DOING BUSINESS IN INDIA

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In 1991, India’s closed economy opened up and attracted investments from several multinational companies (MNCs) around the world. As a result, people began to seek information about doing business in India, giving rise to a plethora of literature aimed at assisting them. Generally there are two prominent views of India. One is that India is a poor, under-developed country, lacking infrastructure and rife with religious superstitions, corruption and violence. The other is that India has an under-rated affluent and intellectual class, an advanced Information Technology (IT) sector and a rich culture. Neither view is entirely accurate. For those planning to do business in India, it is important that they are well informed of the real, complex situation in order to make calculated investments. Knowledge about doing business in India has to be constantly revised, updated and eradicated of biased or stereotypical views. A symptom of the maturity of this knowledge is recognition that the Indian business environment is amorphous. Conditions vary from state to state, industry to industry and region to region. This paper seeks to examine some aspects of this complexity and suggests how prospective investors could use the knowledge generated.

Apart from Ramachandran’s (2000) acknowledgement of India’s segmented marketplace and Kumar & Thacker-Kumar’s (1996) article on Indian bureaucratic levels, few scholars have examined the diverse reality of

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India’s business environment. In the light of the limited scholarship on this topic, this paper has three main objectives: (1) to show the different perspectives of doing business in India, (2) to discuss the possible explanations for these perspectives and (3) to show that the activities of multinational corporations (MNCs) are shaped by their diverse encounters.

Before we begin the analysis, an introduction to India’s economic background is required. For four decades since independence in 1947, India embarked on a protectionist, state-controlled industrial model. While this created a diverse industrial and technological infrastructure, it also caused some lacunae in the development and international competitiveness of India (Kohli 1996, p. vii). Restrictions were imposed on foreign investment and Indian corporate entities had limited interaction with their counterparts in other countries. In 1991, India was faced with a precarious economic situation: GNP in the previous year had grown by only 1% and foreign exchange reserves had declined to dangerously low levels, at one point being equivalent to only three weeks of imports (Tan, Low, Williams, & Zutshi 1996, p. 3). For the first time in modern history, India was faced with the prospect of defaulting on external commitments. In June 1991, Indians saw on their televisions symbolic scenes of gold bullion being trucked from the vaults of the central bank for eventual shipment to the Bank of England to secure a loan; the last thing a traditional Indian family parts with before misfortune overwhelms it is its gold (Rohwer 1995, p.176). Subsequently, the Government of India had to initiate negotiations with multilateral agencies for long-term loans, utilise facilities from the IMF and seek emergency bilateral assistance from countries like Japan and Germany (Bajpai 2002, p. 2). In exchange, the Government had to commit to structural adjustments, paving the way for economic reforms. These encouraged foreign investment, allowing up to 100% majority foreign equity. Foreign direct investment (FDI) rose significantly from $129 million in 1991–1992 to $1314 million in 1994–1995, and further to $2339 million in 2000/2001 (Bajpai 2002, p. 10). Government attitudes to foreign companies changed from caution and hostility, as in 1978 when IBM was forced to wind up its business due to a xenophobic Indian Government (Desai 1999, p. 11), to cordiality, as in 1992, when IBM re-entered India in a partnership with the giant Indian Tata Group. In 1999, IBM took over 99% of the company shareholdings to become IBM India. Given the change of fortune experienced by IBM within 21 years, it is likely that the company’s perspectives and practices of doing business in India have changed dramatically and old stereotypes from the License Raj (a common expression referring to state regulation of business in the pre-1991 period) need to be revised. The example of IBM also raises the question of whether its experience is unique or whether other companies have experienced a similar change in their perceptions of doing business in India.
It is necessary to interrogate old and new business perspectives, not only to improve our understanding of the political and economic roles they play in shaping relations between people and countries, but also because those wishing to engage more actively in the affairs of another country, be it for business, educational, sporting or other reasons, need to do so with accurate information. One Singapore businessman we interviewed remarked, ‘The image I used to have about India was completely different from what I had experienced. It took some time to get used to the ‘real India.’ If only I had known more beforehand.’ Peterson (1990, p. 13) says that the ‘success or failure of international businesses depend on the extent to which they understand the environmental nuances of the new and alien markets into which they choose to expand.’ While exploring these nuances, our study acknowledges that the popular perspectives on doing business in India are fraught with stereotypes. Stereotypes about a country, in this case, India, have their own specific features, often rooted in a history of colonialism, racism and what some have called ‘orientalism’.

The following section outlines the methodology for the primary research. Then we discuss the different issues that surfaced from primary and secondary research. The variation of perspectives is discussed at three levels where applicable: perspectives, explanations and responses. At the end of each issue, a table is provided to summarise the findings. The final section presents the main conclusions and suggests future research directions.

Methodology

This paper elicits different perspectives of investing in India by drawing on secondary research of academic literature, newspaper reports and government publications. Besides this, we utilised primary sources from Singapore to augment the range of views. To provide a suitable platform for comparison, a collection of perspectives addressing similar issues is needed. This was provided by interviews with selected Singapore businessmen and women from ten companies.

Singapore MNCs were chosen due to Singapore’s close economic interaction with India. As of 2004, bilateral trade between India and Singapore reached over US$10 billion and Singapore had more than US$1.5 billion directly invested in India (Network India, Singapore, n.d.). The number of Indian firms operating in Singapore has increased from 50 in 1992 to over 600 in 2005. The Singapore Government views the Indian market with great enthusiasm because of the island state’s own physical limitations and the subsequent need to create an external economy by regionalising. Moreover, the government has strongly encouraged local companies to explore business opportunities in India to diversify its investment away from
Former Prime Minister of Singapore, Goh Chok Tong, saw India as a way to balance the ‘China fever’ and diversify Singapore’s overseas investments (Yahya, 1995, p. 27). At an official dinner hosted by Indian PM Manmohan Singh in June this year, Singapore’s PM Lee Hsien Loong said,

> Singapore is keen to engage this New India. We share good relations based on mutual respect and common interests. India is our fastest growing trade partner. Our bilateral trade grew by 50% last year, even faster than Singapore’s trade with China. With the Comprehensive Economic Cooperation Agreement, or CECA, there is no doubt that our trade and business tie-ups will increase considerably. (Lee 2005)

Simultaneously, India’s ‘look east policy’ promotes trade with Southeast Asian countries (Mattoo 2001). Immediately after the announcement of this policy, Singapore was the prime target of Indian leaders (Tan, Low, Williams, & Zutshi 1996, p 4). Owing to the close trade links between the two nations, Singapore business people who already have experience of the nuances of investment in India are in a suitable position to testify about the business climate in India. Moreover, since Singapore is at the confluence of three worlds – the Indian, Chinese and Malay, Singaporean companies would offer particularly useful insights.

Gaining access to all the companies that have invested in India was difficult as no such official list is available. Singaporean firms that invest abroad are not required to inform the Department of Statistics of their overseas projects (Okposin 1999, p. 93). Thus, when choosing respondents, we approached Network India, a branch of the government agency known as International Enterprise (IE) Singapore which provides consultancy services for companies wishing to invest in India and networking services for companies already there. Their expertise and experience rendered them suitable gatekeepers. One of their representatives provided a database of companies based in Singapore that have invested in India. We sent out a fax requesting interviews to about 45 companies, from various industries, in this database. A reminder followed two weeks later for those who had not responded. We received affirmative responses from 10 companies (a 22% response rate). They provided the primary dataset for this study. For the rest of this paper, these are referred to by a pseudonym ending with CO, for example, TOOLCO. Secondary research from Government publications such as Venture India (2003) and India-Singapore: Moving on (2003) provided supplementary material on an additional 18 companies. At times when the real names of companies are mentioned, it is because they have been quoted from secondary publications. The companies we interviewed and the other Singaporean companies that we obtained information from are listed in Tables 1 and 2.
A maximum variation qualitative sampling strategy (Patton 2002, p. 234) was employed to capture a diverse range of viewpoints. This method is applicable when a small heterogeneous sample base is used. It follows the logic that any common patterns that emerge from a great variation are of particular value in capturing the core experiences of a particular setting. We interviewed 10 key executives from industries such as healthcare, pharmaceuticals, architecture, consultancy, photography, shipping, education, and engineering. These companies also varied in size or in terms of the number of employees in India. Each company was either a local private enterprise or an MNC with its headquarters in Singapore. The business people interviewed were of Chinese and Indian origin while their interviewers were of Indian and Malay origin respectively. The cultural and ethnic bias that may arise from the collation and presentation of data is thus reduced. Although ten business people are not representative of all Singaporeans with investment experience in India, their diverse backgrounds are sufficient in demonstrating the complexity and hybridity of the Indian business environment. Interviews with senior executives were based on the assumption that they would have the most holistic knowledge of their company’s experience in India.

Table 1
List of Pseudonyms and Industry of Companies Interviewed

<table>
<thead>
<tr>
<th>No.</th>
<th>Pseudonym</th>
<th>Industry</th>
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<tbody>
<tr>
<td>1</td>
<td>ARCHICO</td>
<td>Architecture company</td>
</tr>
<tr>
<td>2</td>
<td>CONSULCO</td>
<td>Provides business solutions and networking services for Singapore-based MNCs.</td>
</tr>
<tr>
<td>3</td>
<td>EDUCO</td>
<td>Regional franchiser and provider of preschool education services</td>
</tr>
<tr>
<td>4</td>
<td>ENGCO</td>
<td>Engineering consultancy services and project management.</td>
</tr>
<tr>
<td>5</td>
<td>HEALTHCO</td>
<td>Producer of healthcare products.</td>
</tr>
<tr>
<td>6</td>
<td>PHARMCO</td>
<td>Manufacturer and marketer of ethical drugs.</td>
</tr>
<tr>
<td>7</td>
<td>PENCO</td>
<td>Retailer and wholesaler of branded fine pens.</td>
</tr>
<tr>
<td>8</td>
<td>PHOTOCO</td>
<td>Part of an international photoshop franchise.</td>
</tr>
<tr>
<td>9</td>
<td>SHIPCO</td>
<td>Provides feeder services between shipping ports.</td>
</tr>
<tr>
<td>10</td>
<td>TOOLCO</td>
<td>A producer of machine tools.</td>
</tr>
</tbody>
</table>

Interviewing was informal and semi-structured, thus allowing the interviewee to recall his/her own experiences, develop his/her own ideas and speak on issues that affected his/her business attitudes and practice (Denscombe 1998, p. 112) and to avoid forcing respondents into a preconceived response pattern (Fusilier & Durlabhji 2001, p. 224). According to Bernard (2000, p. 191), semi-structured interviewing works very well in projects where one is dealing with managers, bureaucrats and elite members of a community – people who are accustomed to efficient use of their time; and demonstrates that the researcher is in control of what he/she wants from an interview but leaves both researcher and interviewee free to follow new leads. The interviews were modelled around questions shown in Table 3.
Table 2
List of Singapore Companies Sourced out from Secondary Literature

<table>
<thead>
<tr>
<th>No.</th>
<th>Company Name</th>
<th>Description</th>
</tr>
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<tbody>
<tr>
<td>1</td>
<td>Agrocorp International</td>
<td>bulk commodity trading and distribution company</td>
</tr>
<tr>
<td>2</td>
<td>Ascendas</td>
<td>development and management of science, business, high-tech and industrial parks</td>
</tr>
<tr>
<td>3</td>
<td>CESMA International</td>
<td>town planning, development and design</td>
</tr>
<tr>
<td>4</td>
<td>Crimson Logic</td>
<td>provides business solutions and e-commerce services for sectors such as trade, logistics, legal and healthcare</td>
</tr>
<tr>
<td>5</td>
<td>DBS - Banking services</td>
<td></td>
</tr>
<tr>
<td>6</td>
<td>DP Architects</td>
<td>architecture and urban planning</td>
</tr>
<tr>
<td>7</td>
<td>Ezyhealth Asia Pacific</td>
<td>healthcare and medical service</td>
</tr>
<tr>
<td>8</td>
<td>FTD Technology</td>
<td>distributor of software development tools</td>
</tr>
<tr>
<td>9</td>
<td>Gateway Distriparks</td>
<td>Indo-Singapore joint venture providing shipping logistics</td>
</tr>
<tr>
<td>10</td>
<td>Inter-roller engineering</td>
<td>Baggage handling systems, In-flight Catering Systems, Air-Cargo Handling systems.</td>
</tr>
<tr>
<td>11</td>
<td>JURONG Consultants</td>
<td>planning and project management for industrial townships, specialised park design and construction of industrial buildings.</td>
</tr>
<tr>
<td>12</td>
<td>Qmax Technologies</td>
<td>design and development of electronic test equipment</td>
</tr>
<tr>
<td>13</td>
<td>SAA Architects</td>
<td>Architecture</td>
</tr>
<tr>
<td>14</td>
<td>SembCorp Engineers and Constructors</td>
<td>engineering and construction services</td>
</tr>
<tr>
<td>15</td>
<td>SembCorp Logistics</td>
<td>supply chain management, oil and gas logistics</td>
</tr>
<tr>
<td>16</td>
<td>SICAL CWT Distriparks</td>
<td>logistics service provider</td>
</tr>
<tr>
<td>17</td>
<td>Singapore Telecommunications - telecommunication services</td>
<td></td>
</tr>
<tr>
<td>18</td>
<td>Stockton Investments</td>
<td>real estate development</td>
</tr>
</tbody>
</table>

Table 3
List of Questions

<table>
<thead>
<tr>
<th>No.</th>
<th>Question</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Describe your company’s investment experience in India.</td>
</tr>
<tr>
<td>2</td>
<td>In which state(s) does your company invest in?</td>
</tr>
<tr>
<td>3</td>
<td>In which industry does your company invest in?</td>
</tr>
<tr>
<td>4</td>
<td>What is the nature of services which your company provides?</td>
</tr>
<tr>
<td>5</td>
<td>What are your perspectives on India’s corporate culture and why?</td>
</tr>
<tr>
<td>6</td>
<td>What are your perspectives of the bureaucracy?</td>
</tr>
<tr>
<td>7</td>
<td>What are your perspectives on India’s labour force?</td>
</tr>
<tr>
<td>8</td>
<td>What are your perspectives on India’s infrastructure?</td>
</tr>
<tr>
<td>9</td>
<td>What are the challenges you face?</td>
</tr>
<tr>
<td>10</td>
<td>How do you overcome them?</td>
</tr>
</tbody>
</table>

We ensured confidentiality of the interviewees so that they would be less hesitant to reveal sensitive information about their company or about the governments of both countries. Interviews were conducted in respondents’ offices and generally lasted about two hours. On each of the four issues – culture, talent, bureaucracy, and infrastructure – the different perspectives that emerged coupled with possible explanations for them will be presented. Then, where applicable, the responses of business persons in relation to the perspectives they hold will be discussed.
Culture

Two main opposing perspectives exist with regard to India’s business culture. The first is that Indian businesses practice an archaic corporate culture. They transfer socio-religious hierarchical structures to their workplaces. Evidence of this has been provided by Ray (1970) and Chowdry (1970), who describe Indian managers as conventional, bureaucratic and traditionalist. One foreign businessman said, ‘they [Indians] are very hierarchical – guys stand up when the boss enters the room, nobody challenges the boss’s word; they have a very proprietorial attitude,’ (Stoever 1988, p. 19). Negandhi & Prasad (1975, p. 59) argue that Indian firms have a lower degree of delegation as compared to American firms and that Indian management is hierarchical and person-oriented. Budhwar (2001) describes Indian workers as less reluctant to accept responsibilities and unable to cope with uncertainties. This perspective was also found in several Singaporean companies such as Ezyhealth, Crimsonlogic, FTD Technology, Jurong Consultants and SAAA Architects who perceived adapting to the old-fashioned Indian business culture to be a key challenge (Venture India 2003).

Several explanations for such a characterisation of Indian business culture have been suggested. For example, Burns (1998, p. 9) suggests that most Asian countries, such as India are high power distance cultures. According to Hofstede (1991, p. 28), power distance is the extent to which less powerful members of work organisations accept and expect power to be distributed unequally. In the workplace this implies that the senior manager is a benevolent autocrat, the organisation is hierarchically structured, lower-level managers avoid decision-making and are reluctant to take on responsibility and prefer to follow closely the instructions of superiors (Burns 1998, p. 9). In an index of comparison of Western and Asian countries, India ranks just above Singapore with a higher power distance of eighty compared to Singapore’s seventy-six; the US has a score of thirty-eight, while Malaysia scores 108 (Burns 1998, p. 15). If Burns’ findings are true, then criticism by Singapore businesses of India’s corporate culture as too hierarchical is problematic, as Singapore, which is considered to have a much more modern business culture, is only slightly behind India in high power distance.

Another explanation for this person-centred and hierarchical system of business management is that socio-religious hierarchical structures like the caste system have been transferred to the Indian workplace. Parikh & Garg (1990) argue that Indian managers face value dilemmas because of their inability to reconcile their roles in a formal organisation with their emotional commitment to a traditional caste-based social system. Athreya (1995) and Chakraborty (1991) suggest that Indian managers are comfortable with the traditional system of hierarchy in all spheres of life and feel a sense of discomfort with the managerial culture associated with the global world such
as instant feedback, performance and empowerment. Among the Singaporean companies, managers in Ezyhealth said that in their experience there was a wide social divide between Indian bosses and workers, reinforced to a large extent by the caste system: ‘Like the existing caste system . . . workers do not exhibit as much initiative as Singapore business leaders would normally expect of subordinates, rather they expect to follow orders’ (Venture India 2003, p. 32).

Another explanation for India’s corporate culture being viewed as old-fashioned is the existence of large numbers of family-run businesses. Fifteen out of the twenty largest industrial houses in 1997 were owned by families (India’s Fifty Business Families, 1997). With few exceptions, there appears to be cultural resistance among family-owned firms to adopt professional management practices (Das 1999; Pant & Rajadhyaksha 1996, p. 818). The director of HEALTHCO, a company producing healthcare supplies, attested to this: ‘The management practices of our Indian partner were feudal. The head of the family did not sack his nephews from their posts even though they were incompetent. The family interest needs to be separated from the firm’s interest. Only then will they modernise.’ However, a family-run business, like the hierarchical system is not necessarily a disadvantage in doing business. Several family-run businesses in the US, China, Italy, and France have achieved success (Das 1999). Rather, what is more likely to restrict a small business’s capacity to modernise is the failure to professionalise by bringing in and retaining outside talent, to institutionalise, and to adopt modern management styles (Das 1999).

Various solutions have been adopted to deal with the perception of India’s archaic corporate culture. For example, in 2005, an Indian organisation known as the Dalit Solidarity Network (DSN) met in the UK and urged foreign investors to contribute to ameliorating the conditions of their caste brethren by supporting job reservations for them in both public and private sectors (Caste Discrimination and the Private Sector – Employment Principles for Foreign Investors in South Asia, 2005). Foreign MNCs are aware of caste and other forms of such discrimination, but rather than confront them directly in what is a politically sensitive issue in Indian society, there is evidence to suggest that as some businesses can see that the Indian economy and society are changing they prefer to mould their own corporate culture in their Indian operations. For example, the director of TOOLCO a multinational machine tools company said, ‘Generally the older workers are obedient and traditional. But sometimes we need some zest, some spunk, and this we can get from the younger generation who are more adaptive to our working style.’ Similarly, Suzuki Motors sought to transfer its Japanese style management by recruiting fresh graduates who were ‘uninfluenced by the Indian working system’ to fill up middle and lower level management positions, and by extensive training programs which involved
worker exchanges to and from Japan (Nayak 2005, p. 243). Companies are also careful in their selection of personnel. For example, one foreign CEO said, ‘When I interview somebody, I spend most of the time deciding whether he can fit into to our egalitarian style, walking-around management, management-by-objectives’ (Stoever 1988, p. 19). Echoing the same perspective, ENGCO’s director said, ‘We meticulously interview potential employees to ensure they are able to cope with our modern working culture.’

Not all aspects of the so-called ‘old-fashioned’ Indian business culture are viewed negatively by Singapore businesses. The director of ARCHICO, a Singaporean architecture company, said:

There is competition for clients from American firms but we have an upper hand because there is a difference in cultural approach. They (American firms) are not willing to start a job with a handshake or stay through the end. We are not so contract minded and we share some traditional cultures.

ARCHICO’s perceived willingness to guide their clients through the end of the project instead of leaving when their job was completed serves as an advantage over their American counterparts’ unfamiliarity with Asian business dealings. Burns (1998, p. 14) argues that for Asians, the request for a contract implies that the foreigner believes that the former would cheat if legally not restrained from doing so. Therefore, due to their cultural similarities, some Singapore businesses think that they have an edge over Western competitors when dealing with businesses in India and China.

The second perspective on doing business in India is that Indian managers are learning and adopting modern business cultures and are responsive to global changes in business practices. Chatterjee & Pearson’s (2000) study of 421 senior managers in India reveals that while traditional values such as respect for seniority and work goals like job security still dominate the consciousness of Indian corporate culture, many senior managers are adopting global values such as work quality and the drive to increase knowledge. The following account of the actions of the chairman of India’s second largest industrial house, Aditya Birla group, attests to this:

On that day . . . he (the chairman) participated in a 360-degree feedback session, where 42 senior managers who directly reported to him, rated him on his leadership style, managerial ability, and even personal traits . . . Such a feedback session may be standard operating procedure at many leading-edge companies, but at the 88-year-old business group, it was truly a radical departure from convention. (Dayao 2000, p. 53)
Fusilier & Durlabhji (2001) studied 20 Indian managers asking them questions pertaining to important influences in their career, their general management practice, and their working philosophies to elicit ‘major value themes.’ They concluded that non-attachment, non-violence, contentment, tolerance, work and family as duty and destiny are core values espoused by Indian managers. However, they added that all managers evidence no one value, some adhere to ‘Western values’ (which were not specified), and that the use of the caste system is weakening. Sinha (1997) concluded that vertical collectivism from indigenous cultural conditioning and individualism due to Western management co-exist in Indian organisations. This assumes that a clearly defined ‘Western work culture’ exists. While there may be similar traits and practices, the business culture of say, the French and the Americans cannot be completely symmetrical. Also, even if some aspects of modern work culture as we know it today are inherently present in India, they are often assumed to have been transferred from the ‘West.’ Those who make such demarcations between East and West may be guilty of Orientalism or even Occidentalism where the West is stereotyped. Cultural values have to be clearly defined before comparisons can be made and tested against actual experience and practice. The results may be surprising. In fact, Deshpande & Farlay (1999, p. 117) utilise a framework known as the universal high performance model to compare corporate culture and market orientation between major Indian and Japanese firms and conclude that India has a higher entrepreneurial culture than Japan.

Besides Westernisation, other explanations exist for the perspective that India’s management is modernising. Based on his study of seventy-five Indian organisations, Khandwalia (1985, p. 178) points out that a business within a custom technology industry is likely to adopt management practices that involve creativity, innovation and empowerment of workers. He suggests that this may be owing to the fact that the industry is highly competitive and consequently it has to absorb new corporate cultures to survive. He also suggests that medium sized companies are more likely to adopt an innovative management mode as small companies may not be able to bear large risks and the larger ones may be too bureaucratic and internally fragmented. The adaptive or modernised business culture in some Indian companies can also be attributed to the progressive management philosophy of some individual CEOs.

In summary, while some observers view Indian business culture as archaic, others consider it to be modernising, as shown in the second row of Table 4. The former perspective is rooted in a rather rigid notion of culture, in which institutions such as caste and family-owned businesses are viewed as unchanging obstacles to modernisation. The latter perspective, while not willing to abandon the idea that some institutions are obstacles to change, takes a more flexible, less homogeneous and more processual view of
Thus, there is recognition of generational change when MNCs employ young people who are educated and less bound by so-called traditional values. As the Singaporean example suggests, some foreign businesses use their knowledge of Indian society and the presumed greater cultural affinity with Indian business practices as a competitive advantage over Western business. Other factors suggested to explain variations in capacity to adapt to changing business environments are the type and size of the company and the modernising outlook of some Indian entrepreneurs.

### Table 4

<table>
<thead>
<tr>
<th>Perspectives</th>
<th>Archaic</th>
<th>Modernising</th>
</tr>
</thead>
<tbody>
<tr>
<td>Explanation</td>
<td>Caste</td>
<td>Industry</td>
</tr>
<tr>
<td></td>
<td>Family-run firms</td>
<td>Company</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Westernisation size</td>
</tr>
<tr>
<td>Response</td>
<td>Avoid partnerships with Indians/Use as an advantage over Western businesses</td>
<td>Invest more/form partnerships/Employ youngsters</td>
</tr>
</tbody>
</table>

### Talent

India’s labour force is commonly viewed as being low-cost and highly skilled. Indeed, this perspective has induced several MNCs to out-source to India or to set up branches there. The director of TOOLCO said:

> We had a good experience working with Indian engineers. Good local talent is the reason for setting up in India. In 1995 we had a small operation of only 20 people. Later, we discovered the engineering potential in the Indian labour force when we worked together in Japan. After 5 years, we expanded to Pune, Chennai and Koimbatore and employed 130 people.

President and Chief Executive Officer of General Electric (India), Scott R. Bayman, said that Indian labour had enabled GE to become a low cost global manufacturer with world-class production (Chng & Cheung 1996, p. 87). Rao & Natarajan (1996) and Gopinath (1998) have observed that India is a magnet for global business due to its large and skilled manpower. For example, India churns out 160 000 graduates with engineering and technical degrees annually and has the third largest pool of scientific and engineering manpower in the world (Dedrick & Kenneth 1993, p.470).

Besides the large output of skilled personnel, the reputation of professional non-resident Indians (NRIs) is another reason for the positive
view of the labour force. Prominent personalities like former United States President, Bill Clinton, have extolled India’s talent by proclaiming that the country has 30% of the world’s software engineers (Funabashi 2002, p. 135). In 2000, Indians were granted 50% of US visas allocated for software professionals (India’s IT Bonanza, 2000) and they make up 38% of the Silicon Valley workforce (Gardner 2000). The existence of this highly skilled labour force, especially in IT, has led to body shopping of software engineers, outsourcing by overseas firms, and the establishment of branches in India by various MNCs.

Despite this, FTD, a distributor of software development tools, found that competition for talent was a major challenge. Their director said, ‘While there is a large pool of engineering personnel available, experienced and specialised people were hard to come by,’ (Venture India 2003, p. 36). SembCorp Engineers and Constructors remarked that one of its major challenges was handling the labour force that was not as highly skilled and sometimes easily agitated (Venture India 2003, p. 61). Bajpai (2002, p. 16) alludes to this when he says, ‘The research and development nexus is very weak, with little collaboration between business and academia, and little success in commercialising or adopting new technologies despite the rhetoric about India’s science and engineering prowess.’

There are two possible reasons for the shortage of talent. The first is due to the brain drain of skilled workers to countries such as the United States. India is estimated to suffer a loss of $US 2 billion per year and an annual exodus of 100 000 workers (UNDP 2001). The second reason is that despite the large number of graduates, supply is relatively less than demand. A study completed by the National Association of Software and Service Companies (NASSCOM) and consulting firm McKinsey pegged demand at 140 000 new skilled workers in the year 2000-2001, but the domestic supply was only 73 000 to 85 000 graduates (Creehan 2001, p.6).

In response to the shortage of skilled workers, the Indian Government has been trying to actively woo NRIs back to India and have been encouraging them to set up joint ventures with MNCs. In 2000, 10 out of the 20 most successful software enterprises in India were set up or managed by former non-resident Indians from the U.S. and their share represented more than 40% of the total revenues within this industry (Hunger 2004 p. 102). Four enterprises (Mahindra-British Telecom, IBM, i-flex and Cognizant Technology Solutions) were joint ventures between local Indian and foreign companies and their top echelons are manned by former NRIs (Hunger 2004, p. 102). NRIs also contribute funds to upgrade their alma maters, like the Indian Institutes of Technology (IITs). In fact, in 1998, The Indus Entrepreneurs (TIE), an international association of NRI entrepreneurs, extended its activities to India so as to contribute to the financing of the central IT training centers (Chakravartty 2001).
According to Ladame (1958), after a ‘brain drain’ migration in the reverse direction, ‘brain gain’ may begin, leading to ‘brain circulation’ (Ladame 1958). MNCs can harness circular migration by employing former NRIs. ENGCO’s director said, ‘We have been on the lookout for NRIs returning to India. They have much experience and skills that would be helpful to our company.’

Table 5 below, summarises our findings. The first and more popular perspective discussed here is the abundant supply of highly skilled workers in India. As shown in the table, the reason for this is the standard of students graduating from IITs and the reputation of NRIs abroad. Both explanations are inter-linked as the IITs produce students who become NRIs occupying key occupations outside India. Several MNCs outsource to India since they can pay lower wages instead of hiring NRIs or others. The second, contrary perspective is that there are insufficiently skilled workers in India, which is attributed to the brain drain phenomenon and a shortage of supply from the IITs. Alternately, MNCs can employ returning NRIs thus leading to the reverse phenomenon of brain gain.

Table 5
Talent

<table>
<thead>
<tr>
<th>Perspectives</th>
<th>Highly skilled</th>
<th>Insufficiently skilled</th>
</tr>
</thead>
<tbody>
<tr>
<td>Explanation</td>
<td>IITs</td>
<td>Brain drain</td>
</tr>
<tr>
<td></td>
<td>NRIs’ reputation</td>
<td>Supply shortage of IITs</td>
</tr>
<tr>
<td>Response</td>
<td>Outsourcing/ Bodyshopping</td>
<td>Utilise circular migration by employing former NRIs</td>
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Bureaucracy

The attitude of the host government to foreign investors is an important factor for MNCs’ decision on where to locate. Traditionally, dealing with the Indian Government was regarded as frustrating due to its highly regulated nature. However, since 1991 the Government has become more open to foreign investment. Investigating the level of bureaucratic hurdles that MNCs have to overcome can assess the extent to which this change has resulted in making it easier to do business.

India’s bureaucracy was viewed negatively by a number of sources. Stoever (1988, p. 10) says that the Government of India poses a problem for investors because there is limited access to Government offices, too many cumbersome forms to fill, lack of coordination between Government departments in processing forms, long periods of waiting for approvals, and ‘screwy’ rules. Although this is a pre-reform perspective, similar notions are held about post-reform India. A survey of 16 major foreign corporations and
joint ventures located in India indicated that the Indian bureaucracy has been the biggest challenge for foreign investors (Abdoolcarim 1994, p. 18). According to Yahya (2003, p. 75), Singapore Airlines (SIA) with the Indian based Tata group had failed in their 1997 bid to manage an airport in South India and jointly start a domestic Indian airline because of bureaucratic impediments and political interference. The director of PHARMCO said, ‘Regulations are tedious, ambiguous, and tiring. When I went to the secretary in Delhi she asked, ‘Why do you want to invest in India?’ I was surprised because I came to put money here.’

The director of PHOTOCO remarked, ‘The license Raj is still there, so there have been bureaucracy problems so far.’ And the director of PENCO complained, ‘You need one week to approve a visa. The processing is also a hassle because they need an invitation from the local company and so many details.’ TOOLCO’s director said, ‘Movement of parts between states is complex in terms of easiness of local tax and administrative procedure.’ Hong Kong based consulting firm Political and Economic Risk Consultancy (PERC), which specialises in strategic business information analysis, and AT Kearney, a global management consultancy firm, perceived that India’s bureaucracy has a multitude of rules which are open to different interpretations (Sagar 2000). An audit conducted by the latter on FDI in India surmises, ‘In the long run, excessive bureaucracy could be the greatest barrier…by undermining India’s capability to materialise investor interest’ (Sagar 2000, p.2).

On the other hand, some feel that since the new Industrial policy of 1991, the rigid regulatory mechanism has been relaxed and most licensing procedures have been abolished (Dedrick & Kenneth 1993, p. 468). The director of SHIPCO, a shipping company, stated, ‘It was a pain to get anything done. But things have become easier. Commercial banks have been given the authority to approve remittances. Now we don’t have to go to the Central Bank.’ The introduction of a number of single window clearance bodies in government offices have considerably reduced the ‘maze’ that a foreign investor would have to go through in the past (Anandarajah & Grandados 1996, p. 26).

The type of industry seems to be a major factor in determining the number and intensity of bureaucratic hurdles. Nationalistic politicians desire investments from high-tech, value-added firms and are opposed to the entry of such consumer-oriented companies as Heinz, Kentucky Fried Chicken and Kellogg’s, believing that Indian brands can satisfy the Indian market (Ramachandran 2000, p. 46). This opposition is probably due to a fear of cultural pollution held by the former BJP Government or the social effects of a consumer boom or the added competition on domestic small-scale producers. Infrastructure and technology related areas such as architectural services face less bureaucratic hurdles. ‘We didn’t experience much
bureaucratic hassles because our skills are in demand. The red tape has transformed into a red carpet for us,’ mused the director of ARCHICO. The Government has targeted specific industries to attract investments. India is one of the first countries to have a federal ministry of IT. Moreover, there has been a reduction of customs duty for hardware and a tax holiday for Internet Service Providers for up to 5 years (Chandra 2003, p. 405). The director of TOOLCO said, ‘Import tax used to be 40-50%. It was most difficult to import machines. Now the Government has reduced it to about 30%. They (Indian clients) buy very high-end equipment. They want turn-key apparatus.’ Some companies such as CONSULCO did not face any encounters with bureaucrats because they ‘only talk to the private companies’ who are their clients. These examples suggest that where the industry of the overseas investor is seen to add to India’s economic capacity and fits into the government’s broader economic strategy, there is a greater chance that it will be able to operate free of bureaucratic and other hurdles. This, in turn, affects the perception a foreign investor has of doing business in India.

Luo’s (2004) theory of ‘coopetition’ is helpful in understanding the industrial bias that MNCs face. Coopetition is described as the nature of the relationship between MNCs and host governments – it is a combination of cooperation and competition occurring simultaneously according to the economical and political environment. Competition is bargaining for respective benefits and interests that are incompatible between a group of MNCs and a host country government, whereas cooperation is a joint effort for mutual gains. Cooperation and competition coexist because MNCs and governments depend on each other’s resources and supports, but meanwhile they encounter conflicts arising from different goals and an absence of mechanisms mitigating possible opportunism (Luo 2004, p. 433). In India’s case, the Government has come under pressure to be more cooperative with MNCs to increase FDI inflows, thereby leading to reforms. However, the extent of cooperation or competition varies with different firms. For example, in areas such as infrastructure building and high-tech development, MNCs and governments depend highly on each other without rigorously competing for host-country resources due to relatively compatible interests. The Government does not pose impediments in these instances and cooperation is likely. However, where economic and social goals are not complementary with MNC interests, for instance in the food industry where institutional protection is often considered by the Government as warranted, it creates a serious interference in the form of bureaucratic and political obstacles.

Another factor that affects the level of bureaucracy is the state in which the investment is carried out. Bullis (1998, p. 21) says that policies aimed at attracting investments vary in strength and nature from state to state. Central government’s calls for reforms do not necessarily permeate uniformly across all states and down to lower government levels. ‘At the lower levels, there is
no sense of urgency, no sense that the world is not going to wait for you,’ said the President of AT&T an American telecommunications networking company (Abdoolcarim 1994, p.20). The state/centre relationship is important, as under the last BJP government there were cuts in state funding which forced some states to introduce their own regulations to retain investment and raise capital. According to Banks & Natarajan (1995, p.48), tariff barriers between states, differential sales taxes, and municipal taxes are factors that must be explored before deciding on where to invest. Motivated by the success of Chinese Special Economic Zones (SEZs), the Government of India introduced SEZs through the Export/Import Policy in 2000 by approving the establishment of 12 SEZs in the nine states: Gujarat, Orissa, Karnataka, Maharashtra, Tamil Nadu, Madhya Pradesh, West Bengal, Uttar Pradesh and Andhra Pradesh (Bajpai 2002, p.8). Prospective investors would do well to be aware of these developments when deciding on the location that would best fit their business needs.

Singapore companies Agrocorp International, Ascendas and CESMA International found that coping with constantly changing regulatory policies was a key challenge (Venture India 2003). Taking it in his stride, the chief operating officer of TOOLCO said, ‘We don’t look at it as a handicap because our method is to know the administration as a business role. Easiness comes through awareness.’ Kumar & Thacker-Kumar (1996) propose that decisions about where to locate, who should be the India partner, which managers to select and appoint as parent representatives, the nature of expatriate training, and support can all serve as potential tools in overcoming bureaucratic impediments. Some companies suggested having the right partner or maintaining regular communication with senior bureaucrats to update themselves of the latest laws. ‘If the partner knows the ropes, then things will be a lot easier,’ commented the executive from HEALTHCO. Kumar & Thacker-Kumar (1996, p.14) suggested that having one person taking care of the government-related work saves delays and interruptions. This person helps to establish the requisite contacts and becomes a ‘known face’ in government circles. This was expressed by SHIPCO: ‘We have an agent to deal with the bureaucracy in India. He knows all the loopholes. Also, because he’s been there for some time, they know his face and he can get things done.’

From this section, it can be seen that although bureaucratic hurdles have been reduced since the new economic reforms, it is difficult to predict the exact nature and extent of red tape that MNCs are likely to face. In Table 6 below, the ‘/’ in the ‘perspectives’ category indicates that all three factors (the industry of the MNC, the state in which it invests, and MNC-Host Government relationships which are influenced by the political climate) are influential in determining whether bureaucracy is perceived to be helpful or an impediment. To deal with the bureaucracy, some MNCs prefer to do it
themselves as part of their company policy, while others let their partner handle these matters or hire a local agent.

Table 6
Bureaucracy

<table>
<thead>
<tr>
<th>Perspectives</th>
<th>Impediment</th>
<th>Helpful</th>
</tr>
</thead>
<tbody>
<tr>
<td>Explanation</td>
<td>Industry / State / MNC-Host Govt relationship</td>
<td>Company policy of awareness/ Local Partner / Local Agent</td>
</tr>
</tbody>
</table>

**Infrastructure**

India is often viewed as a third world country with poor infrastructure, aspects of which, such as the transport system, office supplies and computers, have been criticised by many observers (Budhwar 2001; Banks & Natarajan 1995; Stoever 1988). There have also been criticisms of the poor financial services available. Many firms face infrastructural problems. A frustrated director of TOOLCO said, ‘There are difficulties due to lack of financial infrastructure. The banking system is at an infant stage. Financial transactions are still not automated.’ CONSULCO’S director said:

Infrastructure does not exist to help small firms go to India – it’s like we want to go somewhere but there is no bus to get us there. There are also no export credit companies. Banks and lending institutions are immature. They don’t know enough so MNCs have to take effort to teach them and make them understand. They are not proactive.

‘Roads and communication need a lot of investment and although improvements are being made, there is a huge task ahead. Things are happening but very slowly,’ commented the director of ENGCO. Ascendas, a Singapore MNC which develops hi-tech science parks, experienced problems in posting Singaporean managers to India because of the perceived lack of quality in healthcare and education (Venture India 2003, p. 14). In a survey of business leaders from 75 countries, India ranked 69th on telephone lines per 100 inhabitants, 73rd on road quality outside of major cities, 57th on port facilities and inland waterways, and 47th on the quality of air transport infrastructure (Bajpai 2002, p. 16).

There are a number of ways that businesses can avoid infrastructural problems. One way is to work on a contractual basis. For example, the director of ENGCO stated: ‘My family remains in Singapore. I fly to India to meet clients and provide consultancy services on a contract basis. We have the local staff in our branches to handle routine jobs.’ ENGCO delegates its
high-end infrastructural production in Singapore, while the office in India is mainly utilised for bottlenecks in consultancy and marketing services.

It is difficult for the Indian Government to raise funds for infrastructure development internally and a conscious effort has been made to form partnerships with the private sector (Sarangi 2002). An example of this is the formation of the national Infrastructural Development Finance Corporation – nine international financial institutions have equity participation in this venture (Sarangi 2002, p. 271). Acknowledging this, some MNCs utilise India’s lack of infrastructure as an opportunity for business. This is especially true for companies in industries like architecture and town planning. ARCHICO’s director said, ‘Infrastructure development is a niche market for Singapore in India. Several State Governments are looking to replicate Singapore’s high-rise buildings, sewage system and technological sophistication.’

Other observers have noted that infrastructure problems are not always as bad as they seem. For example, Dossani & Kenny (2003) state that ‘low labour costs, project management skills and technological sophistication make India a particularly attractive candidate for outsourcing.’ Chandra (2003, p. 399) credits India as possessing IT related high technology and a well-developed R&D infrastructure. Hi-tech developments like the Bangalore IT Park and other IT park successes such as Cyber Pearl in Hyderabad have world-class facilities. The country manager of IBM, Murali Raman, eulogises the well-established network of distributors, an efficient postal system that ‘delivers letters and parcels to a vast number of people spread across a territory two-thirds of the U.S., and an extensive railway system believed to be ‘the largest in the world’ (Chandra 2003, p. 404).

The above discussion suggests that while infrastructure in India is generally in its infancy, certain industries such as IT are well developed. Moreover, in areas with poor infrastructure, MNCs can choose to relocate their production while still maintaining distribution in India. The director of PHARMCO said, ‘We don’t face infrastructural problems because we don’t need much infrastructure. All products are produced in Singapore.’ Some firms provide services that do not require much infrastructure, such as consultancy. Also, some of the larger and better-known cities have well developed infrastructure compared to other parts of the country. The establishment of SEZs has reinforced this divide by producing ‘enclave economies’ which are well serviced and which are proving attractive to MNCs. Table 7 below, summarises the conclusions.
Table 7
Infrastructure

<table>
<thead>
<tr>
<th>Perspectives</th>
<th>Good</th>
<th>Poor</th>
<th>Potential area for investment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Explanation</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Response</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Industry/Service/State</td>
<td>Invest in specific industries / states</td>
<td>Collaborate with State Governments</td>
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</table>

Conclusion

In this paper, the different perspectives of investing in India, explanations for such perspectives, and subsequent responses by outsider investors and MNCs have been presented. It was shown that the experiences of an investor or MNC are subject to a number of factors. Of these, the state in which the investment takes place and the industry of the MNC are particularly important. States have different labour laws, property laws and people of different cultural and educational backgrounds. They play a role in determining whether companies form joint ventures, the branding and marketing strategies they should adopt, the kind of regulations and taxes they are likely to face, and the quality of infrastructure to which they have access. Likewise, the nature of the industry affects the level of bureaucratic hurdles and infrastructural challenges.

Future research on state variation in attractiveness for investment would help provide a more accurate picture of doing business in India and help qualify if not reject the conventional wisdom about Indian business culture. The conventional wisdom on doing business in India suggests that Indian corporate culture is old-fashioned, that the country has a highly skilled labour force, and poor infrastructure. However, our research has revealed that the Indian business management is varied and has different degrees of modernisation, that India’s skilled labour supply is sometimes less than the demand for it, and that India’s degree and type of technological development is uneven with some industry sectors having cutting edge technologies and infrastructure, and others poorly served by financial, technical and infrastructure requirements.

A limitation in this paper was the small sample size of Singaporean business people, which cannot be taken to be representative of perspectives of all Singapore based businesses. However, the sample was sufficient to demonstrate that business people have different perspectives and experiences of doing business in India and not all share the traditional stereotypical views of India as possessing an archaic economy held back by traditional ‘obstacles to modernisation’ such as caste.

This paper suggests that business is a matter of interaction and that the same Indian company/person may behave differently when dealing with companies/people from different countries and regions with different
religious, ethnic and other backgrounds. What a company or person observes is shaped by the preconceptions they bring to the business encounter and the ways in which those preconceptions are modified, challenged and even rejected by their experience. There is need for research that compares the different perspectives held by business people interacting in similar and different situations. Future research should also include the perspectives of groups not included here, such as those of Indian business people, diplomats and professional associations. The perspectives held by business people from developing countries such as Vietnam or Thailand are also likely to be different from those of Singapore as the particular culture and context of the investor is likely to influence his/her perceptions. Ms Jane Low, vice-president of Business Development in CESMA International, has said ‘it would be very helpful if you go into the market, leaving behind expectations of enjoying the comforts you are used to back home’ (Venture India 2003, p. 17). Ideally, this attitude could help sustain an enduring commitment in the face of difficulties when investing in developing countries. Practically it is difficult to achieve. This paper has provided a small contribution to realising that achievement.

Acknowledgement

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