firms in India

"You have to consider India as a continent, not a country. And it means you need to seek your own India: which corner of the country would be the smartest place to locate in? After that, you can search for the actual factory site." (Fin 9)

In what follows, the views of the India-based Finnish companies are presented based on the interviews with the company managers. The focus is on the factors that the respondents found the most significant in their firms' location decisions inside India. While India is very diverse because

¹The system of License Raj was a part of the Indian planned economy, and refers to the licenses and regulations that were required to set up businesses in India in 1947-1990.

of the political, administrative and cultural differences between the various states, also the sheer geographical size combined with relatively weak infrastructure makes the country more of a collection of smaller entities. The inadequately functioning connections between the various parts of the country enhance this perception. Because of this, many of the interviewed Finnish companies consider they must be present in several Indian locations to cover the whole market. *"You need to have at least North, West and South, so you need from three to four bases [in India] in the long run."* (Fin 2) The decision on where to establish an office or a factory is complicated, and several criteria are used. *"It's about the demand focus, it's about whether work force is available and how qualified it is, and about the political factor in the sense how easy or difficult it is to operate locally. And all the infrastructural issues. No doubt, there are 15-20 criteria."* (Fin 4)

According to our findings, the companies have four major reasons to set operations in a specific place in India. These are the proximity to customers and the partner company, the availability of investment incentives, the level of infrastructure, and the availability of qualified work force. These location factors are presented in more detail below. Finally, also the main barriers to investments are discussed.

3.1 Proximity to customers and partner companies

Most Finnish companies have entered India because of its market, not because of its role as a cheap production base. This is in contrast to the traditional investment motives of Finnish firms in some other emerging markets, such as China. In India, the companies often select the location by considering where the customer base is. Many Finnish firms have established in India because of its vast market - the size of the current market and future expectations. *"We went to India, actually, [...] only because we believed and knew that the Indian market has a much larger potential than we would be able to take advantage of operating from outside of India."* (Fin 2)

In this vein, the most important criterion for Finnish companies' location decision is the relation to other companies in India, especially to customers that define the demand base. This concerns all the three studied regions. Foreign companies, including Finnish ones, tend to agglomerate in large cities. *"Main customer base is in Bengaluru, Chennai, Kolkata, Delhi and Mumbai itself. [...] I could say 90% of our customer base is only these five cities."* (Ind 5) Also regional agglomeration of business fields affects the decision making, as does the location of a local partner, in cases when

Finnish companies have decided to proceed with one. The proximity to customers applies especially to the sales function of companies, but is, overall, the most emphasized issue in the interviews of Finnish companies. *"We have to see where the industries [of our sector] are located. [...] These kinds of factories are established in the region where the customer base is found."* (Fin 1)

Demand directs foreign companies to locate in different parts of India, as over the decades, certain kinds of industries have concentrated into certain locations. *"The geographical placing [of our unit] is simple because the majority of business comes from ports."* (Fin 3) Companies – both foreign and domestic – have to some extent divided regionally according their line of business and the hubs of industrial clusters in India. *"The largest concentrations in terms of foreign investment are either near Delhi, in Mumbai region, in Chennai region, in Bangalore region or in Hyderabad region. [...] There are some differences [between them]."* (Fin 9) For example, a hub of heavy metal and steel industry can be found in Northeast India. *"If you look at India geographically [...] there are certain agglomerations. Clusters of heavy metal, engineering and machinery industries, they are in the region of Kolkata. It originates from the industrial exports to the Soviet Union. It has been geographically easy to export there."* (Fin 1)

Since many Finnish companies provide capital goods, the strongest demand for them is found in states either with a need to improve the weak infrastructure or where natural resources are abundantly available. Infrastructure projects create demand for capital goods, such as construction equipment to build the infrastructure. *"We of course have offices in the strategic ports and in such localities where the power plant business can be operated."* (Fin 5) Similarly, exploiting natural resources requires usually capital goods, such as equipment for extraction industries that can be provided by the companies.

Sales function is usually located as close to the customers as possible. If a company is not able or willing to set up an extensive sales office network, it can reach its customers also by having resellers in various parts of the country. A reseller network is a usual way to increase the company's presence in the Indian market before setting up own business. *"It is clear that a few people's sales office in New Delhi [...] cannot sell to the whole country, so we are dependent on having suitable resellers around India."* (Fin 2)

In some business fields, the Indian market is only emerging. Because Finnish companies typically offer products and services in high technology and often including innovative solutions, sales may

grow slowly at first. “[Our business] concept [...] is unheard in India; it is taking time to close the deal with customer.” (Ind 3)

Also, the location decision has been in several cases determined by the site of a local cooperation partner. This may refer to the domicile of an Indian person who has become either a partner or possibly an employee for the Finnish company. Or, the partner may have been found through the acquisition of a local company or facilities. “We got the Pune office through an acquisition. Now, we have just bought another company in Hyderabad. However, we did not plan to go to another city as such, because we already had a ready-made organization [in Pune] that had globalized its operations [...] and was easy for us as a global player.” (Fin 8)

3.2 Investment incentives

States in India have varying attitudes towards foreign companies which is manifested e.g. in the variety of investment incentives and the level of bureaucracy. “There are some differences between the states [of India] - some are clearly more approving for foreign investors than others. They give more help and facilitate the investment.” (Fin 9) Especially the Delhi region is emphasized in this regard. Sometimes investment incentives, such as easier taxation, may become decisive in companies’ location decision, and even in forming a cluster of companies in a region. “The tax break has become a major attraction for the companies to shift manufacturing base in these towns, making the area all the more important for us. It has all the target industries in vicinity.” (Ind 3)

Many states have established Special Economic Zones offering attractive incentives such as tax benefits in terms of income tax holidays, duty free policies and tariff exemptions as well as direct investment subsidies. “One criterion was where to find duty free zones, special economic zones. [...] So far our operations have been so small that we cannot establish our own SEZ, as it would require a bit more resources.” (Fin 1)

Usually, SEZ also offers functional infrastructure, such as continuous electricity supply and functional road network. Large companies consider the availability of Special Economic Zones as one location criteria, as they enable significant cost reductions. Many large companies that are establishing production in India do not even consider options outside the SEZs. In contrast, small and medium-sized companies may think that these zones require too much resources from the

company, as the companies may have to participate in constructing roads and social facilities in the SEZ. Instead, small and medium-sized companies may find a suitable location near a large customer company.

As the states of India can determine certain taxes by themselves, they use them to gain competitive advantage in comparison with other states. However, not all states take into account of the interest of foreign investor. *"There are large differences how they handle taxes, for example. [...] Changes at the local level may influence the conditions of the investment. This happened to us, and we had to reconsider our investment."* (Fin 4)

The choice of location may become more difficult in cases when several options are feasible for an individual company. Here, the incentives provided by the local state may be crucial. *"...states attract foreign capital in different ways. And the time required for you to get all licenses and documents to run the business - there are differences as well. The reaction time of the bureaucracy, it's a surprisingly important factor, too."* (Ind 1)

3.3 Level of infrastructure

Since the quality of infrastructure in India in general is rather weak and regional variations are significant, it becomes an important criterion for the firms in choosing their location inside the country. *"Logistics is rather challenging in India."* (Fin 4) Functional transportation capacity is vital for many Finnish firms that produce investment goods. Depending on the business field, they require functioning roads, airports, ports and information networks. Similarly, production processes need continuous supply of power. There are significant differences between the regions, and companies find that infrastructure is generally better in Western India than in the National Capital Region, for example.

Many Finnish companies have decided to locate near the infrastructure that their business needs. Transportation between locations in India and abroad is conducted mostly by sea. Thus, companies that need to transport goods inside India choose locations near ports. On the other hand, process manufacturers often choose either to locate in a SEZ or to build their own power supply. As IT and services in general are increasingly important business fields, undisturbed information flow is necessary for the business. Most complete information networks can be found in large metropolises,

such as Bengaluru. *"Near the more developed cities, [...] the infrastructure is better and the set-up is easier to make."* (Fin 10)

Despite the states' efforts to improve infrastructure, the current demand grows faster than investments in new infrastructure. *"As Indian cities have not been built for a large number of cars, for example, it is difficult to move in the city center. In a three-lane road, there are nine cars side by side, so you can imagine what it's like."* (Fin 10) Finnish companies usually face the trade-off between being near to customer in the growth centers with an inadequate infrastructure, or moving further away to a location where infrastructure is at a more reasonable level.

However, the poor level of infrastructure also provides a business potential for some Finnish companies, as the central government and individual states are investing in infrastructure. *"Some of our products relate to infrastructure construction that currently takes place. India as a country, or at the state level, invests heavily in infrastructure for a reason, because, in fact, it is a bottleneck for growth in many states."* (Fin 3)

3.4 Availability of work force

The Indian labour market provides a vast pool of largely English speaking labour force. However, the importance of the labour force as a location factor is quite sector-specific. Some companies operating in e.g. information technology services have established operations in India to gain cost reductions due to the relatively cheap workforce, also among employees with higher education. *"Resource-wise, it's quite easy, so you can get different kinds of qualified people in that place."* (Ind 5) Overall, the availability of suitable labour force is less important as a location factor for the interviewed companies, when compared to other factors described above.

Finnish companies that operate in South India emphasize workforce issues more than those in other studied areas. This is mainly because labour-intensive IT businesses are located in South India. *"[Foreign companies] are partners in our growth journey."* (Ind 3) When India is merely a production site for the company's product, and the main market is abroad, the cost effectiveness rises as a very important criterion. Such companies may consider moving away from major metropolises where wage levels and employee turnover are high. In more remote locations, costs are lower and educated personnel might still be available, yet experienced professionals could be rare.

The interviewed firms tend to localize the workforce and hire as many local employees as possible in their South Indian subsidiaries, because expatriates are expensive. *“We have the whole organizational chain [in India]. There is the sales organization, there is the design organization. In practice, they take full responsibility for the administration, maintenance and development of the product - in cooperation with our design team, of course.”* (Fin 13) Some companies prefer to have Finns or other expatriates in management or expert positions especially during the initial stages of the business operations, such as starting up a factory, or to assure a working communication connection with the Finnish parent company.

The significance of labour unions varies between states. In Special Economic Zones there is virtually no labour union activity, and exemptions to the labour laws are allowed. Generally, Finnish companies do not have disputes or problems with labour unions. *“Our factory is an exception in the sense that quite a large part of our permanent work force is organized under an Indian union of industrial workers. [...] They have shop steward activities and we communicate with them through the union about wages and other issues.”* (Fin 1) In addition, many Finnish companies have taken social responsibility to contribute to the social issues of their local community.

3.5 Barriers to investment: bureaucracy and corruption

In addition to the factors that attract companies to locate in particular places, the interviewees also mentioned two issues that they find all over the country and that basically hinder their eagerness to invest in India. The first is bureaucracy, often referred to as a major problem. *“[India] is very bureaucratic, and it requires an awful lot of work by the local management teams in the different parts of India. There are local political challenges.”* (Fin 4) Bureaucracy is generally heavy and slows down processes concerning e.g. permission and licenses. Some of the interviewees thought that bureaucracy is equally hard all over India, whereas others had the experience that there are some regional variations, especially in SEZs. In general, the problems of the public sector include *“heavy paperwork, lack of transparency, poor e-connectivity, slow response, [and] turnaround time.”* (Ind 3)

The need of a company to be present in multiple locations in India is increased by the fact that selling across state borders includes significant bureaucracy. Because of the very laborious trading procedures between the individual Indian states, some Finnish companies choose several locations. *"The bill needs to be sent from the state where the customer is located. If we are going to operate country-wide, it means we have to have offices in the states we operate in. There is very large bureaucracy between the states. It is almost like going from one country to another."* (Fin 6)

The second barrier to investment is the high level of corruption in the Indian society. Besides the state politics, individual state government members might be interested more in their own benefit than the benefit for the state. *"Corruption at some departments also sometimes results in operational difficulty [for the businesses]. Most MNCs therefore use a lot of extra time to get the work done."* (Ind 4) According to international studies, corruption is widely spread in India, and is especially common among officials and authorities. *"Corruption is worst among politicians, especially state governments and chief ministers. It tends to become self-seeking so that they just try to gather economic benefits for themselves."* (Fin 10)

Individual states may also lose opportunities to draw foreign businesses, as inner politics prevent reforms needed to attract foreign investments. *"India is full of politicking. If the state government and chief minister are weak and do not have business sense, the state does not develop. They cannot get the needed reforms through."* (Fin 10) As India has a democratic political system, the state politics may focus on voter-friendly issues merely, rather than issues considered vital by foreign companies. In addition, due to the immense cultural variety, ethnic and religious groups can end up in political conflicts. *"India has a lot of tension, and there are many ethnic and cultural groups which engage in power struggles."* (Fin 2)

However, one of the earlier business risks in India, international disputes and conflicts, are considered to lose their significance. India's dispute with Pakistan over the Kashmir area is regarded to have gone *"under the carpet"* (Ind 5), so that businesses can continue without a fear of that. Yet, the global political situation may reflect in a potential risk of terrorism in India. The latest attacks happened in November 2008 in Mumbai. *"Another risk factor is the issue of terrorism in India. We are all sincerely hoping that this does not in any way impact the business scenario in our area."* (Ind 4)

4 Conclusions

This paper has discussed India's regional diversity as a business environment for Finnish companies, especially the factors behind companies' location decisions in India's main business regions. India is a mosaic of cultures, languages, religions and political views, and has a rich variety of landscapes, climate types and natural resources that affect the living environment of people and the operational environment of businesses. Economic disparities between individuals and areas are large. The economic conditions in terms of wealth, investment climate and business structure vary considerably, and modern technology co-exists with outdated technologies and manual labor.

Most Finnish companies have their operations in the three growth centers: Delhi and the National Capital Region, Mumbai region, and South India. Only a few Finnish firms operate outside these growth centers. The three regions are often considered the most important market areas, and Finnish firms follow the patterns of industrial specialization in the various regions. For example, IT companies especially in South India often produce for the global market and tend to have India as a production base to minimize production costs.

As certain industries have agglomerated around certain cities, it is essential for the companies to be near the customers or the local partner company. The closeness to market is the most important location factor of the interviewed Finnish firms, notably, the location of the main customer base in India. If customers are in various parts of the country, each area may be covered by an office because of the long distances and weak infrastructure. Another important location factor is the investment climate, especially the investment incentives available for foreign companies in specific locations. Typically, the Indian states offer Special Economic Zones with specific advantages for foreign firms, such as more liberal regulations or easier taxation. In the studied regions, public sector supports domestic and foreign companies by offering incentives for certain industries and certain types of operations, such as high technology. Usually the supported industries include IT and ones that utilize and develop new technology products in lower volumes. Further, the level of infrastructure and logistics is important when choosing the location, including the possibilities to transport the finished goods. Finally, for companies especially in IT and services, the availability of qualified workforce may be the most significant factor. These companies often need to be located in the growth centers near the sufficient talent pools.

In contrast, the interviewed companies pointed out factors that clearly counteract international investments in India, namely, bureaucracy and corruption. The heavy bureaucracy is attached to the public sector in each studied region. The slow response time of authorities and massive paper work required when dealing with the authorities is considered a common challenge all over India, as is the widely spread corruption.

When it comes to the various regions and their main characteristics, the National Capital Region is considered to be the administrative center in India. Thus, it is a natural place to locate whenever the firm has only one administrative or sales unit in India. The Delhi region often provides a convenient springboard to start operations in India. Some Finnish companies consider the NCR important because of the location of the national capital, New Delhi, and the Federal government. These companies often have an office in the region in order to build and maintain relations with the different nation-level Ministries.

Mumbai's distinctive feature is its role as the business hub of India. However, its relative importance seems to have decreased a bit, as other cities have grown and developed to offer both decent infrastructure and a good customer base. Hence the region has lost some of its predominance and it is nowadays considered one business location among others in India. Several Finnish companies are established in Mumbai already for some time; the business runs as usual and does not require special attention.

The South Indian region has attracted both manufacturing facilities and service production of foreign firms, including Finnish ones. The region offers both lucrative investment incentives and a sufficient pool of the needed less expensive workforce for production operations in industries with a global market. Some of the industrial production particularly in Chennai is also targeted to the local or regional market depending on the business field. Furthermore, many Finnish companies have invested in South India because of customer location. In fact, they find the proximity to customers even more crucial than do companies in the Delhi or Mumbai regions that are often able to serve the whole country, or even international market, from a single point of service.

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APPENDIX

Map 1. The map of India, with three main business regions and locations of Finnish firms.

