

Reconfiguring the Silk Route

A new paradigm for market entry analysis in emerging markets?

Emerging markets have in recent times been acknowledged as an important source of future economic growth. However, in their locational decision making applied to investments in these markets, foreign companies are often faced with difficulties. Following a focus on transaction cost parameters when studying sub-national conditions, companies make incorrect decisions with regards to point of entry and expansion within an emerging market. Leading business advisers have recently highlighted the need to also consider the sub-national institutional conditions when analysing these markets. Despite being supported by the principles of transaction cost theory, these claims have not been verified by scientific methods. Against this background, we set out to provide a framework that assesses the claims, based on tried and tested research. India was chosen as the emerging market to study and the acclaimed CAGE framework for (C)ultural, (A)ministrative, (G)eographic and (E)conomic market analysis was the theoretical model of choice. This model, suitably amended to take theory into account was used to map sub-national transaction cost and institutional conditions in India. The model output was contrasted with the expansion pattern of 41 Swedish companies in India, and the two were found inconsistent. Reasons for why the study could not provide support to the advisers' viewpoint were deemed to arise from either (A) error in our operationalisation of the CAGE framework, (B) empirical error in chosen data or (C) error of the CAGE framework itself. Option A and B encourage future research on the topic, whereas option C would lead to questioning the validity of the business advisers' claims.

Keywords: Foreign Direct Investment; Emerging Markets; Sub-national Market Analysis; CAGE Framework

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1. Introduction

Companies derive sustainable competitive advantages from seeking out opportunities in geographically dispersed environments, across international borders. Looking into what opportunities might induce companies to enter a new market, Gupta et al. (2008) identify five “imperatives” that drive companies to become more international: to pursue (1) growth, (2) efficiency, and (3) knowledge; (4) to better meet customer needs; and (5) to pre-empt or counter competition. With regards to markets of particular interest for companies according to these imperatives, the emerging markets have drawn recent attention (IMF, 2014). When shaping strategies to enter and expand within these markets, the strong presence of regional idiosyncrasies raises the need for a more granular dissection of the target market (Khanna et al., 2005). However, in the process of mapping sub-national conditions, many foreign companies are struggling. As a consequence of sub-optimal selection of where to invest within the country, foreign corporates’ performance in emerging markets often fails to meet expectations (Ma et al., 2013).

A study by McKinsey & Company, the global management consultancy firm, pinpoints the underlying problem, namely the use of an incomplete set of parameters for mapping sub-national conditions within emerging markets (Atsmon et al., 2011; Vittal, 2014). They argue that companies must look beyond traditional transaction cost variables such as GDP growth rate in the region, and also consider variations in institutional conditions, such as legislative structures, when choosing locations for foreign direct investment (henceforth FDI). Drawing on a further interconnectedness of the two, McKinsey emphasises that companies should combine transaction cost and institutional theory when deciding on suitable sub-national locations in emerging markets. Their reasoning for accurately mapping sub-national conditions in an emerging market is also supported by academic research (Meyer and Nguyen, 2005). Likewise, Deloitte emphasises the need for companies to have a consistent and scalable process for assessing risks of cultural differences and corruption, and ensure that their business strategy aligns with local cultures, languages, business practices and regulations (Dent, 2014; Deloitte, 2012). However, the means by which these leading business advisers prove their hypothesis, using in-house models, lacks transparency. While imaginative and suggestive, it neither

allows for an evaluation of the validity of their results, nor is it specific enough to allow systematic replication or extending it to other cases.

Against this background, we set out to provide a framework that allows for the core hypothesis of the business advisers to be proven, yet one that builds on tried and tested research, in a manner that permits examination along the lines expected in academia. We add theory consonant with McKinsey's suggestions to a pre-existing model of considerable repute, one that is typically used to capture cross-national rather than sub-national variation. By doing so, we in effect attempt to fill the void created by the lack of specificity in Atsmon et al. (2011), yet we do so with a view to advancing the case which the business advisers, and international business scholars before them, bring to the table. Delimitations concern a focus on only emerging markets as target market of entry for companies and FDI as the mode of entry for these markets. This allows for accurately testing the hypothesis of the business advisors within the prevailing limitations of this thesis.

1.1 Background

The advisers' argumentation on how to accurately map sub-national differences in an emerging market is first and foremost supported by the principles of transaction cost theory, developed by Oliver E. Williamson in 1975. Williamson states that the transaction cost context of a market is mediated by prevailing institutional conditions, calling for the need to consider the two when studying a market (Williamson, 2000). Additionally, the legitimacy of McKinsey and others as acclaimed management consultancies further supports the reliability of their reasoning. With this said, this thesis strives to address the shortcomings in how the advisers operationalised and tested their reasoning, i.e. the lack of scientific transparency that would allow for an assessment of the validity of their claims. By imposing more stringent explanations for why foreign companies should use both transaction cost theory and institutional theory when studying sub-national conditions in emerging markets, this thesis thus aims to contribute to both academia and to corporate strategists.

The theoretical model of choice for operationalising transaction cost and institutional theory in studying sub-national conditions is the CAGE framework, covering (C)ultural, (A)dministrative, (G)eographic and (E)conomic market conditions and developed by professor Pankaj Ghemawat (2001). The framework co-relates the theories and their importance for understanding complex markets, and assigns variables for quantifying market complexities identified by them both in the CAGE model. The model's ability to accurately map market structures makes it highly useful when analysing foreign markets and the hurdles needed to overcome in order to enter them (i.e. market distances). As such, it is a relevant tool to test the hypothesis that market analysis should include both transaction cost and institutional theory. Furthermore, we adapt it to a sub-national level, whereas the CAGE framework traditionally addresses differences between nation-markets. Potential issues with doing so are mitigated following Ghemawat's (2011) reasoning of the framework's ability to measure distance between markets in general, whether it may be national or sub-national. Also, the CAGE model's ability to accurately measure market complexities strengthens its reliability for estimating market distances, compared to methods using case-based independent variables in a regression analysis. Lastly, the relevance of using the CAGE framework is further supported by its widespread acceptance in the academic realm as a tested and accurate method for measuring market conditions (Ramsey et al., 2010).

Using the CAGE framework as a theoretical model gives a scientific test and foundation to the hypothesis of business advisers, potentially confirming it and spurring further research in the field.

In short, our purpose is to find out whether sub-national variation in transaction cost and institutional conditions should be integrated into locational decision making of investments by foreign companies expanding in an emerging market.

1.2 Intended Knowledge Contribution

The study is designed to construct a framework, which would permit a theoretically sound assessment of the hypothesis that the success of foreign companies that entered and

expanded within emerging markets can be explained by their understanding of relevant sub-national conditions, based on both transaction cost and institutional theory. By outlining a more granular approach to shaping market entry strategy, one that is at once grounded in existing theory and amenable to examination along the lines favoured in research, we contribute to the current state of the art. It takes the shape of identifying and evaluating a means whereby local or regional context can be taken into account in decisions on locational choice as companies set sight on foreign market entry. To the extent that we are successful in this endeavour, it will provide the business world with relevant knowledge to reduce failures in future market expansion, and to increase subsidiary performance in emerging markets. In order to reinforce the message of the thesis, it is rooted in relevant academic theory on market entry strategy. Models used here are derived from this theory to map sub-national variations and how they correspond with the shaping of market entry strategies. By later illustrating that the cases of success can be deciphered using a theoretical benchmark for market expansion, this thesis will be able to contribute with new knowledge on how theoretical models can be used for successful operations in emerging markets.

1.3 Thesis Structure

To achieve the intended knowledge contribution, the thesis is organised as follows. Section two provides a backdrop of the internationalisation process of companies, narrowing down to the recent focus on emerging markets and the need for both granular sub-national analysis and the inclusion of institutional theory. The section concludes by identifying the research gap, which this thesis sets out to fill. Section three presents the theoretical models used in the study, ending with explaining how they make up the components of the study's theoretical framework. Section four elaborates on the research method used to fill the research gap. Section five presents the empirical findings from the quantitative and qualitative data collection, which are then analysed in section six using the developed theoretical framework. Lastly, section seven contains a conclusion that summarises the analytical findings and presents theoretical and managerial recommendations. It also presents possible critiques of the study as well as suggestions for future research.

2. Literature Review

This section provides the backdrop for the topic of the thesis. It opens by discussing how and why companies internationalise their operations. Building on these underlying drivers, the current focus on emerging markets is presented. Identified challenges when venturing into these market bridges to the on-going debate of conducting more granular market analysis, in answering to sub-national market idiosyncrasies. The section concludes by highlighting the shortcomings in research on the thesis topic, thereby leading up to the identified research gap.

2.1 Internationalisation Processes of Companies

As stated by Gupta et al. (2008), companies internationalise for multiple different reasons. The Uppsala Internationalisation Process model, developed by Johanson and Vahlne (2009) in 1977 and revised in 2009, is a theory that describes and systematises companies' cross-border venturing, by showing how liability of foreignness and liability of outsidership act as triggers in foreign market selection. Liability of foreignness relates to the inherent disadvantage associated with non-native status in the foreign market and liability of outsidership addresses the difficulties of not being included in relevant local networks. These two make up the *psychic distance* to understanding the foreign environment. Drawing from the resulting risks of entering a foreign market, companies are often inclined to start their internationalisation process in neighbouring countries or other regions where the perceived psychic distance is low. Evidence of such behaviour can be noted in the case of IKEA's international diversification, with the first foreign markets entered being the neighbouring countries Norway in 1963 and Denmark in 1969 (Jonsson and Foss, 2011). Similarly, the Japanese auto manufacturer Toyota started exporting to Southeast Asian countries first (Terpstra et al., 2006). When close business ties already exist between countries, psychic distance is estimated as low and foreign market entry risk is mitigated (Johansson, 2006).

Only entering foreign markets with perceived low psychic distance has its limitations, should a global presence be aspired to. When venturing further away from the home market, companies need to address the increasing uncertainty and psychic distance when

doing business. As advocated by Johanson and Vahlne, this calls for the use of company resources and relationships to engage in network building and knowledge creation in the more distant markets. Temporary low-commitment modes of entry such as direct export gives the company time to engage in this. As liability of foreignness and liability of outsidership are gradually reduced, the company can transition to the higher commitment mode of FDI, setting up partly or wholly owned subsidiaries in the market. Such a transition is driven by the improved ability to exploit the market opportunities that motivated the company to enter the market in the first place, such as market-seeking incentives, the possibility to secure natural resources and/or strategic resources, as well as realising efficiency improvements (Verbeke, 2013).

2.2 Conquering Emerging Markets

Building on the drivers to internationalise a company's operations, one set of markets in particular has undeniably captured the attention of the global business community in recent decades. The so-called emerging markets do not only provide a source of lucrative resources to companies' current business, but they also in many ways constitute the markets of the future, where presence is imperative for future sales growth (EY, 2013; IMF, 2014; Atsmon et al., 2011).

The term *emerging market* dates back to 1981, when it was coined by the International Financial Corporation (IFC) of the World Bank (Verbeke and Merchant, 2012). Since then the definitions of what constitutes an emerging market have been numerous and subjective to the observer. Focus tends to be on different weightings of the nation's wealth, growth rate, and regulatory regime. Khanna and Palepu (2010) have a different opinion and define emerging markets as countries where buyers and sellers cannot interact smoothly, due to institutional barriers. Centring on institutional development rather than, for example, a plain GDP measure, allows us to also classify wealthy yet dysfunctional markets such as the United Arab Emirates as emerging. In accordance with Verbeke and Merchant's (2012) comparison of emerging market-measures and the desire for a more holistic view on market breakdown, the definition by FTSE (2013), a British stock index and analytics provider, will be applied in this thesis. It classifies 22 countries

as emerging (advanced and secondary emerging), 25 as developed and 26 as lesser-developed frontier markets (see Appendix 1).

Today's emerging markets hold 86 % of the world population and 75 % of the landmass (Blackrock Investment Institute, 2011). Their share of middle-class spending is expected to increase from 25 % today to 65 % in 2030, by which time they will also have 85 % of the world's working-age population (United Nations, 2013; Kharas, 2010). Following this trend, in 15 years from now, 57 % of the nearly one billion households with earnings greater than \$ 20 000 a year will live in these markets (Atsmon et al., 2011). As emerging markets become the world's fastest growing markets for most products and services, international companies expect to find 70 % of their future growth in emerging economies (Khanna et al., 2005; Eyring et al., 2011). The International Monetary Fund (IMF) estimates that emerging markets will contribute with almost 70 % of world GDP growth during the post-crisis decade 2008-2018 (EY, 2013; IMF, 2014). Economic growth brings both improved conditions for establishing competitive production facilities in these countries, and a growing domestic consumer base. Expectations for strong future growth of both the economy and the potential customer base, opportunities for low-cost manufacturing and distribution, and access to production inputs are cited as key factors when companies decide to enter emerging markets (Atsmon et al., 2011).

Acknowledging the opportunities in emerging markets, WTO estimated in 2011 that some 20 000 international companies were operating there, including almost all of the Fortune 500 (Eyring et al., 2011). A 2010 trade report by UNCTAD also provided evidence supporting the widespread notion that emerging markets are high on the agenda for many companies. Between 2000 and 2009, FDI inflows in the studied emerging countries of Brazil, Russia, India and China, increased more than threefold, from 5.69 % to 17.44 % of the global total (UNCTAD, 2010). But even if figures indicate that the quest to conquer the emerging markets is well underway, the Blackrock Investment Institute (2011) is one of many to underline that much of the existing potential is still untapped. Taking China as an example, where the majority of growth in the emerging markets is forecasted to originate, multinational companies are often present with a mere

5-10 % of their global sales, and offer little customisation of their value propositions (Venkatesan, 2013).

As companies reach for the opportunities available in emerging markets, academic theory on psychic distance in market selection and entry strategy comes into play. In high-growth markets, the liability of foreignness and the liability of outsidership are often considered as high (Johanson and Vahlne, 2009). Companies undeniably find it challenging to navigate in these seemingly promising markets, as can be seen in the World Bank's 'Ease of Doing Business Index', ranking popular emerging markets like Brazil and India in place 129th and 133rd (2010). The reason for this can be found in the institutional context of these countries and the difficulties of understanding the idiosyncratic circumstances when crafting market entry strategies, suggested Dirk Holtbrügge and Anastasia Baron (2013) in a study on the matter. Out of 183 countries analysed, the Heritage Foundation (2011) has emerging markets like Russia, China and India ranked at the bottom in terms of economic freedom, and Transparency International (2010) notes high levels of corruption. Holtbrügge and Baron stress that companies' varying awareness of institutional differences and conscious choice of market entry strategy is highly related to their different market entry success.

As the chosen market entry strategy is highly correlated to market entry success in emerging markets, companies need to think wisely in order to mitigate risk and execute operational control (Ma et al., 2013). Whereas some companies develop expertise in a certain mode of entry, others adjust their approach based on the idiosyncratic conditions of the market. The choice of market entry strategy of a company is determined by the desired resource commitment, level of control and technological risk (Anderson and Gatignon, 1986; Luo, 2001). It spans from direct export, where the company preserves all operations in the home market with a resulting limited risk, to FDI and the shift of business activities to the new market in the shape of (wholly or partially owned) subsidiaries. With the Uppsala Internationalisation Process opting for initial low-commitment strategies such as direct export, starting with FDI has been shown to offer better opportunities for stable profits and exploitation of opportunities for market-seeking

companies (Agarwal and Ramaswami, 1992; Chung and Enderwick, 2001). With the high-risk nature of emerging markets in mind, the ability of FDI to provide internal operational control and protect company resources has Luo (2001) claiming that it is a cornerstone for business success in emerging markets. Verbeke (2013) adds to this by also stating that FDI offers the highest profit potential, as the company manages its own operations in the foreign market and, by being physically present, is able to tap into its full potential in terms of location advantages. Lastly, an ownership mode of entry is also foreseen to mitigate institutional pressures and risks caused by the existing political, financial and economic weaknesses in the emerging markets (Demirbag, Glaister and Tatoglu, 2007).

2.3 Increasing Granularity in Market Entry Strategies

Mitigating the liability of foreignness and liability of outsidership in emerging markets requires gaining the necessary experiential knowledge and established networks. These two liabilities require companies to accumulate both relevant institutional market knowledge and market-specific knowledge relative to the specific business environment (Johanson and Vahlne 2009). Considering the transformational market landscape of emerging markets, this process requires making use of tools different from those employed in developed markets. Khanna et al. (2005) highlight this by stating that the use of traditional analyses for emerging markets may conceal more than they reveal. They argue that parameters included in such transaction cost analysis, e.g. country portfolio analysis, GDP analysis and purchasing power parity, disregard the countries' institutional characteristics and consequently also the institutional distance to overcome. Where such factors may not be a major issue for developed-country companies in developed markets, they are of significant importance when entering distant emerging markets. Khanna et al. provide evidence of this by comparing the emerging markets of Russia, China, India and Brazil on six traditional indices. Despite showing rather similar scores on all variables, by adding an institutional filter it is possible to distinguish four highly idiosyncratic market conditions, both at a national and sub-national level. Reasoning by Wright et al. (2005) aligns with the findings of Khanna et al. They state that market entry strategies that do not include institutional analyses in combination with transaction cost analyses on a sub-

national level, will have very limited applicability for crafting a successful market entry strategy, telling where and how to set up operations in emerging markets.

To emphasise variations within the cluster of emerging markets, McKinsey released a market entry strategy report on China, opting for increasing granularity and consideration of institutional conditions, when conducting market entry analysis (Atsmon et al., 2011). The report concludes that the diversity and dynamism in emerging markets like China, India and Brazil invalidate the use of a one-size-fits-all approach even at a national level. Evidence of this was reported in China, where demographic characteristics are so different that consumption growth trends for a certain product could vary five times over between regions. Additional evidence of such discrepancies in sub-national market characteristics was also exemplified using the economic boom in Mumbai, projected to by 2030 have a larger economy than Malaysia has today. Mumbai is the main city of the Maharashtra state in Western India, a state that also contains some of the poorest districts in the country, with a third of its population living below the poverty line (Alkire et al., 2011).

Despite the importance of more granular and comprehensive market analysis in emerging markets, Ma et al. (2013) still find that foreign companies often fall victim to sub-national variations, assuming that they can conquer a whole nation-market with a single approach. Companies face difficulties that they did not foresee, and perform worse than expected. Market analyses for FDI run the risk of suggesting a sub-optimal location of entry or geographic expansion, if it does not include all market variations relevant to the business. Ma et al. empirically prove that sub-national conditions are significant in explaining the varying performance of Fortune Global 500 Corporations' subsidiaries' in emerging markets. The findings highlight the importance of considering sub-national idiosyncrasies when deciding where to enter, and the path of expansion, in an emerging market. These idiosyncrasies are identified with both transaction cost and institutional theory, the combination of which is emphasised by both leading academics (Meyer and Nguyen, 2005; Ghemawat 2011) and leading corporate advisers McKinsey and PwC (Atsmon et al., 2011; Sussman et al., 2013).

There are numerous cases of foreign companies that encountered unnecessary friction in the market entry and expansion process in an emerging market, resulting from failure to acknowledge sub-national conditions. Recent examples highlighted by media are the difficulties Home Depot, Mattel, eBay and Google faced when trying to conquer the Chinese market, with all four underestimating the sub-national cultural and legal context in the country (CNBC, 2013). Another example is when IKEA's nation-wide roll-out plan in India reached a dead-end in 2012 in the state of Punjab due to socio-political resistance (HSBC, 2013). What becomes apparent when studying the cases of foreign companies struggling to enter emerging markets is the absence of a more granular understanding of the idiosyncratic makeup of the market. It is contrasted by companies that actually did their homework, such as KFC when entering China, understanding the need to adjust expansion within the country according to regional differences, thus allowing for adaptation and flexibility to meet consumers' diverging preferences (Bell and Shelman, 2011). Synthesising these cases, Richard Lesser, chief executive officer at Boston Consulting Group, indicates that success in emerging markets is about not applying the broad-brush view (Schaefer, 2013). He means that a successful market entry strategy identifies and translates sub-national dynamics into the location of entry that would allow for the highest performance yield by the foreign subsidiaries.

2.4 Research Gap

Existing literature on FDI market entry strategies for emerging markets clearly underlines the importance of acknowledging sub-national market idiosyncrasies. It also states that successful location selection of FDI in the country is closely tied to using the right parameters to unveil sub-national market clusters. With the demonstrated relevance of institutional conditions in emerging markets in mind, useful sub-national segmentation therefore has to make use of not only traditional transaction cost parameters, but also institutional parameters. Despite this understanding, existing literature contains a number of shortcomings, which this thesis seeks to address. First, few studies incorporate the institutional context of the host country (Gomes-Casseres, 1990; Meyer, 2001). Second, limited research provides insights on the strategic decision of where to locate FDI in a

host country based on institutional variables (Globerman and Shapiro, 2003; Loree and Guisinger, 1995; Oxelheim and Ghaur, 2004). Third, the majority of existing literature on FDI focuses on mature market economies, with only recently attention given to emerging markets (Chung and Beamish, 2005; Brouthers et al., 2005). The identified research gap is thereby the insufficient academic research on location selection for FDI in an emerging market, combining the highly relevant institutional parameters with the more traditional transaction cost parameters.

The relevance of the identified research gap builds on the thesis' statement of purpose. Hence, this thesis will provide new literature on whether sub-national variation in transaction costs and institutional conditions can be integrated into standard models of locational decision for FDI in emerging markets. As for the feasibility of filling the research gap, the identified presence of sub-national clusters in emerging markets and the ability to study these, entails that using appropriate methods, mapping present sub-national idiosyncrasies and how to act on these is possible.

3. Theoretical Framework

This section covers the theoretical framework used to map sub-national dynamics in a market and operationalise its impact on market entry strategies. It is divided into two sub-sections, where the first provides the foundation for analysing markets, which the second sub-section later uses to address the problem area of the thesis. Each sub-section concludes by briefly clarifying how the theoretical concepts presented will be used in the context of the study. The theory presented in the first sub-section relates to the interconnected filters used in understanding the complexity of an economy. The second sub-section makes use of this approach, by translating the observed market characteristics into operational metrics for shaping market entry strategies, using the distance between markets. The section concludes by showing how the presented theories come together in creating the framework for uncovering and acting on sub-national market differences. At the heart of the theoretical framework is the CAGE model: first developed to identify market distances between nations, now adapted to identify market distances on a sub-national level. The CAGE model estimates perceived distance, i.e. the challenges of doing business between two locations, using metrics derived from both institutional and transaction cost theory.

3.1 Economic Systems

When selecting a new country to enter, the prevailing conditions of that particular market must be understood. It is the process of defining differences between home market and host market that results in the aggregated understanding of market distance. The implications of this market distance can often be seen as two-sided. For example, high distance can be viewed as a source of knowledge enrichment, but it also creates difficulties in terms of liability of foreignness. Low distance can pave way for easy market entry but at the same time constrain the ability to develop new competitive advantages (Ghemawat, 2001; Vestring et al., 2005). With companies incurring additional costs of doing business in the host country, resulting from a variety of factors, the importance of accurately understanding market distance is stressed (Verbeke, 2013).

Peng (2001; 2006) argues that companies should take into account the institutional framework of the market that they wish to enter. This ‘institution-based view of strategy’ and inter-correlation between the host market’s institutional makeup and market entry strategy is not a theory in itself, but provides valuable insights into understanding the internationalisation process of companies. The impact of host-market institutions on traditional determinants of entry strategies has been shown to be even larger for both emerging markets and FDI (Bevan et al., 2004; Henisz, 2000; Meyer, 2001).

Despite the importance placed on understanding the institutional setting in a market, its complexity and intangibility often makes companies ignore it altogether when developing market entry strategies. Factors contributing further to this omission are that neoclassical economics often has been dismissive of institutions and that organisation theory has lacked scientific ambitions to contribute to its demystification. New Institutional Economics (henceforth NIE) addresses this issue and has made considerable contributions in uncovering the components that make up an economy, thus paving way for the comparison of economic systems (Williamson, 2000). Presented by Williamson in 1975, this economic perspective not only proves the importance of institutions, it also shows that determinants of institutions can be measured using tools from economic theory.

Figure 1 illustrates how Williamson’s NIE breaks down an economy into four levels of social analysis, thereby showing how institutional theory is used as a basis in understanding a market. This approach allows companies to make more rational decisions when devising their market entry strategies. The solid arrows that connect a higher level with a lower level signal that the higher level imposes constraints on the level below. The reverse, dashed arrows show feedback that goes from a lower to higher level. Reasoning around the model acknowledges the work on institutional theory by Douglass C. North. According to him, institutions can be seen as the rules of the game in a society, or humanly devised constraints that shape human interaction (1990). Reflected in the embeddedness of the economy (e.g. customs, traditions and norms), this form of social theory trickles down in the economy, affecting the more tangible dimensions in a market

such as labour and product markets. Social theory according to North will therefore be the point of departure when discussing how the social levels of NIE can be used to understand the nature of an economy.

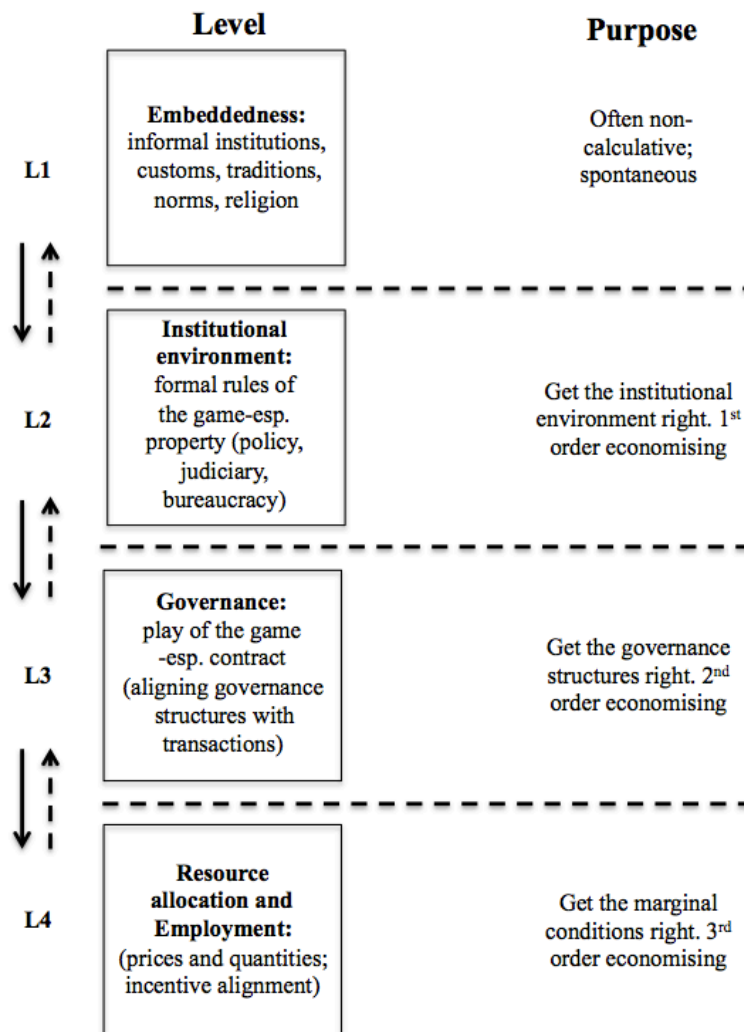


Figure 1: Levels of the Economic System
Source: Adapted from Williamson (2000)

3.1.1 Level 1 – Social Theory

The first and highest level deals with social theory and social embeddedness, covering areas such as norms, customs and religion. These informal institutions, changing very slowly over a long period of time, have been taken as given by many institutional economists (Williamson, 2000). Nonetheless, North raises the question “What is it about informal constraints that gives them such a pervasive influence upon the long-run character of economies?” (1991, p. 111). The pursuit of unravelling this perplexing notion and the concept of “embeddedness”, both on a societal level as well as in network relations, caught the attention of Granovetter (1985). The origins of these informal institutions should in many ways be seen as spontaneous and evolutionary, later adapted by the economy and integrated with its values.

3.1.2 Level 2 – Economics of Property Rights

The second level reflects the institutional environment, a result of the overlying social embeddedness from level 1. Furthermore, on this level it is possible to distinguish a transition from informal to formal institutions, such as laws and property rights (North, 1991). They serve as formal guidelines for getting the rules of the game in an economy right. The roles of the government and institutional instruments come into play through various legislative and judicial functions, as well as the distribution of power. Despite changing faster than level 1, the institutional environment also evolves over long periods of time, as can be seen in the case of the European Union, still being in an early phase 50 years after inception (Williamson, 2000).

3.1.3 Level 3 – Transaction Cost Economics

While level 2 addresses the rules of the game, level 3 focuses on the interplay and the actual play of the game. In other words, the institutions of governance look into the transaction cost economics and the contractual relations in a market. Adhering to the view that the transaction is the basic unit of analysis, its governance serves the purpose of crafting order in exchange, as to mitigate conflict and support mutual gains. In the classic article by Coase from 1937 on ‘The Nature of the Firm’, the analysis of any issue derived

from contracting, can benefit from using transaction cost theory (Williamson, 2000). Leading back to getting the governance structures right, the reorganisation of transactions is done faster than the change observed at level 1 and 2, normally on a periodical scale of a year to a decade.

3.1.4 Level 4 – Neoclassical Economics

With neoclassical economics typically viewing the company as a production function, its theory brings up the adjustment of prices and output on a basis of continuous change. Level 4 also covers agency theory and the alignment of incentives and effective risk bearing. Reflecting the continuous change observed on this level, the influence of technological and organisational innovation must also be acknowledged (Arrow, 1971; Fogel, 1999). With such changes continuously altering the playing field in an economy, its prerequisites can ultimately be linked back to all above-standing social levels.

3.1.5 Application of Economic Systems

Williamson's conceptual framework for mapping the nature of economies helps gaining a holistic understanding of market complexities. In the context of this thesis, the framework is a starting point when uncovering the interplay between institutions and transaction cost dynamics, and its impact on an economy. To support a comparative investigation, the identified market characteristics need to be interpreted and measured using operationalised parameters. In this sense, the first sub-section of the theoretical framework can be understood as a stepping-stone for introducing a relevant model to identify market characteristics. The characteristics identified are then compared, to determine market differences and thus also market distances. This leads us to the next sub-section, which will describe the relevant parameters and their component variables, that can be used to operationalise the components of an economic system, and thus open up for comparing markets with each other and defining market distances.

3.2 CAGE Framework

When looking at markets through the lens of the four social levels described in the previous sub-section on economic systems, it is possible to uncover complex and distinctive characteristics. Taking different shapes, we can for instance see that favourable market-oriented institutions often give rise to high levels of FDI (Bevane et al., 2004; Globerman and Shapiro, 2003). Institutions also dictate transaction costs for companies in foreign markets, and they moderate the importance of gaining access to local networks (Peng, 2006). The apparent influence of existing institutional frameworks and subsequent transaction cost dynamics on market entry strategy raises the need to find ways of measuring the host market's economic system and how it is different from that of the home market.

Pankaj Ghemawat's highly acknowledged CAGE framework (2001) helps actors interpret the economic system by Williamson and identify distance between home and host markets, based on differences in culture, societal institutions, physical location and economic status. It may thus be contrasted against the approach to analysing foreign markets backed by Håkanson and Ambros (2010), giving more weight to the physical distance to the host market. The CAGE framework estimates the aggregated (C)ultural, (A)dministrative, (G)eographic and (E)conomic market distance between two locations. When comparing the distance between home and multiple host locations, foreign markets with low market distance will be perceived as more attractive, compared to markets with higher market distance. This notion influences market entry strategies in the sense that a company will enter foreign markets in the order of higher market distance, beginning where market distance is the lowest. The CAGE model shows a strong explanation of and correlation with real international trade flows, consonant with traditional gravity models of international trade (Ghemawat, 2011). For individual companies, the model is useful to map and understand market differences that are imperative to crafting successful internationalisation strategies. The parameters of distance encompassed in this reasoning are organised in four categories, described below:



Cultural distance: a result of differences in national cultural attributes such as language, religious beliefs, ethnicity and social norms.



Administrative distance: reflects differences in societal institutions. Distance is lowered for instance if the two countries share the same history, have political ties or have engaged in efforts of economic integration.



Geographic distance: refers to the physical distance between countries, also taking into account the ease of transport between the countries. Factors reducing perceived distance are for example an interconnection via ocean waterways or human intervention through functioning transportation links.



Economic distance: depicts differences in variables such as consumer wealth, income level and distribution, infrastructure characteristics and cost and quality of natural, financial and human resources.

3.2.1 Cultural & Administrative Distance

Cultural and administrative distance reflects the differences in the first and second social level between two economic systems. This can be seen in how they both address the social embeddedness and institutional environment of a market. International management research confirms that the institutional context of the country that a foreign company wishes to enter has a direct influence on market entry strategies and their success rate (Brouthers, 2002; Brouthers and Hennart, 2007; Henisz, 2000; Meyer and Nguyen, 2005). Institutional theory therefore places emphasis on adapting to the parameters of cultural and administrative distance. Adhering to the variable of administrative distance are formal constraints such as laws and rules that are formed by the institutional frameworks of economic, political and legal systems. Cultural distance captures the informal forces that influence these institutional frameworks, taking the shape of the values and norms of the country (North, 1990). This interconnectedness further supports the necessity to look at cultural and administrative distance jointly in establishing the institutional setting of a market (Hofstede, 2001).

In the context of emerging markets, Tarun Khanna and Krishna Palepu (1997) stated that due to the frequent presence of market failures on this level in an economic system, these markets are often characterised by institutional voids. Additionally, companies are often faced with inexperienced transformational bureaucracies, where reliable business information can be hard to find and corruption is widespread (Holtbrügge and Baron, 2013). Such market characteristics support the relevance of using institutional theory to gain a holistic understanding of the market structure and the important institutional changes taking place. This is something not covered by traditional variables of measure, often used for developed markets where regulatory frameworks are established and potential changes do not need to be monitored as closely. Since the primary challenge for companies wishing to enter emerging markets is to overcome these institutional barriers, Khanna et al. (2005) go more deeply into describing Ghemawat's distance component of administrative and cultural distance. Much like market distance is positively correlated with risk and costs, the authors highlight the importance for senior managers to not over-emphasise traditional market metrics such as GDP analysis when drafting expansion plans for emerging markets. They should also ask themselves if they could penetrate the prevailing institutional barriers. The article written by David Arnold and John Quelch in 1998 on 'New strategies in emerging markets' also supports this by advocating non-traditional marketing metrics for evaluating attractiveness in emerging markets.

3.2.2 Geographic & Economic Distance

Geographic and economic distances in the CAGE framework interconnect and adhere to the third and fourth social level in an economic system. Support for this can be seen in how geographic and economic distances address transaction cost economics and the continuous changes in resource and market developments, reflected in the third and fourth social levels of an economic system.

The theory of transaction cost in economic transactions builds on the idea of lowest resistance in exchange. Put differently, market entry decisions are guided by the modes that give rise to the lowest expenses and delays for the exchange (Williamson, 1987).

When formalising transaction cost theory in 1975, Oliver Williamson outlined the following factors as contributing to increased transaction costs and thus influencing the desired transaction governance structures in a foreign market (Williamson, 1987): bounded rationality, opportunism, asset specificity, transaction frequency and uncertainty. In emerging markets, where foreign companies are exposed to transformational institutions, such factors influence transaction costs to a large extent, and thus also the market entry mode.

Understanding that transaction cost theory helps identify and overcome frictions in economic exchange, covered in economic distance and the fourth social level, has been useful for multinational companies when developing market entry strategies. Nevertheless, transaction cost theory was formed under the assumption of established and developed formal institutions, as seen in its focus on economic criteria and intentional and rational decisions. Therefore, its ability to unaccompanied provide a reliable image of an emerging market has been criticised. Nevertheless, since the IFC first started using the term “emerging markets” in 1981, these economies have been characterised by for instance high GDP growth and low GDP per capita (Arnold and Quelch, 1998; Verbeke and Merchant, 2012). Applied metrics therefore clearly highlight that transaction cost theory is widely used in the context of emerging markets. Regardless of its ability to map fundamental characteristics of an emerging market, unless used in conjunction with institutional theory, market conditions of considerable importance for market entry strategies in emerging countries are often overseen (Hoskisson et al., 2000).

3.2.3 Application of the CAGE Framework

The four parameters of market distance described in the CAGE framework reflect the four social levels covered in Williamson’s model of economic systems. Cultural and administrative distance adheres to differences in the first and second social level of economic systems. At the same time, geographic and economic distances correspond to market differences on the third and fourth social levels of economic systems.

Companies and analysts of international trade are encouraged to derive a CAGE model from the framework by developing variables that measure each of the four parameters of distance. The variables developed are selected and weighted depending on the particular industry that is analysed, so that each of the parameters gets an appropriate influence. The compatibility of the CAGE model with Williamson's model of economic systems underscores how the CAGE model can operationalise, measure and compare the dynamic characteristics of economics systems. Furthermore, the model also encompasses both transaction cost parameters and institutional parameters, which is of proven importance when studying emerging markets. Where the CAGE model is normally used to determine national market distance, its ability to capture market distance between any geographic regions is the reason for why it will be used in this study. By adapting the variables applied, the CAGE model will be used to map sub-national idiosyncrasies and the resulting market distance. With its empirically proven usefulness for shaping international trade, the applied CAGE model suggestions will be used to develop a benchmark for successful market entry strategy on a sub-national level. Hence, the cases of successful market entry by foreign companies in emerging markets should reflect the CAGE model's suggested market expansion process in an emerging market.

3.3 Summary of the Theoretical Framework

Figure 2 illustrates how the presented theoretical concepts make up the theoretical framework used in this thesis. An economic system is operationalised using the CAGE model, allowing the distance to be estimated between two markets. This is done by having the variables for cultural distance in the CAGE model determine level 1 of an economic system and the variables for administrative distance determine level 2. Due to the interplay between level 3 and level 4 of an economic system, the variables for geographic and economic distance are used jointly to operationalise these social levels. The cultural and administrative dimensions of the CAGE model analyse the institutional context of a foreign market whereas the geographic and economic dimensions analyse the transaction cost context. As proven, there is also an interaction between the two contexts. This interaction and synthesis of theory is visualised in Figure 2 below.

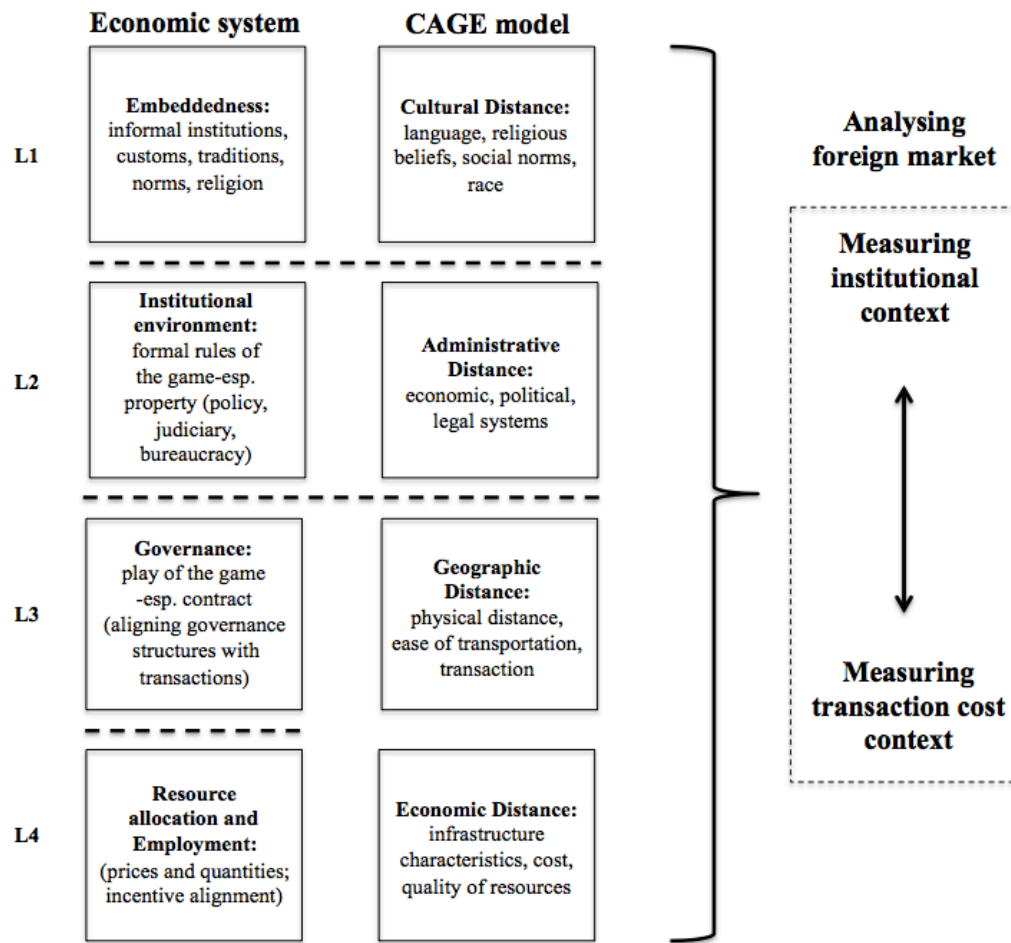


Figure 2: Theoretical Framework

Source: Adapted from Ghemawat (2001) and Williamson (2000)

4. Method

This section describes the research methods employed to collect and systematise the data used in the study. It opens by describing the overarching method and strategy applied, thereafter explaining the sample selection process. The way we study the chosen sample is presented below, concluding with addressing the validity and reliability of the study.

4.1 Research Strategy

We start with a functionalist paradigm, conducting analysis in a perceived objective reality, where our empirical study objects have a rational decision making process (Greener, 2008, p. 34). We see corporate strategy as *linear*: the result of methodical, intentional and sequential analysis and planning (Smart and Paulsen, 2011). This affects our approach both to collecting and analysing our data. In contrast, we discard the interpretive, radical humanist and radical structuralist paradigms, which are also common in social sciences research (Burrell and Morgan, 1979, p. 112). We consequently believe in the existence of objective truths that can be stated, and not only understood through the perceptions of people, or through conflicts in structural relationships (Greener, 2008).

Having scoped our research purpose and research paradigm, the following strategy is used, with academic theory as a cornerstone. Primary resources provide a test of how the theories work and are used in practice. Our CAGE model quantitatively assesses the overlap between the theoretically optimal sub-national markets and the sub-national markets targeted in practice. This requires a deductive approach, where theory is contrasted with data collected from business practice. Such qualitative data collection introduces a risk of personal bias, which we mitigate with the techniques of King (2004):

- Listing all presuppositions and hypotheses at the start of the study, to regularly remind ourselves of which theories we develop, and which we had from the onset.
- Regularly discussing our thought process and topic understanding, both with each other, with the tutor and in individual project journals.
- Reviewing taped interviews with a focus on our performance as interviewers, to identify any bias or deviation from the interview structure.

4.2 Research Method

A quantitative CAGE model lies at the core of this thesis study. The four parameters of the model are operationalised, so that they capture the relevant economic system components of the particular home- and host market pairs studied. Sixteen variables are chosen, four variables per parameter of market distance. The selection of variables is based on qualitative research on academic theory, the nation-level CAGE model and semi-structured interviews. The variables measure the factors that influence the success of companies and the sub-national CAGE model (henceforth *the CAGE model*) will consequently give a tangible measurement of the idiosyncratic sub-national market differences.

The CAGE model is used as a benchmark, to see how well corporate practice corresponds with academic theory. Successful companies are implicitly assumed to be using analytical tools equivalent to the CAGE model. The relationship strength between the theoretical benchmark and reality is quantified using the Spearman's rank correlation coefficient. It measures the correlation between market distance, derived from theory and reality. The statistical measure's ability to test the strength of relationship between two sets of non-normally distributed data is the reason for why it was used in this study (Laerd Statistics, 2013). Varying from -1 to +1, the closer the absolute value of the obtained correlation coefficient is to 1, the stronger the correlation. A high value thus implies that corporate practice is closely related to what is suggested by the theoretical benchmark. The correlation strength can be further understood using the following guide (Statstutor, 2013):

Correlation coefficient	Correlation strength
+/- 0.00 – 0.19	Very weak
+/- 0.20 – 0.39	Weak
+/- 0.40 – 0.59	Moderate
+/- 0.60 – 0.79	Strong
+/- 0.80 – 1.00	Very strong

Table 1: Spearman's Rank Correlation Coefficients

We use a standardised survey to acquire statistically comparable data for corporate expansion patterns, and semi-structured interviews for in-depth understanding of strategy formulation and the perceived idiosyncrasies of sub-national markets. Semi-structured interviews are desirable since they are useful to ascertain relevance in novel research fields (Björkegren, 1988) by allowing for discussion and questioning of stated facts (Yin, 2008; Trost, 2007). The content of the interviews was slightly updated in April 2014, in accordance with insights that we gained in the research process. This was done to ensure relevance of questions discussed (Bryman and Bell, 2011). In two interview cases (Ray and Vittal), this led us to reconnect with the interviewee with additional questions.

The sample size for the interviews is limited by budget and time constraints, which implies that each of the individual cases will have a big impact on our findings. On the other hand, focusing on a smaller number allows for deeper understanding of their situation, and a foundation on which to formulate hypotheses, i.e. the variables used in the model (Gummesson, 2000). The research method creates both an in-depth understanding of sub-national markets, and a tool to measure the coherence of practice with academic theory.

The academic literature employed comes mainly from peer-reviewed journals and well-established non-governmental organisations. Additional secondary data is taken from industry reports, where the validity and accuracy has been cross-checked across sources.

4.3 Sample Selection

To assess the clustering of sub-national markets, the research subjects (i.e. geographies and companies) were chosen through a multi-step process. Institutional voids become problems when companies act in markets away from home. Disregarding and/or clustering sub-markets in heuristic models are an effect of the bounded rationality of corporate managers, and the likelihood to do so increases with the distance to the target market. This thesis studies the coherence of theory and practice when entering emerging markets in general, but only one geographic region (i.e. nation-market) could be studied due to time and resource constraints. From the list of 22 emerging markets presented in

Appendix 1, a smaller subset is identified. Brazil, Mexico, India, Indonesia, China, South Africa and Thailand all have sufficiently large populations, area and GDP (adjusted for purchasing power parity) to contain tangible sub-national markets as basis of analysis (MSCI, 2013). These countries represent different corners of the world, each with its own challenges and opportunities, attracting foreign companies with the allure of economic growth. The study could thus be conducted on any of these seven countries, with similar generalisability. We chose to conduct the study on India for three reasons:

1. India is considered one of the most attractive destinations for FDI (EY, 2013).
2. India is expected to become the world's most populous country by 2030, making it highly relevant and important to understand for corporate strategists (National Intelligence Council, 2012).
3. The authors have gained considerable experience, understanding and contact networks in India (see author profiles in Appendix 2). This facilitates collection of reliable and relevant data.

India has 28 states and 7 smaller union territories. Almost every state has one or more unique official languages, ethnic groups and traditions. Six of the union territories are excluded due to their very small size and unique conditions¹, with only the capital of New Delhi included. The model thus estimates the relative attractiveness of these 29 geographic entities (henceforth *States*), contrasted as if they were stand-alone markets.

To hold home-country characteristics constant, the foreign companies chosen should be from the same home market and entering the same target nation-market; for practical reasons, the companies studied all have their home base in Sweden and enter into India. Having a market presence in India is taken as a proxy for successful nation-market entry, as is a company's presence in each of the 29 states taken as a proxy for successful sub-national market entry. We develop a snapshot of all companies' presence in the 29 states

¹ The territories (1) Andaman and Nicobar Islands and (2) Puducherry are excluded for their extreme geographic locations. (3) Chandigarh is not counted as standalone but included in the states of Punjab and Haryana, of which it is the capital. (4) Dadra and Nagar Haveli, (5) Daman and Diu and (6) Lakshadweep are excluded for their small populations and areas.

as of April 2014, which translates into a state ranking based on number of companies present. The companies were selected in cooperation with the Swedish Chamber of Commerce in India (SCCI). Ensuring validity and comparability, all companies included in the study should have a consolidated turnover exceeding 100 MSEK, be present in at least two more countries in addition to India and Sweden, and have operated in India for at least 3 years. Adding to these control variables, only companies selling goods were included so as to homogenise the industry background and emphasise the need for FDI. The expansion patterns for services companies are too different, since they can make use of the Internet to a greater extent. We selected 62 companies from SCCI's annual publication on Swedish companies in India (Business Sweden, 2007; 2010; 2014), of which 41 companies responded to the survey. These companies are shown in Appendix 11.

The sample size of interviewees has been set according to time, budget and availability constraints, as recommended by Saunders et al. (2000). We chose the interviewees in cooperation with the Swedish Chamber of Commerce in Delhi, based on the three criteria below. Diverse backgrounds were sought for data reliability:

1. Organisation (respondents were sought from three fields of expertise)
 - a. Scholars, offering a combination of academic and managerial knowledge.
 - b. Corporate managers from companies with first-hand experience from emerging market entry strategies. (see Appendix 3 for interview structure).
 - c. External advisers with insights into multiple companies and markets.
2. Perceived level of relevant knowledge
3. Respondents' gender

Where answers were deemed insufficient and in need of further clarification, interviewees were asked to refer to additional interviewees. Such iterative "snowball sampling" is an established method of finding relevant information from a limited sample (Seidel, 1998; Bryman and Bell, 2011), and led us to include a fifth interviewee.

4.4 Variable Selection

Each parameter of distance in the CAGE model is studied using four variables each, to provide a comprehensive estimate of the sub-market idiosyncrasies. The variables are derived through a structured approach: with the assumption that the presented academic theory correctly explains reality, it is the first source employed. Where theory did not suffice, we used the variables for estimating national market distance in the nation-level CAGE model, or near proxies for a sub-national context. Thirdly, we used the input from the interviews to determine whether any particular variables were more relevant to the Swedish-Indian market pairs. The final step was to adjust for resource constraints and availability of data, adapting the desired variables to what was possible to acquire. The final variables have been cross-referenced and approved by an associate of Pankaj Ghemawat, namely Professor Steve Altman. The variable proxies are either unilateral or bilateral, in the latter case relating to the reference location Stockholm, Sweden. The complete set of variables used in our CAGE model is shown in Table 2 below, further detailed in Appendix 4:

CAGE variables used	
<u>C</u>	<u>A</u>
C1 - Literacy Rate	A1 - FDI Attitude
C2 - Religion Match	A2 - Foreign Corporate Presence
C3 - International Tourists	A3 - Corruption Index
C4 - Higher Education	A4 - Anti-Corruption Efforts
<u>G</u>	<u>E</u>
G1 - Infrastructure	E1 - GDP per Capita
G2 - Urbanisation	E2 - Real GDP Growth Rate
G3 - Air Traffic	E3 - Human Development
G4 - Climate Difference	E4 - Internet Penetration

Table 2: *CAGE Variables Used*

4.5 Data Analysis

The data collected has been examined and structured in accordance with the theoretical framework. Qualitative researchers engaged in multiple case research risk being overloaded with the sheer volume of data (Bryman and Bell, 2011). To tackle this, we developed a general framework for analysing all data, in accordance with Yin (2008): starting from the theoretical framework, the consistency of primary data with the theory is controlled. In cases of discrepancy, the data is further analysed to see whether it contributed anything new, which would cause a need for reiterating the theoretical framework.

Yin (2008) further establishes that multiple interviews should first be fitted into a general explanation, within which they can be compared to discover any internal discrepancies. This study consequently first compared the interviews with the theoretical framework, and then all interviews with each other, to ensure consistency across all data sources. Further to the framework of analysis, we ask three data analysis questions (King, 2004):

1. Is the data aligned to the study's aim? If not, does it raise new topics to investigate?
2. How does extant literature suggest that such topics should be tackled?
3. Can we gain from the experience of other qualitative researchers outside of the immediate research environment?

With this structured approach, the data is shaped as a comprehensive and manageable package, which can be easily accessed and reviewed in further research.

The secondary data, used for generating the model's quantitative variables, has been scrutinised in order to identify potential outliers that could cause unrealistic model outputs. We are aware of the Indian market's evolutionary nature. However, we believe that the snapshot of secondary data is an acceptable representation of historic sub-national conditions, as all states in India develop in tandem. Appendix 5 shows each variable plotted in a histogram, to visualise outliers and the distribution of observations.

Table 3 shows the variables where we observe that a few outliers have a considerable impact on the variables' contribution to the state ranking.

Variable	States with recorded variable outliers
Outlier states	
C2	Mizoram, Nagaland
C3	Maharashtra
A2	New Delhi
A4	Rajasthan
G1	New Delhi
G2	New Delhi
G3	Maharashtra, New Delhi
E4	New Delhi

Table 3: *Outlier States*

Cultural market distance exhibits variable outliers in C2 and C3 (i.e. Religion Match and International Tourists). Mizoram and Nagaland have significantly larger Christian populations than other states due to the many Christian missionaries that arrived there in the 19th century (Census of India, 2001). The great number of international tourists coming to Maharashtra can be explained by the state being an attractive tourist destination with major cities like Mumbai and Pune, as well as being highly accessible for international travellers, with the high-capacity airport in Mumbai (India TV, 2013).

As for administrative market distance, outlier variables are recorded in A2 and A4 (i.e. Foreign Corporate Presence and Anti-Corruption Efforts). The high amount of foreign companies registered in New Delhi is explained by the tendency of companies to locate in capital cities for new market entries (Sridhar and Wan, 2007). As for the high levels of economic crime in Rajasthan, this is in line with the state being notorious for the high frequency of such crime (Smart Investor, 2013).

Looking at geographic market distance, outlier variables are recorded in G1, G2 and G3 (i.e. Infrastructure, Urbanisation and Air Traffic). The reason for why New Delhi displays such high density of roads is partly because it is a small region and partly because it is highly urbanised. The road network and small land area size is also the reason for why

New Delhi scores so high on urbanisation. As for air traffic, Maharashtra and New Delhi score high because they have the busiest airports in the country (India TV, 2013).

Lastly, looking at economic market distance, an outlier variable is recorded in E4 (i.e. Internet Penetration). New Delhi showed a very high penetration since it is the city with the second highest Internet penetration in the country (Financial Express, 2013) and has a negligible rural area.

The conclusion is that New Delhi is a common outlier on the higher end, and that there are no outliers on the lower end. However, the reason for this as well as other outliers can be explained. Since they therefore do not constitute obvious errors, they should be noted but allowed. External validity is addressed with a large sample size, which is in general more likely to be valid across the whole population (Saunders, 2000). Despite resource and time constraints, the sample size attained here is large, when comparing with the academic research that forms its theoretical framework. Lastly, the main outstanding validity concern is that of internal validity of the research. If sub-national markets really have different attractiveness to the studied companies, then they should expand in them according to that attractiveness. This causal relationship can be challenged by a number of issues, such as different time horizons, alternative corporate strategies and sheer corporate strategic error. These sources of inconsistency are addressed in the discussion section.

4.6 Model development

The model synthesises the input data and calculates state-wise distances from Stockholm based on standardised variables. Each variable is given equal weight, being 1/16 in the CAGE model and 1/8 in the CA and GE dimensions. The company presence output is a mirroring of the distance output, weighted after the total number of surveyed companies' presences in the 29 states. This relation is visualised in Figure 3 below.

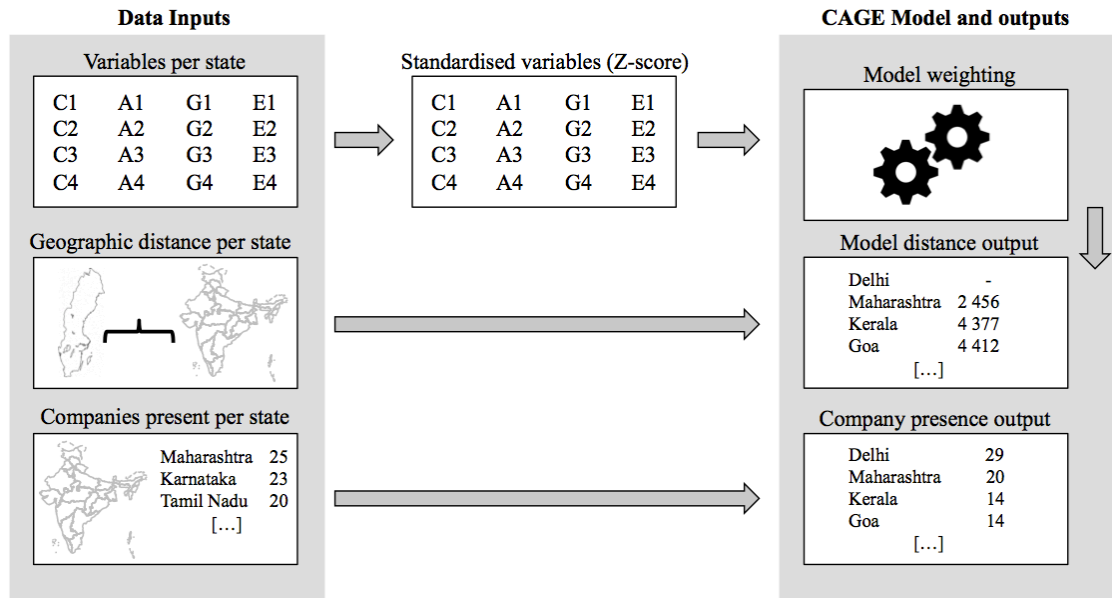


Figure 3: Model Development

4.7 Validity and Reliability

Whether a study is primarily academic and/or business-related, ensuring reliability and validity are fundamental for it to be useful to its readers (Andersen, 1998). Using a quantitative metric increases the likelihood that research findings are valid within a larger population, i.e. multinational companies strategising in international markets (Yin, 2008).

The theoretical framework has been carefully selected from established sources and contrasted internally, in order to provide relevance to the literature review. Studies relying on interviews for key data inputs come with a reliability risk, largely caused by the interviewers' bias on the questions discussed (Saunders, 2000). This is addressed by semi-structuring the interviews beforehand and targeting a diverse set of interviewees. Recording all interviews, and providing the transcripts to the interviewees for review has been done to address validity concerns. In the cases that interviews were conducted in Swedish, the transcripts were translated to English, and the interviewee provided with both the transcript and its translation. Furthermore, key interpretations of topics discussed have been highlighted in the transcripts, to mitigate risks of misunderstanding and cognitive bias.

5. Empirical Findings and Analysis

This section begins with presenting the CAGE model output of sub-national market distances from Sweden to the 29 states in India. Subsequently, sub-national market distances are computed using the variables attributable to the cultural and administrative dimensions of institutional theory (henceforth CA dimension) and the geographic and economic dimensions of transaction cost theory (henceforth GE dimension) respectively. Using the sub-national market distances, and building on the notion that a company will enter states in the order of increasing market distance, a ranking of states reflecting order of market expansion is generated. Developing not only a benchmark ranking using the entire CAGE model but also applying the dimensions of institutional and transaction cost theory respectively allows for a more comprehensive analysis and discussion of the findings. Additionally, all rankings are contrasted with the computed market distance in km from Stockholm, Sweden. The distance is the result of the actual geographic distance between the state and Stockholm, multiplied by the obtained sub-national market distance using the CAGE, CA or GE dimensions. The state with the lowest market distance is given the value of 0 and is used as a reference point for estimating the market distance for the remaining states. The sum of all distances calculated by the model is equal to the sum of all geographic distances. Contrasting the generated rankings with the state-wise market distances gives increased transparency in the absolute ranking order of states. As a result, inter-state clusters can be identified, as well as significant market distance differences between states.

All rankings are complemented by a sensitivity analysis of the data in the variables employed, to identify the sources of any unexpected model outcomes. The empirical findings and analysis conclude by presenting the actual ranking of the states in India according to the surveyed Swedish companies, as well as key insights from the conducted interviews. In doing so, the section opens up for a rewarding discussion of how the actual market expansion pattern of Swedish companies in India corresponds with the benchmark CAGE model ranking, and if reasons for potential discrepancies can be found in the sensitivity analysis of used data or the contrasting rankings using only institutional or transaction cost theory.

5.1 CAGE Model Distances

The CAGE model computes market distance to Stockholm for all studied states in India. Based on these recorded values, a ranking of the states according to market proximity is generated. The top 10 states are shown in Table 4, with a higher ranking implying a lower market distance to Stockholm. Making use of the map over India in Appendix 6, as well as the CAGE model map of India in Appendix 7, it can be seen that the states that rank high are predominantly located in the western and southern regions of India. Moreover, disregarding geographic location, it is possible to see that top-ranked states also house some of the biggest cities in India ((1) New Delhi, (2) Mumbai, (5) Chennai, (7) Hyderabad and (8) Bangalore) (Census of India, 2001). Considering the market distance to Sweden of the top-ranked states, a significant increase in market distance can be noted between Delhi Territory (1) and Maharashtra (2), as well as between Maharashtra (2) and Kerala (3). The subsequent states in the ranking show a more steady gradual increase in market distance.

Sub-national market distance – CAGE		
Rank	State	Distance from Sweden (km)
1	Delhi Territory	-
2	Maharashtra	2 456
3	Kerala	4 377
4	Goa	4 412
5	Tamil Nadu	4 981
6	Haryana	5 377
7	Andhra Pradesh	5 636
8	Karnataka	5 746
9	Mizoram	5 761
10	Rajasthan	5 793

Table 4: CAGE Model Output

Appendix 7 provides the complete ranking as well as a map, illustrating the location of all ranked states. It supports the understanding that states with low market distance to Sweden are located in the western and southern parts of the country. Further, the more gradual increase in market distance following the state of Kerala (3) can also be observed for the remaining states in the CAGE model ranking.

5.2 CA Model Distances

The CA model isolates the variables measuring Cultural and Administrative market distance and renders their ranking of the states. The ranking shows the market distance from Stockholm to each Indian state, according to variables solely derived from institutional theory. The top 10 states are shown in Table 5. In the CA model map of India in Appendix 7, it can be seen that the high-ranked states are more geographically dispersed than those in the CAGE model. Maharashtra and Delhi Territory still score high, but Uttarakhand, Mizoram and Rajasthan are now in the top five with a lower cultural and administrative market distance than Kerala, Goa and Tamil Nadu, which were among the top five in the CAGE model ranking. However, the overall proximity of Maharashtra and Delhi Territory in terms of market distance is still too strong for any other state to overtake their top positions.

Sub-national market distance - CA		
Rank	State	Distance from Sweden (km)
1	Maharashtra	-
2	Delhi Territory	733
3	Uttarakhand	1 280
4	Mizoram	1 410
5	Rajasthan	1 501
6	Himachal Pradesh	1 526
7	Andhra Pradesh	1 562
8	Manipur	1 637
9	Tamil Nadu	1 681
10	Kerala	1 752

Table 5: *CA Model Output*

Appendix 7 provides the full ranking using the CA model as well as a map, illustrating the location of ranked states. Following the two top-ranked states, the CA model ranking shows a steadier gradual increase in market distance, as also seen in the CAGE model ranking. As mentioned before, compared to the CAGE model, states with low market distance can be found in all regions of the country. The CAGE model's preference for southern and western states is less predominant when using the CA model.

5.3 GE Model Distances

The GE model isolates the variables measuring Geographic and Economic market distance and gives their ranking of the states. The ranking thus shows the market distance from Sweden to each Indian state based on variables derived from transaction cost theory. The top 10 states are shown in Table 6. Looking at the ranking it can be noted that the top five states are the same as for the CAGE model, but they come in a different order. The state of Goa, which was not even in the top ten for the CA model has also climbed to a second place in the ranking. Some states that scored high in the CA model ranking, such as Uttarakhand, Mizoram and Rajasthan have now fallen further down in the GE model ranking. Unlike both the CAGE model ranking and the CA model ranking, only the state ranked first (i.e. Delhi Territory) displays a significantly lower market distance compared to the following state.

Sub-national market distance - GE		
Rank	State	Distance from Sweden (km)
1	Delhi Territory	-
2	Goa	2 894
3	Maharashtra	3 189
4	Kerala	3 359
5	Tamil Nadu	4 033
6	Haryana	4 350
7	Gujarat	4 398
8	Karnataka	4 481
9	Punjab	4 554
10	Andhra Pradesh	4 807

Table 6: *GE Model Output*

Drawing from Appendix 7 and the full ranking using the GE model, similarities can be seen between rankings using the CAGE model and the GE model. Most significantly are they both indicating that the western and southern states have the lowest market distance to Sweden. Additionally, similar to the CAGE model ranking and GE model ranking, only the very top-ranked state(s) stand out from the other states in terms of market distance. Further down in the ranking it is difficult to distinguish any clear correlations between the GE model and the two other models.

5.4 Analysis of Sensitivity to Data Inputs

All data variables have been carefully selected, and statistically standardised in order to contribute equally to the state attractiveness rankings. Internal variances within each variable, visualised in the histograms of Appendix 5, can have a significant impact on the overall ranking of a state. Table 7 below contains the top-ranked states for each of the three rankings. The CA and GE model rankings show higher impact of single strong variables (SSV:s) as they consist of eight variables each, whereas the CAGE model ranking combines all sixteen.

Top 5 ranked states - Main contributing variables

CAGE		
State	Variable	% of total contribution
Delhi Territory	G1. Infrastructure	17.1 %
	A2. Foreign Corporate Presence	15.5 %
	E4. Internet Penetration	13.2 %
	G2. Urbanisation	12.5 %
	G3. Air Traffic	9.5 %
CA		
State	Variable	% of total contribution
Maharashtra	C3. International Tourists	37.6 %
	A2. Foreign Corporate Presence	19.0 %
	A1. FDI Attitude	12.5 %
	A3. Corruption Index	10.6 %
	C1. Literacy Rate	6.8 %
GE		
State	Variable	% of total contribution
Delhi Territory	G1. Infrastructure	25.0 %
	E4. Internet Penetration	19.3 %
	G2. Urbanisation	18.2 %
	G3. Air Traffic	13.8 %
	E1. GDP per Capita	9.9 %

Table 7: Variable Contribution. Variables that contribute to the state ranking with more than 20 % of total points have been highlighted.

The impact of one SSV shall be noted, but it must not indicate that the variable itself is invalid. It may well be that the SSV captures the values that companies find attractive in a state. Furthermore, variables important to business are expected to develop jointly. The higher incidence of SSV:s in the CA and GE rankings supports the fundamental assumption of the CAGE framework: that Cultural, Administrative, Geographical and Economic variables shall be assessed jointly for analytical and unbiased strategy formulation. A further extensive sensitivity analysis is provided in Appendix 8.

5.5 Actual Expansion Pattern of Swedish Companies in India

Recorded observations from the survey allow for estimating market distance from Stockholm to the 29 states, as perceived by the studied companies. This in turn translates into a ranking of the perceptual attractiveness of Indian states according to the 41 Swedish companies. The companies are on average present in five states, with a median of four states. The top-ten states from the generated ranking can be seen in Table 8. Appendix 9 contains the complete ranking and a map with the location of each state.

Actual ranking of state attractiveness		
Rank	State	Companies present
1	Maharashtra	25
2	Karnataka	23
3	Tamil Nadu	20
4	Andhra Pradesh	19
5	West Bengal	17
6	Haryana	16
7	Gujarat	15
8	Delhi Territory	13
9	Uttar Pradesh	11
10	Punjab	7

Table 8: *Corporate Ranking*

Table 8 illustrates that the five top-ranking states according to actual perceived market distance and actual market attractiveness are all located in the southern regions of India, except for West Bengal, and they are all on the coast. Moving down in the ranking, it is possible to distinguish a larger cluster with the capital New Delhi as the epicentre (i.e. Delhi Territory, Haryana, Punjab and Uttar Pradesh) and a smaller with Gujarat located

on the coast next to Maharashtra. Drawing from the complete ranking in Appendix 9, we observe that below the ten top-ranked states, it is drastically more difficult to clearly rank states according to their order of attractiveness. Many states share the same number of companies present, indicating a more ambiguous perception of attractiveness for the remaining states of India.

5.6 State-wise Expansion Pattern by the Theoretical Benchmark

The CAGE ranking of states in terms of market proximity and thus attractiveness from Table 4 can be translated into a state-wise expansion pattern suggested by the theoretical benchmark. The 41 Swedish companies recorded 206 individual state-wise presences in India. By distributing their presences according to the theoretical benchmark's weighted state ranking, we denote the suggested presence of the companies in each state. This can in turn be seen as the suggested state-wise expansion pattern of companies according to the theoretical benchmark. Table 9 illustrates the suggested corporate presence of the top-ten ranked states. The output is contrasted with the actual corporate presence of the studied companies. For reference, the suggested corporate expansion patterns according to the CA and GE dimensions are also included. Findings reflect the CAGE, CA and GE model rankings' emphasis on the top-ranked state(s) being significantly more attractive compared to other states. In Table 9 this can be seen by the theoretical benchmark advocating more companies present in top-ranked states, compared to actual corporate presence. Similar suggestions can also be seen for the state-wise presence of studied companies using the CA and GE dimensions. Appendix 10 provides the complete list of suggested state-wise expansion patterns.

Suggested State-wise Expansion Patterns

CAGE		CA	
Delhi Territory	29	Maharashtra	19
Maharashtra	20	Delhi Territory	15
Kerala	14	Uttarakhand	12
Goa	14	Mizoram	11
Tamil Nadu	12	Rajasthan	11
Haryana	10	Himachal Pradesh	11
Andra Pradesh	9	Andra Pradesh	11
Karnataka	9	Pradesh Manipur	10
Mizoram	9	Tamil Nadu	10
Rajasthan	9	Kerala	10
GE		Actual	
Delhi Territory	38	Maharashtra	25
Goa	20	Karnataka	23
Maharashtra	18	Tamil Nadu	20
Kerala	17	Andhra Pradesh	19
Tamil Nadu	12	West Bengal	17
Haryana	10	Haryana	16
Gujarat	10	Gujarat	15
Karnataka	10	Delhi Territory	13
Punjab	9	Uttar Pradesh	11
Andra Pradesh	7	Punjab	7

Table 9: Suggested State-wise Expansion Patterns

5.7 Correlation of Theoretical Benchmark with Reality

In order to assess how well the benchmark expansion pattern using the CAGE model conforms to the Swedish companies that have succeeded in establishing a presence in India, the Spearman's rank correlation is applied. The generated coefficient determines how well the theoretical benchmark matches reality - the higher the value, ranging from 0 to 1, the stronger the positive correlation between the two rankings. For relative comparison, correlation indices using the CA and GE model rankings are generated as well. The findings are presented in Table 10 below.

Fit of theoretical benchmark with reality

	CAGE	CA	GE
Reality	0.470	0.309	0.578

Table 10: *Spearman's Rank Correlation Coefficient Output*

The findings indicate that the GE model has the strongest positive correlation, with the CAGE model and CA model following in decreasing order. This implies that the ranking based on transaction cost theory, as opposed to transaction cost theory and institutional theory or only institutional theory, fits best with the state-wise expansion patterns of the Swedish companies in India. Only considering cultural and administrative market distance, rooted in institutional theory, hence provides a suggested state-wise expansion pattern that fits the least with reality. Using the benchmark CAGE model in developing a market entry strategy naturally falls in-between the two, incorporating the more accurate GE variables and less accurate CA variables. Comparing the correlation coefficients with those presented in Table 1 gives a qualitative understanding of the correlation strength. The ranking generated using the GE model and the CAGE model both fall within the range of moderate correlation with reality, whereas the ranking generated using the CA model only has a weak correlation with reality. This is consistent with Håkanson and Ambos (2010), arguing that cultural distance alone is a poor predictor of market distance.

5.8 Interviews

In order to provide a more holistic understanding of the recorded expansion pattern of Swedish companies in India, interviews were conducted with company representatives of selected studied companies, a company on the brink of entering India as well as industry experts. The purpose was to uncover underlying explanations for observations, which could not be captured by the quantitative survey. More specifically, it was desirable to uncover the reasons for the observed actual expansion patterns in order to gain a better understanding of why Swedish companies rank the states in India in the order of attractiveness observed in Table 8. This in turn helps in understanding the observed Spearman's rank correlation coefficients in Table 10. Following is a summary of the five

semi-structured interviews conducted for the study. The interviews have been organised and shortened as to convey the core messages discussed.

5.8.1 Interview 1 – Mr Krister Thulin

Mr Krister Thulin is the Presales & Marketing Director for Scania Commercial Vehicles India. He was among the first to arrive when the company in 2011 decided to invest in production in India. Today he oversees a facility with 250 employees, which will scale up to about 800 in a few years. Interviewed over Skype by Max Friberg on 16 April 2014.

Scania partnered with the Indian conglomerate Larsen&Toubro (L&T) in 2007, to distribute its trucks, mining and construction equipment in India. The partnership was fruitful: Scania chose to establish an assembly line for pre-made chassis in Bangalore, which will be followed by a complete bus factory in 2015.

Mr Thulin perceives Chennai, Bangalore, Pune and Delhi to be the relevant hubs that foreign companies could choose between when establishing in India. Scania's choice of Bangalore was mainly due to L&T having their production there. In addition, Karnataka offered an attractive deal with land and energy, and Scania was reassured by the presence of peer companies (e.g. Toyota, Volvo, Komatsu and Honda) in the area.

Mr Thulin thinks that India is very corrupt and complex to do business in. Different tax rates and law regimes hinder Scania from shipping spare parts to customers in some states. Mr Thulin also finds India to be among the most bureaucratic countries in the world, but he now senses a will for political reform, following the on-going parliamentary election.

When entering a new market, Scania generally conducts a pre-study on its attractiveness. There are always numerous pre-studies running in different markets, which are being evaluated over time. Scania often starts with a local distribution partnership, in order to sense the market before making the financial commitment to invest. The partnership model remains in place in India: L&T still distributes all Scania's mining equipment, and

there are local dealers for its trucks in different states. States are seen as the most reasonable basis for segmentation in India, due to the large differences that distinguish them. An additional raster is added with price/performance segmentation, as Scania perceives itself to operate only in the small premium segment, where Mercedes and Volvo are the only real competitors. Since many customers are industrial conglomerates that operate in multiple Indian states, deals can be struck centrally without adapting to each individual state's idiosyncrasies.

5.8.2 Interview 2 – Mr Rosman Jahja

Mr Rosman Jahja is the Communications Manager for CSR & Internal Communications at Trelleborg HQ, Sweden. Interviewed over telephone by Max Friberg on 4 April 2014.

Trelleborg has been present with its core Sealing Solutions business since 1978, but had for many years only limited operations in India. Growth has come stepwise, first following the market liberalisation in the 1990s, and again since 2010. Additional businesses have been added so that now all five business areas are present (as individual companies). Mr Jahja emphasises that this is a normal pattern for the company, to first familiarise itself with the market by establishing small-scale wholly owned operations.

Following the surge in demand since 2010, Trelleborg has invested in new facilities across the country and has today three production locations, eight regional offices for sales and support, and one research centre. It has 2.5 % of its 21 bnSEK turnover and 1 000 of its 16 000 employees in India. Mr Jahja expects the investments to continue, as its demand will grow with or above the pace of GDP growth in India. When inaugurating the newest production facility, in Bangalore, Trelleborg CEO Peter Nilsson expressed this: *“We believe that India has highly favorable long-term growth opportunities, and our strong global platform will be further reinforced by this facility. This unit continues our commitment to the growing manufacturing sector in India”* (Trelleborg 2012). The facility will start working at partial capacity, increasing employees and output in the years going forward.

The company has a broad commitment to move development and production closer to the end-customers, adapting to challenges and opportunities of local markets. India has good availability of technology and educated personnel come at a low cost. Opaque laws and tax regimes are an issue for the operations of Trelleborg and its customers, but Mr Jahja says that things are improving, partially as a result of the company's local growth.

5.8.3 Interview 3 – Ms Ireena Vittal

Ms Ireena Vittal is a former partner of McKinsey India, in the boards of Tata Global Beverages, Axis Bank, GSK Consumer Healthcare, Wipro, Godrej Consumer Products and Titan. Interviewed over Skype by Max Friberg on 14 March 2014.

Ms Vittal perceives the Indian market to be at a turning point. The current elections contain promises of both openness to trade and foreign investments, and increased protection of domestic industries.

Ms Vittal sees the expansion pattern of European companies as largely influenced by history. Until the 1990s, foreign corporate presence was limited to a few districts and cities, as the country shielded its domestic industries. The companies that established before this time (roughly a third of the companies included in our study) were therefore initially guided by regulation rather than market analysis. By the time of deregulation, these locations had developed into hubs for international companies. The cluster effects of being near other foreign companies were obvious, and few new locations could match their infrastructure.

The Indian states are divided based on ethnic and linguistic groups. Following the liberation from Great Britain in 1947, movements for individual states culminated in the States Reorganisation Act of 1956 that separated 16 states and 3 union territories. Since then, more states have been separated based on the same reasoning. The 28 states and 7 union territories of today have very different conditions. India is 75 % the size of the EU and 2.5 times the population – it has the differences of a continent within a nation's

borders. In her work, she has seen clients that failed to anticipate these differences, with negative outcomes.

A state-wise segmentation is a good start, but companies should strive to identify segments that stretch across borders, centred on the metropolises. Swedish companies cater mainly to industrials and the upper private segment. These are less bound by traditional language and culture borders, and could instead be found in a city-cluster approach similar to the one that she co-authored on China (Atsmon et al., 2011).

5.8.4 Interview 4 – Professor Deo Sharma

Mr Deo Sharma is a professor of Marketing at the Stockholm School of Economics, part of the International Marketing Group. He has research experience in internationalisation and market entry, and from the Centre of Excellence in multi-national companies. Interviewed in person by Max Friberg and Marcus Paulsson on 17 February 2014.

Mr Sharma perceives the economic liberalisation from 1991 and onwards to be a key starting point for studying foreign market presence in India. At this stage, companies in a multitude of industries (but not all) were allowed to establish in most states, subject only to local approval.

Today, sub-national clusters are heavily influenced by favourable institutional conditions. Including parameters derived from institutional theory is therefore very valid for market analysis. Locations such as Pune, Mumbai and Bangalore have been endorsed as business centres by both national and state legislators. Both physical and institutional infrastructure has been adapted to the needs of multinational companies in these areas, so they have an attractiveness advantage over other locations. At the same time, the Indian middle-class grows in places unrelated with the historic presence of multinational companies. As demand and purchase power increases in locations away from the traditional centres, companies must add new locations to stay relevant to their consumers.

There are significant institutional borders between Indian states. Local approvals are often needed to establish a business, and customer demands can vary. The need for segmentation depends on the type of goods sold. The Swedish companies that cater to industrial customers must adapt to industrial clusters, historically found within state limits – with the main exception being the Delhi/Gurgaon/Noida area. On the other hand, the large fast-moving-consumer-goods companies distribute similar goods across all regions, as does Oriflame of Sweden.

5.8.5 Interview 5 – Professor Sougata Ray

Mr Sougata Ray is a professor in Strategic Management at the Indian Institute of Management Calcutta. He has researched growth and internationalisation strategies, and assisted corporate management groups in crafting their strategies. Interviewed in person in Calcutta by Max Friberg on 13 December 2013.

Apart from the pre-1990 limitations, Mr Ray highlights the corporate clusters as important when companies decide where to go. The geographic presence of Swedish companies is most likely not different from other Western companies, which all group around certain commercial hubs. As distribution extends, companies tend to open sales offices in adjacent large cities. The establishment of factories is highly dependent on access to transport and energy, which is subject to a favourable institutional context.

There are two main reasons that Calcutta has many foreign corporate offices, despite its current state: it was historically a commercial hub, the capital of British India for 140 years. Many foreign companies stayed around despite the communist rule of the West Bengal state after independence. Cluster theory therefore partially explains the attractiveness of Calcutta to foreign companies today. The other reason is its location. Northeast India has few major cities, and Calcutta has relatively good infrastructure with a large airport and shipping port.

6. Discussion

This section builds on the empirical findings and analysis, by discussing the reported discrepancy between the studied companies' presence in India and the CAGE model's theoretical benchmark. This discrepancy indicates that the model cannot explain the expansion pattern of companies in India to any high degree. The CA dimension, rooted in institutional theory, performs worse in doing so than the GE dimension. Next, the CAGE model's moderate explanatory power is discussed, using the identified similarities and differences between the CAGE model's benchmark and reality. The section concludes with a broad perspective, discussing the possible usefulness of the CAGE model and institutional theory for crafting market entry strategies in general.

6.1 Sources of Error in Fit of Theoretical Benchmark

As noted in the previous section, the ranking of state attractiveness using the GE dimension, rooted in transaction cost theory, shows the highest degree of positive correlation with the actual presence of Swedish companies in India. The ranking generated using the CA dimension, measuring the institutional context, has a lower explanatory power for the presence of the studied companies. The CAGE model's ability to offer a more complete picture of a market, especially an emerging market, is the reason that it was expected to generate the most accurate ranking compared to reality. It has only a moderate Spearman's rank correlation, partially weighed down by the poor explanatory power of the CA dimension.

When analysing the only moderate explanatory power of the CAGE model, affected by the higher accuracy of the GE model ranking and the lower accuracy of the CA model ranking, we see six non-exclusive potential sources of error: *model error*; *corporate error*; *corporate rationality beyond the model*; *corporate strategies*; *sample error*; and *model invalidity*.

6.1.1 Model error

The variables for the CAGE model have been carefully selected, but may fail to capture the true drivers of market attractiveness in India. This could lead to a faulty ranking of

true market attractiveness, regardless of whether companies perform a better analysis or not. The model may also do a good estimation of the market attractiveness, while companies do worse. Since Spearman's rank correlation coefficient measures the match between the model predictions and the actual presence of companies, it disregards the possibility of companies being irrational.

As the CA and GE dimensions only have 8 variables, while the CAGE model combines all 16, they are more susceptible to outliers in single variables – having more variables decreases each of their relative impact on the final ranking. The number of variables is subject to data availability and relevance, and we did not find any additional variables that could be justified equal influence as the ones in the current model. The relationship must be noted, however, and could also be extended to the corporate presence ranking: along with counting corporate presences in a state, one could also compare their relative profitability and growth rates in order to measure actual success of the chosen expansion strategy.

The geographic units can also be further investigated. Atsmon et al. (2011) studied populous Chinese city-clusters, disregarding the circumjacent states, whereas Meyer and Nguyen (2005) studied Vietnamese provinces with average populations of only 1.5 million inhabitants. In India, useful data is only available at the state-level. Since the economic capitals of Indian states are located in different places of each state, they may attract companies that also want to serve adjacent states. An example of this is Bangalore, located in the tri-state intersection of Karnataka, Andhra Pradesh and Tamil Nadu, and only 300 km from Kerala. Another potential source of error is the definition of New Delhi. Its two industrial centres Noida and Gurgaon are geographically next to it, but legally parts of Uttar Pradesh and Haryana respectively. Companies present in these centres may enjoy all the benefit of being close to New Delhi, while the model counts them as parts of the other states. Likewise, the city of Chhattisgarh is a shared capital for Punjab and Haryana, making a corporate presence there count for both states.

6.1.2 Corporate error

As noted in the interviews with Ms Vittal, Professor Ray and Mr Thulin, corporate presence in a region may be the result of personal connections, herd behaviour and heuristic models. An example of such heuristic models could be the division of India into four geographic regions (e.g. north, east, south and west). This gives corporate presence in four states that may not all be individually attractive, such as the West Bengal for serving Eastern India. Such a four- or five-state pattern was observed in the survey for many Swedish companies.

6.1.3 Corporate rationality beyond the model

We use corporate presence in a state as a proxy for successful operations. The sheer presence of a company must however not mean that it is successful and profitable. According to Gupta et al. (2008), companies establish in different geographies for many reasons other than short-term profits: to pursue growth, efficiency, knowledge to better meet consumer needs or to pre-empt competition. It may well be the case that Swedish companies in India are willing to disregard short-term market unattractiveness in order to be present, awaiting future opportunities. This was observed in the production facility that Trelleborg established in 2012, which was built for a larger capacity than it would initially operate on. To establish close to customers in the growing Indian market is important to the company, and may have them overlook short-term profitability for future prospects.

6.1.4 Corporate strategies beyond the state level

Companies may identify customer segments that transcend the state level, thus rendering the segmentation based on states obsolete. This boils down to individual companies' strategies, value propositions, and target customers – variables that are by default highly individual and difficult to generalise in a model. As mentioned under *Model error* above, the model fails to capture strategies that transcend the state level. Mr Thulin mentioned that Scania does segment based on states, as well as on a price/performance axis. Having mainly business-to-business sales, Scania (and Trelleborg) may be less bound by state borders than some other companies. Correspondingly, the fast-moving consumer goods

of Oriflame may also be primarily concerned with specific consumer groups, mindsets and attitudes that are unrelated to state borders. Although this may be a lesser concern when establishing a first office, Professor Sharma emphasises that following customers across state borders should become more important with the growth of the middle class.

6.1.5 Sample error

Swedish companies represent a small proportion of the total number of foreign companies operating in India. There may be overlooked reasons for why Swedish companies do not follow the pattern suggested by the CAGE model, causing a relatively low Spearman's rank correlation coefficient between recommended and actual pattern. However, as Professor Ray mentioned that the geographic presence of Swedish companies is most likely not different from other Western companies, the sample findings ought to be generalisable for the greater population.

6.1.6 Model invalidity

It could be that the CAGE model itself is flawed. It may not be fully relevant to emphasise institutional theory when preparing for sub-national market expansion, or it should not be given equal weighting as transaction cost theory. This was argued for by Håkanson and Ambos (2010), who found that physical distance should be given a more prominent role than cultural, political and economic factors.

6.2 Implications of the Sources of Error

All six described possible sources of error help explain why the actual observations of companies do not have a stronger correlation with the CAGE model's benchmark. Table 11 shows them clustered in three broad (non-exclusive) categories: attributing the low correlation to either the operationalisation of the CAGE model (i.e. selected variables), empirical reasons (i.e. selected data), or to the applicability of the CAGE model itself. Each of the categories corresponds with an Option A-C, which have different implications for the usefulness of the theory, for managers crafting entry strategies and for future research. If the source of error is due to our operationalisation of the CAGE model, the model itself may still be valid. Assigning different weights to other

variables would then result in higher explanatory power of the model. If the source of error is due to empirical reasons, the CAGE model and our operationalisation of it may still be valid. It would still be sensible to combine institutional and transaction cost theory in sub-national market analysis. If the CAGE model itself was the source of error, then this would give reasons to discard it as a tool for assessing markets for expansion strategies.

Categories for Sources of Error			
<u>Source of Error</u>	<u>Option A</u>	<u>Option B</u>	<u>Option C</u>
Operationalisation - <i>Corporate rationality beyond the model</i> - <i>Model error</i> - <i>Sample error</i>			
Empirical reasons - <i>Corporate strategies</i> - <i>Corporate error</i> - <i>Corporate rationality beyond the model</i>			
CAGE Model - <i>Model error</i> - <i>Model invalidity</i>			

Table 11: *Categories for Sources of Error*

6.3 Impact of CA and GE Dimensions on CAGE Model Accuracy

The explanatory power of the ranking developed using the CAGE model is the combined power of the CA and GE dimensions. Therefore, unless the rankings adhering to the CA, GE and CAGE dimensions all advocate the same order of expansion in the country, one of the CA or GE dimensions will always have a higher explanatory power than the CAGE model. In this study, the GE dimension proved the most accurate. The strong position of transaction cost theory in shaping market entry strategies in developed markets provides an understanding of this observation. Transaction cost theory has a moderate – but far from perfect – explanatory power for how the sample of Swedish companies has

expanded in India. Indices for measuring market attractiveness originating from such theory are traditionally used by companies from developed countries such as Sweden. In these markets, institutions are considered as advanced and mature, ruling out the need for a more thorough mapping of the institutional makeup. Also being reflected when shaping market entry strategies for foreign markets, the CA dimension is often not given equal attention when estimating market distance and attractiveness. Academic literature and corporate experiences show the risks associated with overlooking the institutional context when studying emerging markets, but it is clearly still being done to a certain extent.

6.4 Explanatory Power of the CAGE model

Obtaining a Spearman's rank correlation coefficient of 0.47, the ranking generated using the CAGE model has a moderate correlation with the actual expansion patterns. Its explanatory power shows that the theoretical benchmark has some, but limited, ability to grasp the broad-spectrum state-wise presence of the studied companies in India. Amongst the top ten ranked states according to the CAGE model's benchmark, six are also present in the actual ranking of state attractiveness (i.e. Maharashtra, Karnataka, Tamil Nadu, Andhra Pradesh, Haryana and Delhi Territory). The correlation between the theoretical benchmark and reality is much higher in the top of the ranking than in the bottom, indicating a higher fit in the states that matter the most. This is important to note, since the studied companies are only present in five states each on average, with a median of four states. However, the significantly higher market attractiveness of the two top-ranked states according to the theoretical benchmark (i.e. Delhi Territory and Maharashtra) is not reflected in reality. In contrast, no top-ranked state is notably preferred by the studied companies. This can be seen when translating the market attractiveness of states according to the theoretical benchmark into the suggested state-wise expansion pattern of the studied companies (see Table 9). Same as for the state ranking according to the theoretical benchmark, a more focused presence in the Delhi Territory and Maharashtra is suggested. Findings from using only the CA and GE dimensions indicate a similar focus on the top of the state ranking. However, such a strong state-wise preference could not be observed in the actual corporate presence. Looking beyond the top-ranked states, the ranking generated using the actual recorded market presence of studied companies in

India is somewhat ambiguous. The least attractive states have few or no companies present, and many of them attain the same rank. This limits our ability to make further claims regarding the explanatory power of the CAGE model.

Considering a regional perspective of attractiveness amongst the top-ranked states, all three model rankings highlight the southern parts of India, as well as the states adjacent to the federal capital, New Delhi. This geographical focus conforms to the actual state-wise presence of studied companies in India. Notable discrepancy is seen in the CAGE model's high ranking of Mizoram, a state where the CA dimensions have high impact, the model's failure to reflect not only the regional cluster around Delhi but also Mumbai and lastly the corporate perceived attractiveness of Calcutta.

The CAGE model's ability to reflect a large proportion of high-ranked states as well as a regional cluster of market attractiveness makes up the moderate correlation with reality.

6.5 Usefulness of the Theoretical Benchmark

It has been clearly established that market analysis is the prerequisite for minimising risks and assuring a successful market entry. Conversely, companies failing to plan are planning to fail with their market expansion. A well-designed strategy is paramount for success, non-the-least when it comes to sub-national market expansion in a diverse country. The focus of this thesis is on emerging markets, but the importance of uncovering and acting on sub-national idiosyncrasies should be seen as equally important for other markets. Taking Italy or the USA as an example of market with significant sub-national variation, a foreign company does not simply decide to set up shop in the entire country all at once, but should develop a state-wise or regional order of expansion within the country, based on sub-national market variances and distances to the home market. This study has however not proven that the sub-national CAGE model and an increased emphasis on institutional theory are beneficial for such market analysis. Under option C, it may actually be a faulty model and theoretical benchmark, or inadequate for the study area.

Naturally one gets what one measures, and regardless of using the CAGE model for measuring national or sub-national market distances, the selection of variables for each dimension is highly subjective. The variables in this thesis were chosen to best reflect the prevailing market conditions in India. Case-based adaptations are necessary to avoid having a too rigid and standardised model for measuring the dynamic forces of markets. The strength of the CAGE model as a theoretical tool for developing a benchmark of sub-national market distances does not lie in the variables used but the working method for using them. With this in mind, Option A and B see the CAGE model as highly useful for studying sub-national conditions in any market, as long as relevant variables and data for the country in question are being used.

Where the CAGE model is seen as a useful benchmark for shaping sub-national market entry and expansion strategies, its applicability still comes with some restrictions. Most notably, sub-national market variations must be present in the country studied. This is either known *ex ante* or revealed in a pre-study of sub-national clusters. If there are no such variations, the model does not provide much guidance in understanding how to successfully enter and expand within the country. Reasons for such sub-national conformity can be high integration between regions or too small market size to allow for significant sub-national market clusters. If this is the case, other means for designing market entry strategies are more appropriate. Simply assuming that a country is completely homogenous across its regions and that sub-national expansion strategy is of no value comes with great risk to the business. Assuming the CAGE model's usefulness, we encourage further researchers and managers to test for sub-national idiosyncrasies prior to entering a market, once again emphasising that failing to plan is planning to fail.

7. Conclusion and Reflection

7.1 Conclusion

This thesis builds on popular business argumentation by leading business consultants, that foreign companies often make use of inadequate metrics when studying emerging markets. This has implications for their market entry and market expansion strategies. Emphasis is placed on the need to not only look at transaction cost parameters but also consider the institutional context. This reasoning is backed by both academic research as well as the legitimacy of acclaimed business consultants. Yet, the ability to apply the reasoning in a generalised manner is limited by the validity of their claims. Refraining from the use of academic theory when testing against reality limits its scientific relevance. Building on the desire to strengthen the validity of the consultants' reasoning, the purpose of this thesis is to introduce the CAGE framework as academic theory for testing whether sub-national market analysis, based on both transaction cost and institutional theory, can explain the successful location selection of FDI by foreign companies in emerging markets.

The study reveals that the CAGE model is unable to accurately replicate the successful location selection of FDI by the studied Swedish companies in India. Instead, a mere moderate correlation is obtained between the theoretical benchmark and reality. The Swedish companies in India entered and expanded in a pattern that is closest approximated with the state-wise market distances computed using only transaction cost theory. Similar results are expected in the case of conducting duplicative studies, using other sample companies with another developed market as home market. Institutional theory, predicted to have significant explanatory power according to the initial presumptions proved to have the lowest explanatory power. Six sources of error for the limited explanatory power of the CAGE model were identified, hindering the ability to provide scientific relevance and validity to the research field. These sources of error can further be attributed to (A) our operationalisation of the CAGE model, (B) empirical reasons relating to the used data, and lastly (C), the applicability of the CAGE model itself.

Options A and B support the expected ability of the CAGE model to explain successful location selection of FDI in India, seen through its moderate explanatory power. However, its incapability to more precisely explain the successful actions of the studied companies indicates that the CAGE model is not a suitable theoretical model for this study. This is further supported as the GE dimension, rooted in transaction cost theory, has a significantly higher explanatory power than the CA dimension. As a result, sources of error belonging to option C could be seen as more probable. This implies that the argument by business advisers and research scholars to focus on sub-national institutional conditions for location selection of FDI is invalid. The findings from this study are insufficient for rejecting such reasoning. Nevertheless, this thesis is a starting point for further research on the subject, with the aim of supporting foreign companies to successfully seize the opportunities in emerging markets.

7.2 Implications

The intended implication of this thesis was to provide a more sound foundation to the hypothesis that sub-national institutional contexts matter for successful location selection for FDI in emerging markets. However, the findings from applying the CAGE framework were incapable of supporting the hypothesis. Therefore, the actual implications of this thesis take a different shape, incorporating both theoretical and managerial aspects.

7.2.1 Theoretical Implications

We have found that the studied population of companies have put a disproportionately small emphasis on institutional theory when expanding within India. Academics have yet to convince corporate practitioners of its significance and impact on corporate performance. Under options A and B, there may still be validity to the claims of increasing focus on local institutional conditions when assessing markets. In these cases, academics should continue to evaluate the relative importance of all variables and levels of the economic system, to the success of a company planning FDI expansion in an emerging market. Under option C, the CAGE framework is invalid for mapping sub-national variations that are relevant to FDI decisions in emerging markets. Theories with

a larger emphasis on transaction cost theory – such as Håkanson and Ambos (2010) – should be given more attention, so that academic theory can more accurately describe and explain FDI expansion patterns in emerging markets.

7.2.2 Managerial Implications

The largest implications of the study concern the business advisers and their clients. Under option A and B, the market-analysis advise given to clients may be correct, but are not verified and lack scientific relevance. Under option C, they might be outright incorrect, putting disproportionate emphasis on variables that are of little importance to clients' businesses.

Options A and B

It may be that the hypothesis holds true, and that corporate managers from developed markets could gain from including a wider set of variables when analysing emerging markets. In this case, it helps them overcome the bounded rationality that otherwise makes them stick to conventional metrics from transaction cost theory.

Comparing corporate performance in the home market with that in a foreign market with similar conditions (as measured by the GE dimension only) could give an approximation of the measurement models. Controlling for transaction cost variables (e.g. market penetration, competition and purchasing power), but disregarding differences in institutional variables, any difference in performance would be the cause of institutional disparity. A practical example would be to compare performance in Sweden with performance in e.g. United Arab Emirates, Saudi Arabia and Kuwait. Furthermore, managers who choose to implement institutional theory variables in their market analysis, or have already done so, could compare their performance to expectations with that of their peers' performance to expectations.

Option C

If the CAGE framework is not relevant to the studied topic, then both business advisers and their clients should take note, and consider alternative approaches to market analysis. Developing new management theory is attractive to advisers, who can benefit from the news value of their ideas. However, if this theory cannot be scientifically proven, it may lead both clients and ultimately the adviser into difficulties. We urge affected practitioners to assess their approach to sub-national market analysis in emerging markets, and favour those that are based on solid scientific foundations.

7.3 Critique of the Study

Options A and B of the previously described possible sources of error make up the main critique of the study. These contain sources of error derived from an imperfect application of the CAGE framework. The moderate correlation obtained between the theoretical benchmark and reality could have been strengthened, would it have been possible to identify and use more relevant variables and accurate data. Due to the limitations of the study, such possible critique was however already taken into consideration at the beginning of the thesis process. This thesis thereby sets the direction for more extensive future research, where the study's weaknesses can be mitigated.

7.4 Suggestions for Future Research

Future research should focus on addressing and mitigating the identified sources of error in this study. Given the findings, it is not possible to determine whether sources of error belonging to option A, B and or C were the most probable. Therefore, future research should set out to determine whether or not it is possible to provide academic ground for the presented reasoning. Suggestions for doing so are for example to perform a study across a larger sample of companies, in order to see their average expansion pattern. Similarly, host countries other than Sweden should be used to identify and avoid potential irregularities affecting Swedish companies in India.

Another interesting aspect is to study the actual performance of companies adhering to different approaches to market analysis. In multiple parallel studies, we recommend future researchers to add granularity to the *market performance metric*, including KPIs such as profitability, customer retention and revenue growth. Performing this study across multiple corporate populations with varying accordance with the CAGE model pattern, the findings would indicate the correlation between companies' CAGE model accordance and profitability/performance in the country. This would offer a clear indication of how the inclusion of institutional theory for sub-national market analysis corresponds with market success in emerging markets.

8. References

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9. Appendices

Appendix 1. FTSE Definition of Emerging Markets (FTSE, 2014)

The generic term emerging market is used to describe a nation's social, or business activity in the process of rapid industrialisation. The term "rapidly growing economy" is now being used to denote emerging markets.

The FTSE Group classifies emerging markets according to a transparent rules-based process that monitors markets' status against fifteen defined Quality of Markets criteria. The FTSE Group has divided the emerging markets into advanced emerging and secondary emerging countries based on the development of their market infrastructure for greater granularity. These segments generally exhibit the following characteristics:

- Advanced Emerging: Upper Middle Income GNI countries with advanced market infrastructures and High Income GNI countries with lesser developed market infrastructures;
- Secondary Emerging: Lower Middle and Low Income GNI countries with reasonable market infrastructures and significant size and Upper Middle Income GNI countries with lesser developed market infrastructures

FTSE September 2013 Classification Update

Developed	Advanced Emerging	Secondary Emerging	Frontier
Australia	Brazil	Chile	Argentina
Austria	Czech Republic	Chine	Bahrain
Belgium/Luxembourg	Hungary	Colombia	Bangladesh
Canada	Malaysia	Egypt	Botswana
Denmark	Mexico	India	Bulgaria
Finland	Poland	Indonesia	Côte d'Ivoire
France	South Africa	Morocco	Croatia
Germany	Taiwan	Pakistan	Cyprus
Greece	Thailand	Peru	Estonia
Hong Kong	Turkey	Philippines	Ghana
Ireland		Russia	Jordan
Israel		UAE	Kenya
Italy			Lithuania
Japan			Macedonia
Netherlands			Malta
New Zealand			Mauritius
Norway			Nigeria
Portugal			Oman
Singapore			Qatar
South Korea			Romania
Spain			Serbia
Sweden			Slovakia
Switzerland			Slovenia
UK			Sri Lanka
USA			Tunisia
			Vietnam

Appendix 2. Author Profiles

MARCUS PAULSSON

Education

2013.08-2014.06	M.Sc. in Management - CEMS, Netherlands & Sweden Specialisation in International Management
2012.08-2014.06	M.Sc. in Business & Management - Stockholm School of Economics, Sweden Specialisation in Marketing & Media Management
2008.08-2011.06	B.Sc. in Business & Economics - Stockholm School of Economics, Sweden Major in Management and minor in Marketing
2010.09-2010.12	Exchange student - Bordeaux Management School, France Focus of studies: Management, Marketing

Work Experience

2014.02-2014.05	Product Strategy Analyst - Philips, Stockholm, Sweden
2013.06-2013.08	Digital Marketing Intern - Infosys, Bangalore, India
2012.10-2013.05	Marketing Assistant - Keybroker, Stockholm, Sweden
2012.10-2013.02	Strategy Consultant Intern - Pond Innovation & Design, Stockholm, Sweden
2012.01-2012.07	Trainee/Assistant HR Manager - Abercrombie & Fitch, Paris, France
2011.06-2011.12	International Relations Intern - Swedish Chamber of Commerce, Paris, France

Language Skills

Swedish (native), English (fluent), French (fluent), Danish (intermediate)

MAX FRIBERG

Education

2013.08-2014.06	M.Sc. in Management - CEMS, India & Sweden Specialisation in International Management
2012.08-2014.06	M.Sc. in Business & Management - Stockholm School of Economics, Sweden Specialisation in Marketing & Media Management
2008.08-2011.06	B.Sc. in Business & Economics - Stockholm School of Economics, Sweden Major in Management and minor in Financial Accounting
2010.09-2010.12	Exchange student - Bordeaux Management School, France Focus of studies: Management, Financial Accounting
2005.09-2006.06	Exchange student - Pioneer High School, Ann Arbor, Michigan

Work Experience

2013.10-Present	Market Entry Analyst - Universum, Stockholm, Sweden
2013.06-2013.08	Business Controller Intern - Hennes & Mauritz, Stockholm Sweden
2011.09-2012-07	Management Consultant - Oliver Wyman, Stockholm, Sweden
2009.09-2011.06	Sales & Trading Associate - SEB Enskilda Equities, Stockholm Sweden
2008.10-2010.06	Teacher Team Leader - Revision Courses Europe, Stockholm, Sweden

Language Skills

Swedish (native), English (fluent), French (fluent), Hindi (Basic)

Appendix 3. Interview Structure

Company representatives

1. What is the reason behind the observed expansion patterns of your company in India?
2. Is there a benefit in segmenting India based on states? Are you doing it in your organisation, or are you using other segmentation metrics?
3. Are you using a similar approach when entering other emerging markets? Can you see that the potential need to do so varies between countries?
4. To what extent is your company clustering geographic regions based on heuristics models? If yes, do you see any advanced in doing so?

Industry experts

1. What is the reason behind the observed expansion patterns of Swedish companies in India?
2. Is there a benefit in segmenting India based on states? Are companies using relevant theoretical models if doing so?

Appendix 4. CAGE Model Variables

Cultural Market Distance

Sub-national cultural market distance is measured using variables for state-level cultural factors, influencing economic activity and the ease of communication in the region. Proxies are derived for national cultural market distance variables looking at language match, religion match and diaspora.

C1 – Literacy Rate

This is a unilateral variable, measuring the percentage of the population in the state that can read and write (Census of India, 2011). It provides an understanding of the quality of the labour force.

C2 – Religion Match

This is a bilateral variable, estimating the percentage size of the Christian population in the state (Crusade Watch, 2001). Drawing from Sweden's Christian roots, it gives a measures as to what extent a state shares fundamental religious notions with Sweden.

C3 – International Tourists

This is a unilateral variable, measuring the how many international tourists that visit the state annually (HVS, 2011). The variable gauges to what extent foreigners move around in the state and how open it is to international visitors.

C4 – Higher Education

This is unilateral variable, showing in per cent how many students that are pursuing a higher education in relation to the population size of the state (UGS, 2012; Census of India, 2011). It provides an understanding of the educational level in the state and the skillset of the workforce.

Administrative Market Distance

Sub-national administrative market distance is measured using variables for state-level administrative factors, influencing the business stability in the region and how open the state is to the presence of international companies. Proxies are derived for national administrative market distance variables looking at common trade blocks, common currency, level of corruption and legal origin.

A1 – FDI Attitude

This is a unilateral variable, referring to whether the state has allowed multinational companies in the multi-brand retail industry to enter the state using majority ownership FDI (Economic Times, 2014; The Hindu Business Line, 2014; Medianama, 2012; Times of India, 2012). In 2012, the Indian government decided that foreign multi-brand retailers can enter the Indian market using 51 % FDI (i.e. majority ownership). However, the government left it to each state to decide whether to allow for such market entry mode or not (Times of India, 2012). The variable thus indicates the state's attitude to foreign companies entering using FDI.

A2 – Foreign Corporate Presence

This is a unilateral variable, indicating how many foreign companies that are registered in the state (India Briefing, 2011). The variable provides an understanding of whether the business climate is welcoming of foreign companies wanting to set up shop.

A3 – Corruption Index

This is a unilateral variable, depicting the level of corruption in the state. It is spread over a relative scale from 1 to 4, with 1 being the lowest level of corruption and 4 being the highest (Transparency International India, 2008). The variable illustrates the stability of the business landscape in the state.

A4 – Anti-Corruption Efforts

This is a unilateral variable, showing the level of reported economic crime in the state in relation to the state GDP. The term economic crime is composed of criminal breach of

trust, cheating and counterfeiting (National Crime Records Bureau, 2012; VMW Analytic Services, 2012). The variable provides a good understanding of the security of doing business in the state.

Geographic Market Distance

Sub-national geographic market distance is measured using variables for state-level geographic factors, influencing the ease of doing business in the region, seen through infrastructure, state size and climate. Proxies are derived from national geographic market distance variables looking at distance between main cities, time and climate zone.

G1 – Infrastructure

This is unilateral variable, calculating the road length (in km) per 100 sq. km of area in the state (HVS, 2011). It provides an estimate of how developed the infrastructure is in the state as well as ease of transportation.

G2 – Urbanisation

This is a unilateral variable, illustrating the percentage of the population that lives in urban areas (HVS, 2011). It allows for gaining an understanding of the extent to which the population is located in dense areas, thereby facilitation economic exchange.

G3 – Air Traffic

This is a unilateral variable, measuring the number of take offs and landings per year, thereby also reflecting the economic activity in the state. In India air transport is first and foremost pertinent to foreign travellers. It also offers a viable alternative to road transport, when distance is long (HVS, 2011). The variable describes how advanced transportation is in the state as well as level of international traffic.

G4 – Climate Difference

This is a bilateral variable, measuring the annual average temperature in Celsius in the state and comparing it to that of Stockholm, Sweden (Current Results, 2014; YR, 2014; Windfinder, 2014; Maps of India, 2014; Bharatonline, 2014). It provides an

understanding of how closely related the climate in the state is to that of the main economic centre in Sweden.

Economic Market Distance

Sub-national economic market distance is measured using variables for state-level economic factors, influencing purchasing power as well as how sophisticated the economic landscape is in the region. Due to the nature of variables used to measure national economic market distance, no proxies were needed for estimating the sub-national economic landscape.

E1 – GDP per Capita

This is a unilateral variable, measured in dollars at purchasing power parity (Economist, 2011). It illustrates the size of the state's economy in relation to its population, and thereby also its attractiveness for investors.

E2 – Real GDP Growth Rate

This is a unilateral variable, indicating the true growth rate of the state's economy, correcting for inflation rate. (VMW Analytic Services, 2012; Inflation.eu, 2012). The variable describes how thriving the state's economy is.

E3 – Human Development

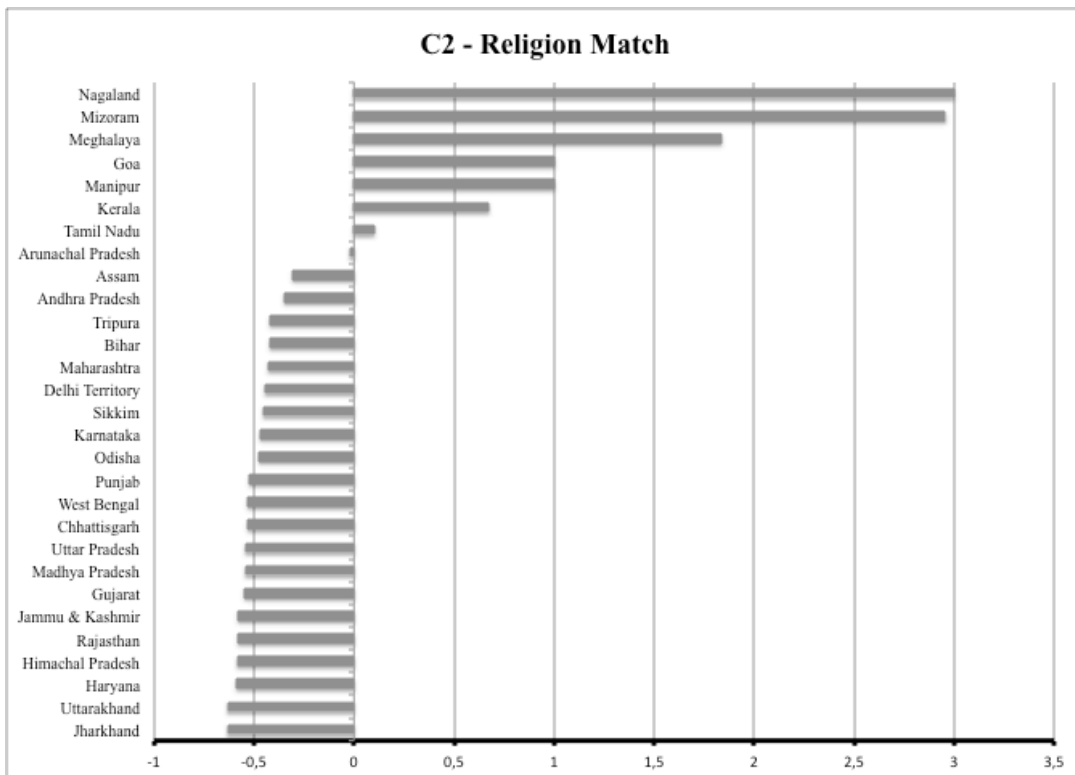
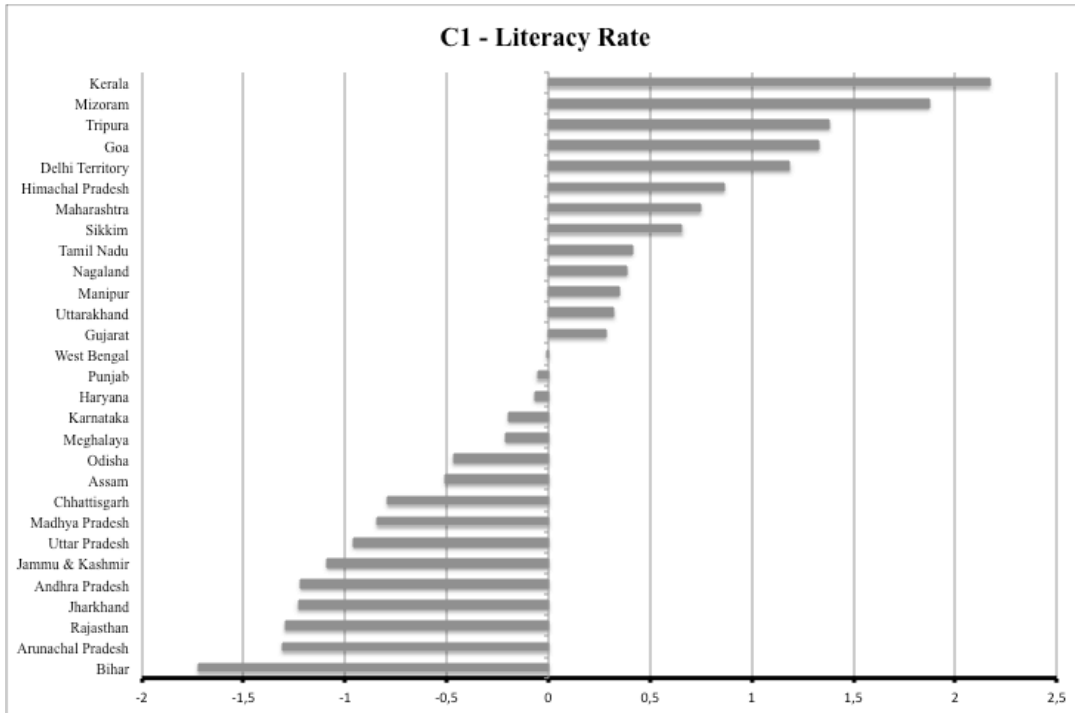
This is a unilateral variable, measuring social and economic development in the state. The human development index is widely acknowledged since it gives a comprehensive image of market development, measured on a scale from 0 to 1 (Ministry of Development of North Eastern Region, 2009; Planning Commission, 2006; Ministry of Women & Child Development, 2006).

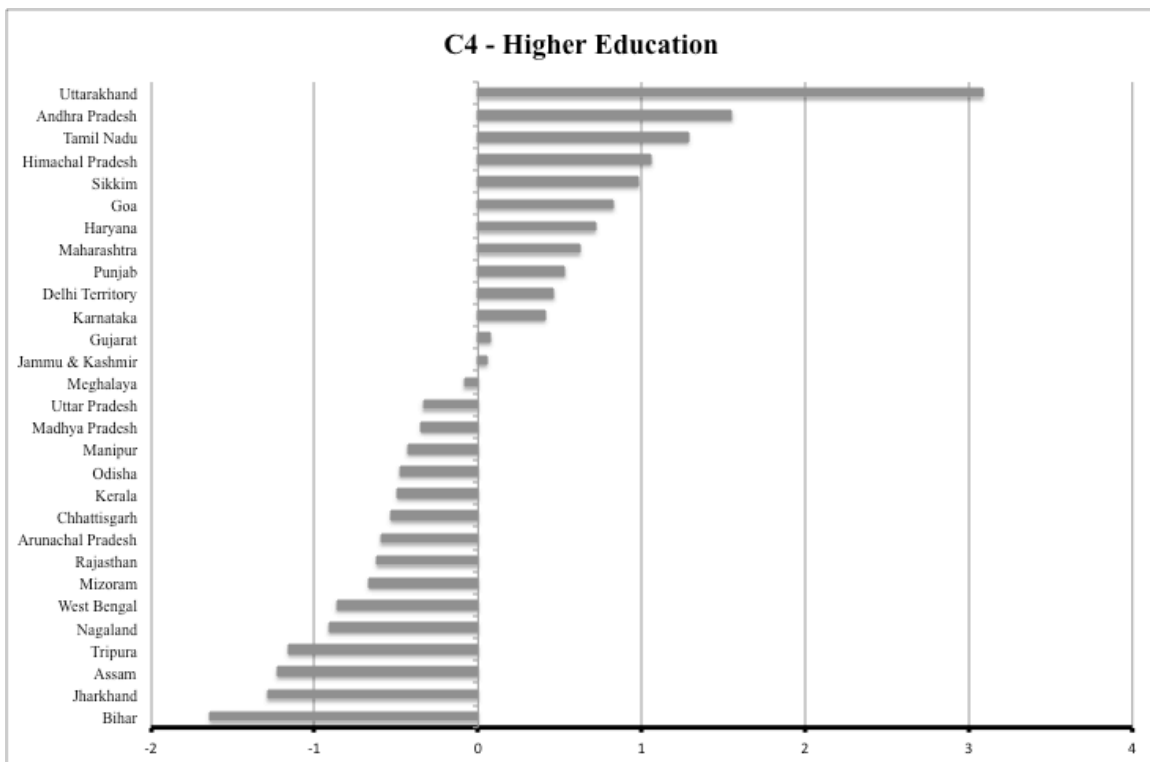
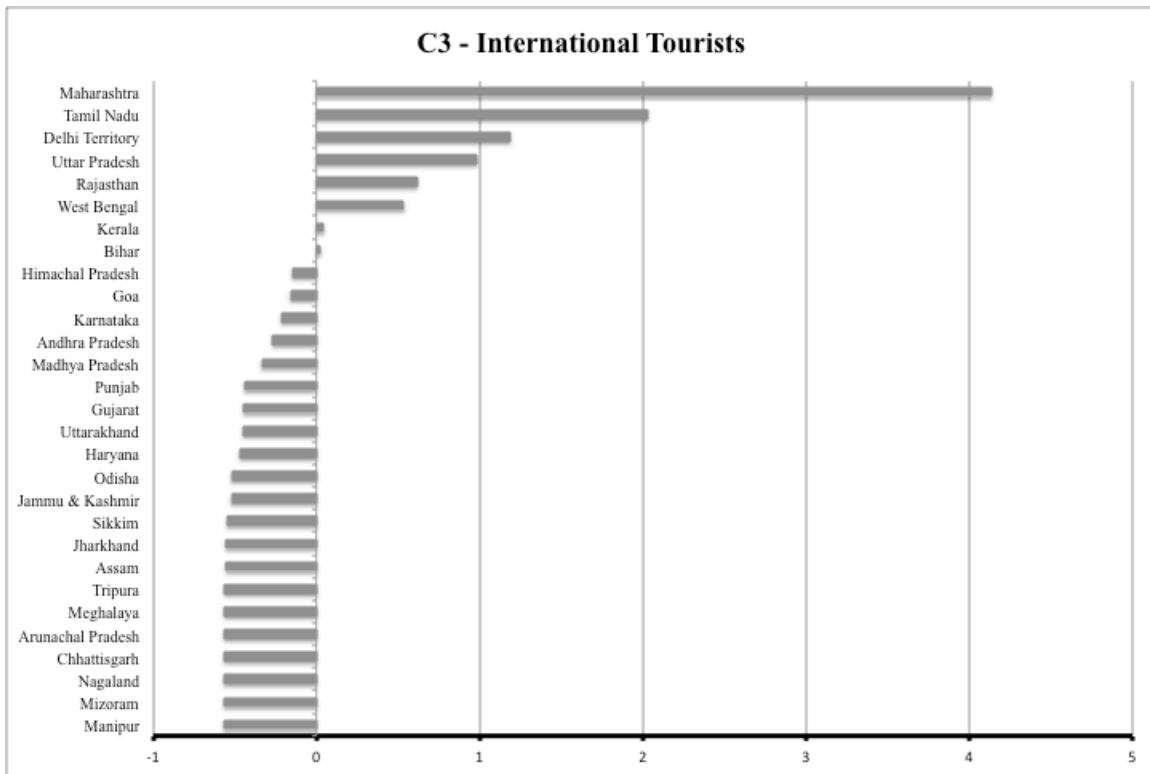
E4 – Internet Penetration

This is a unilateral variable, measuring the percentage of the state's population that has access to the Internet (Census of India, 2011). It illustrates the interconnectedness in the state and resulting ease of doing business.

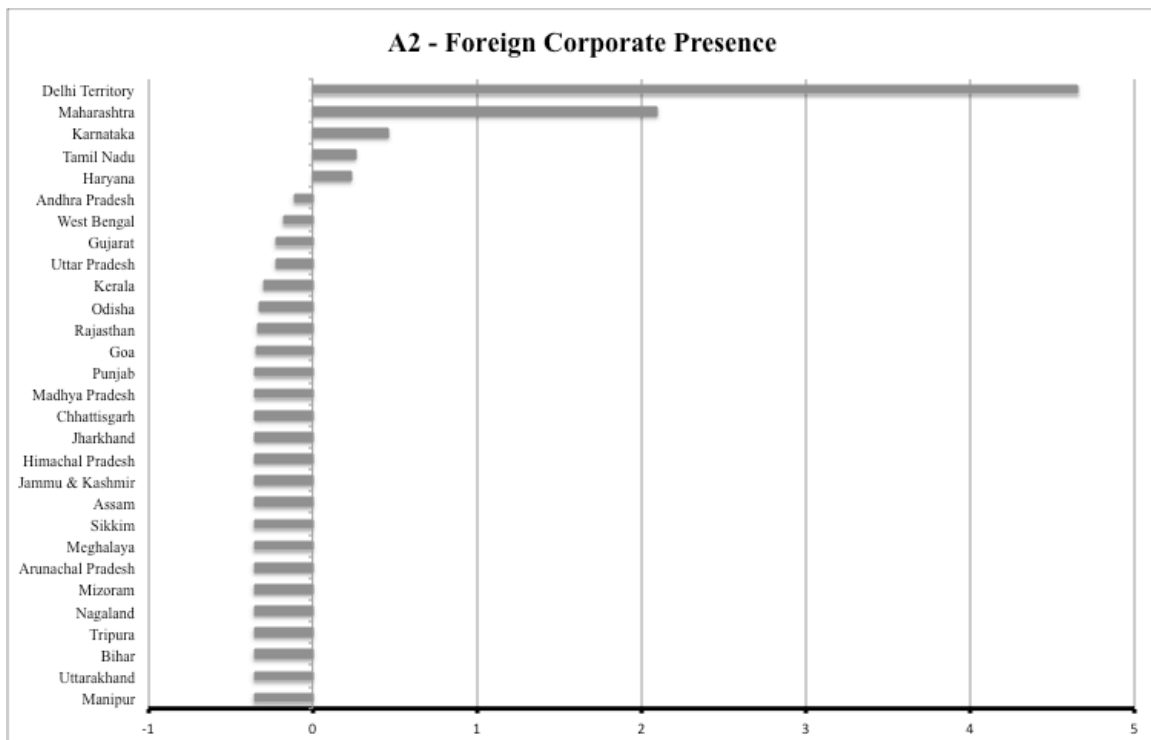
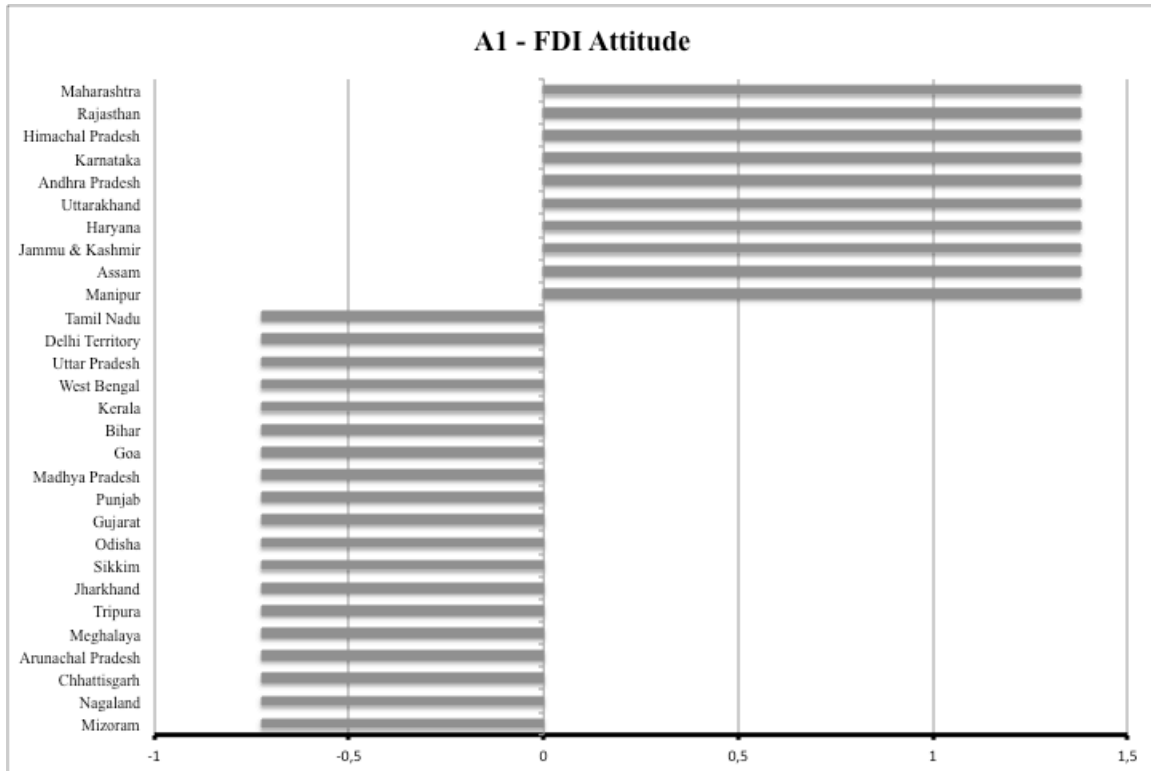
Appendix 5. Market Distance Variable Histograms

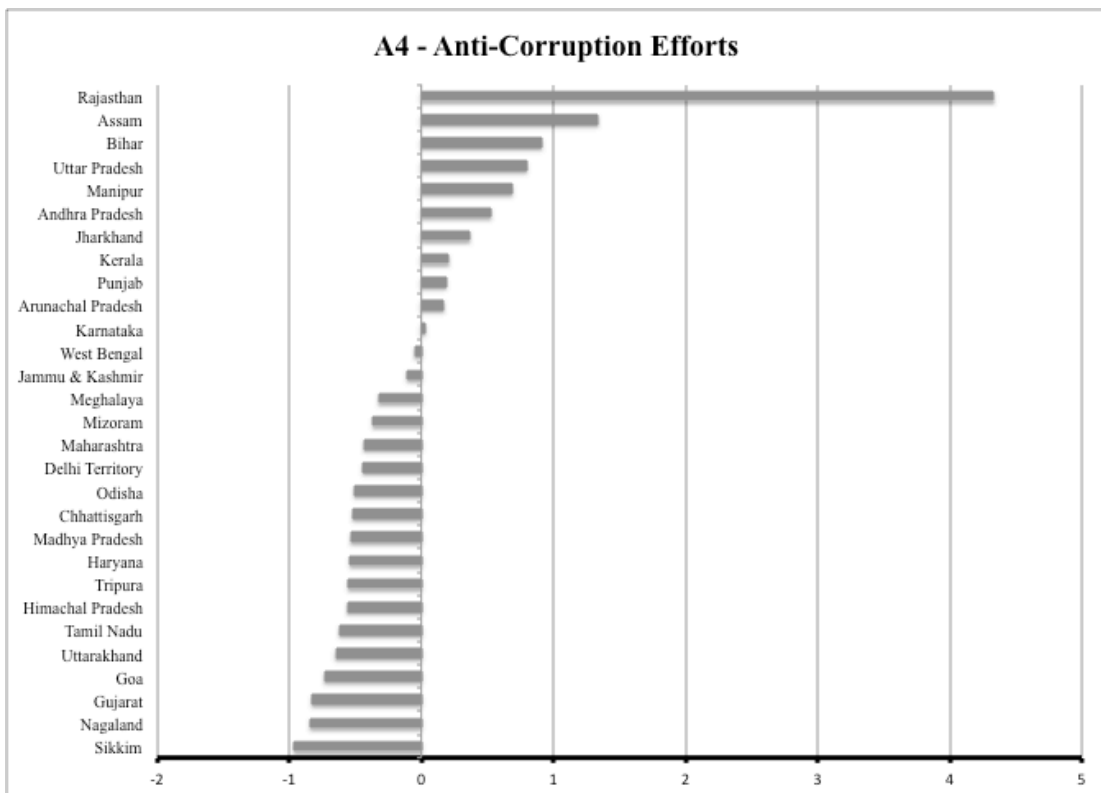
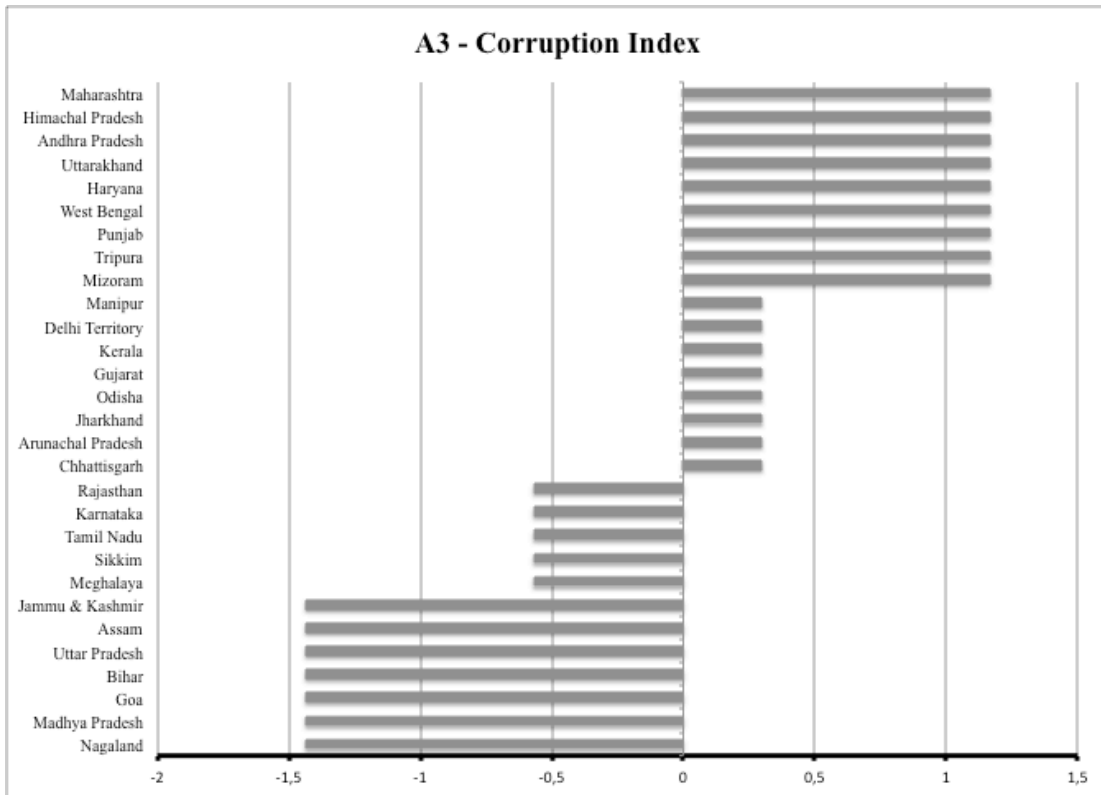
Cultural market distance



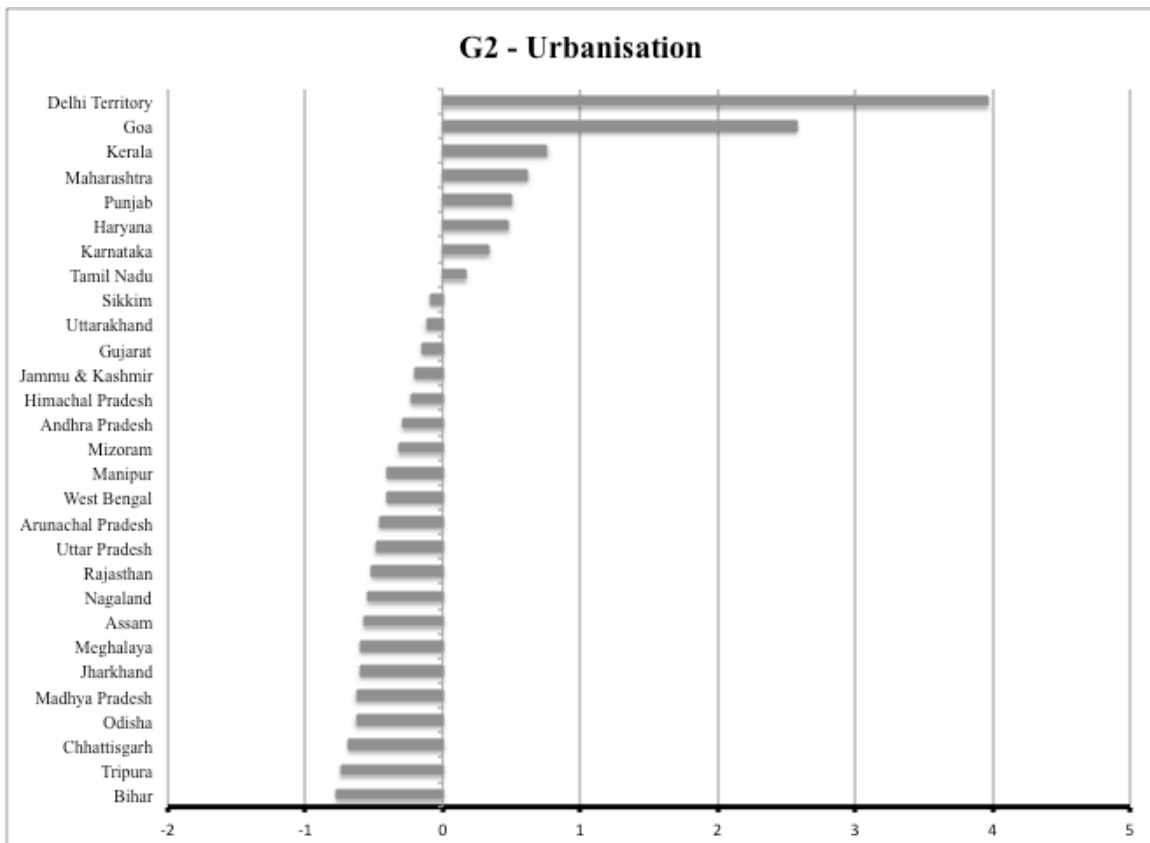
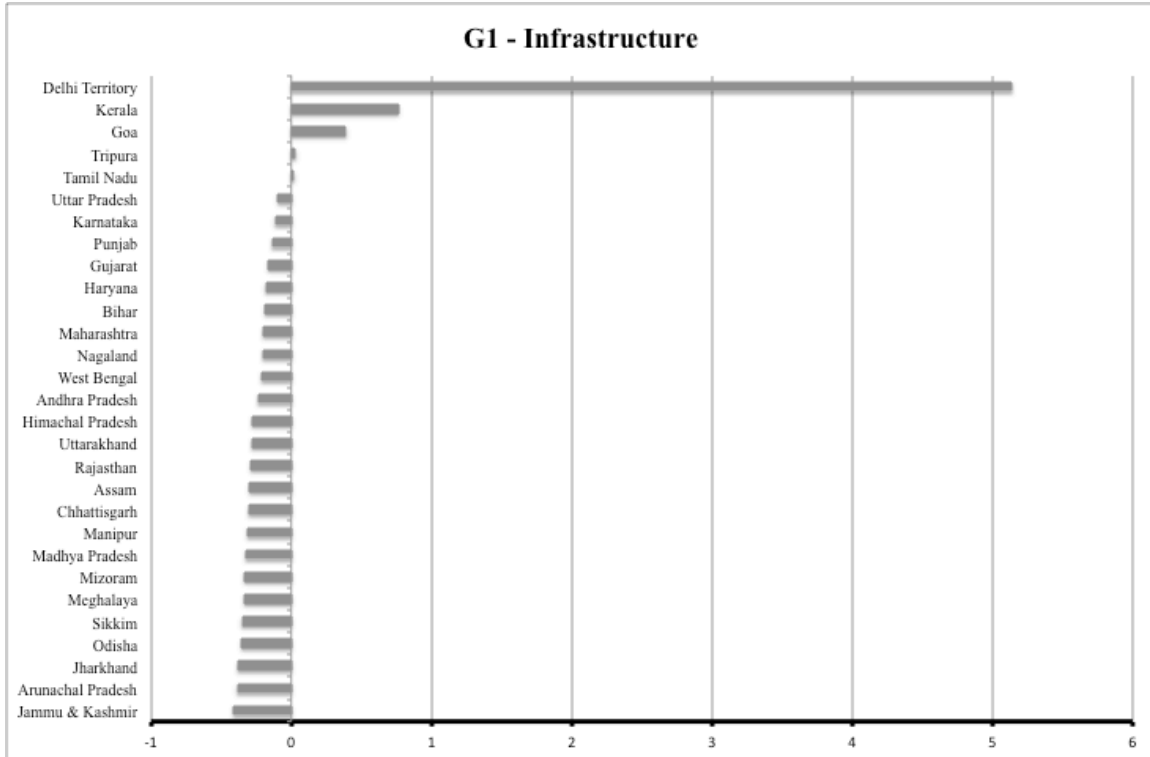


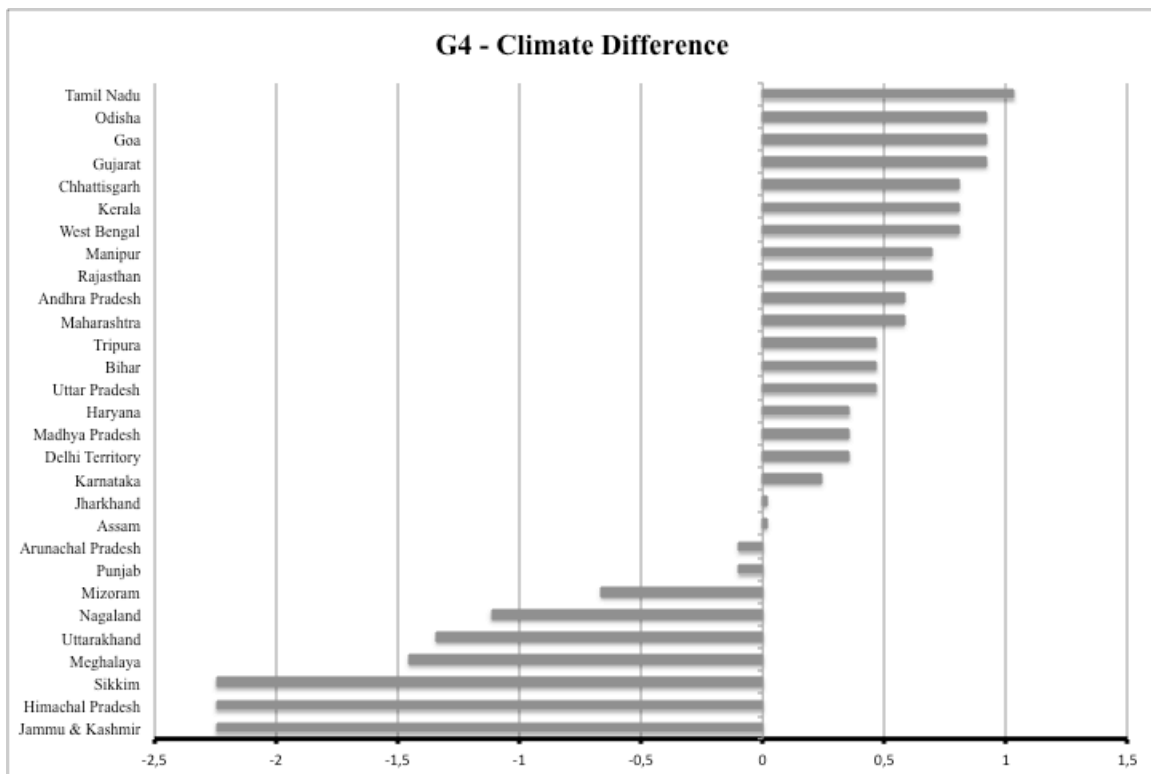
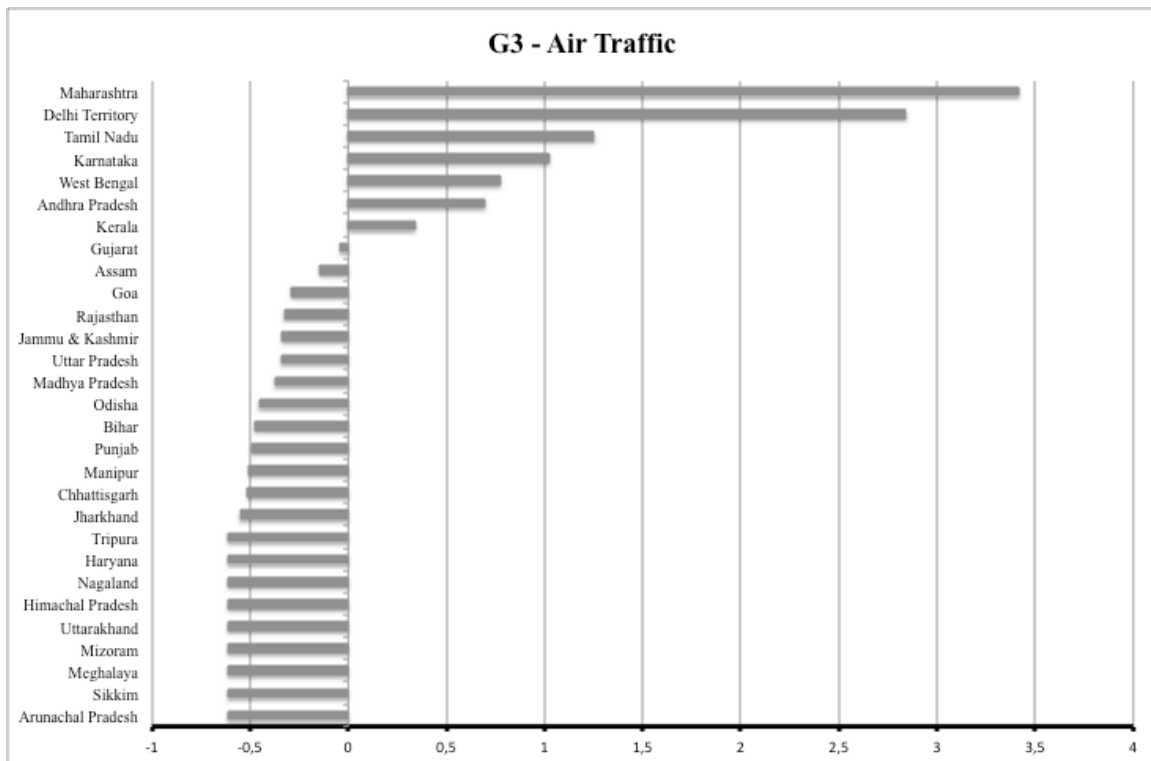
Administrative market distance



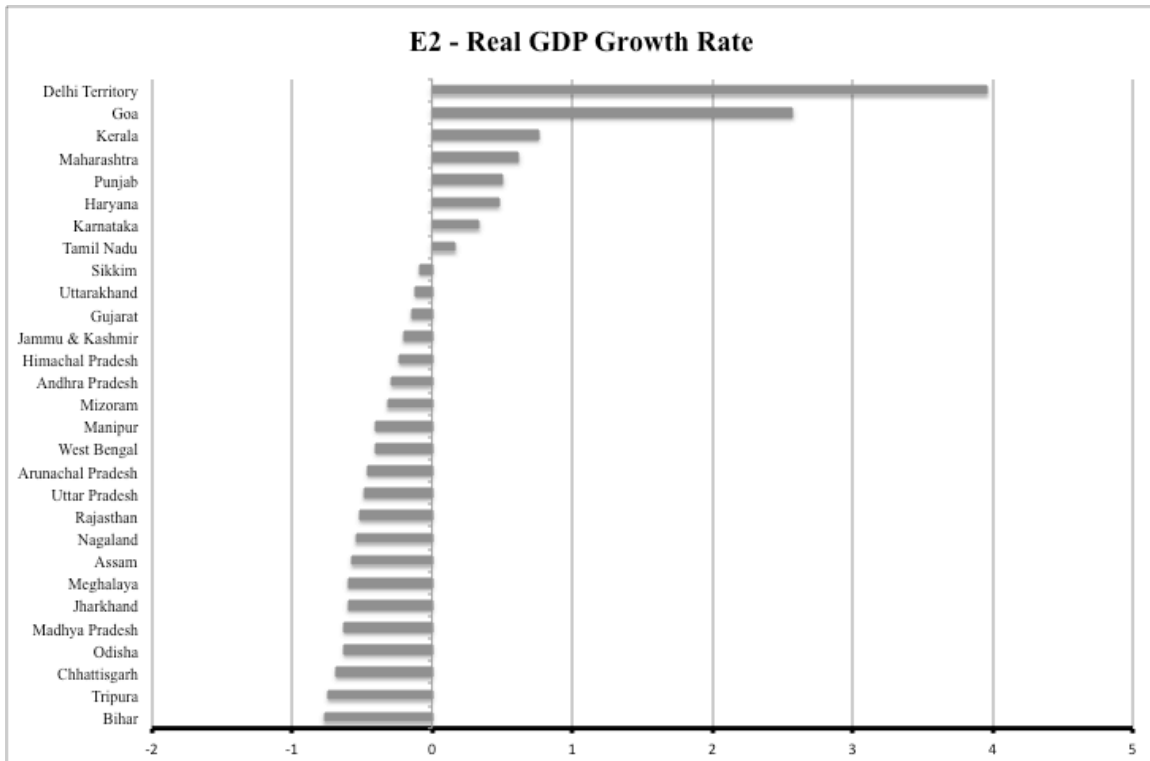
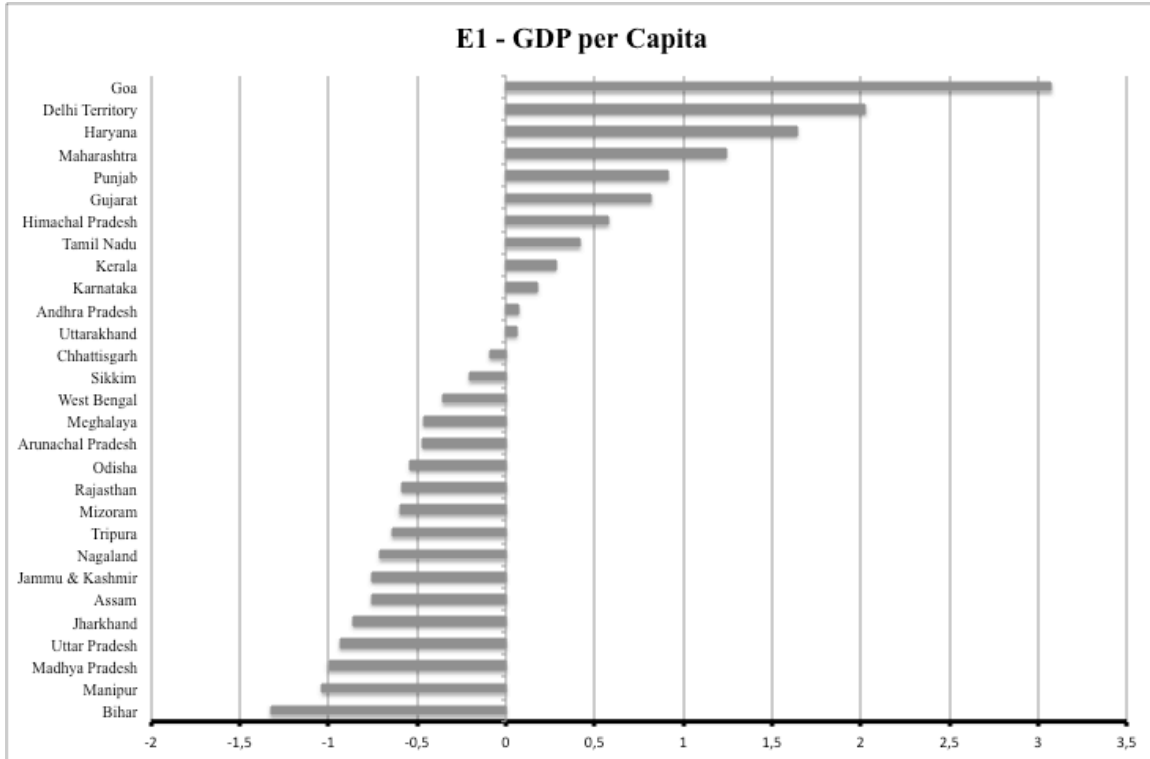


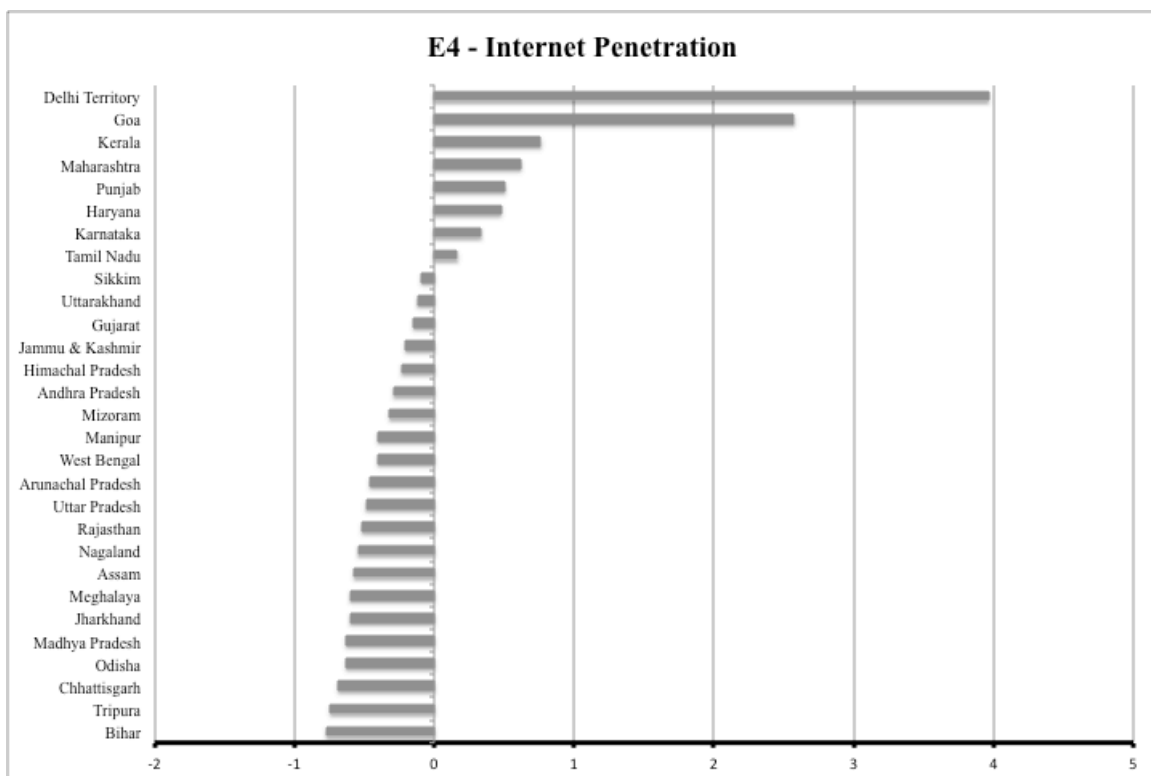
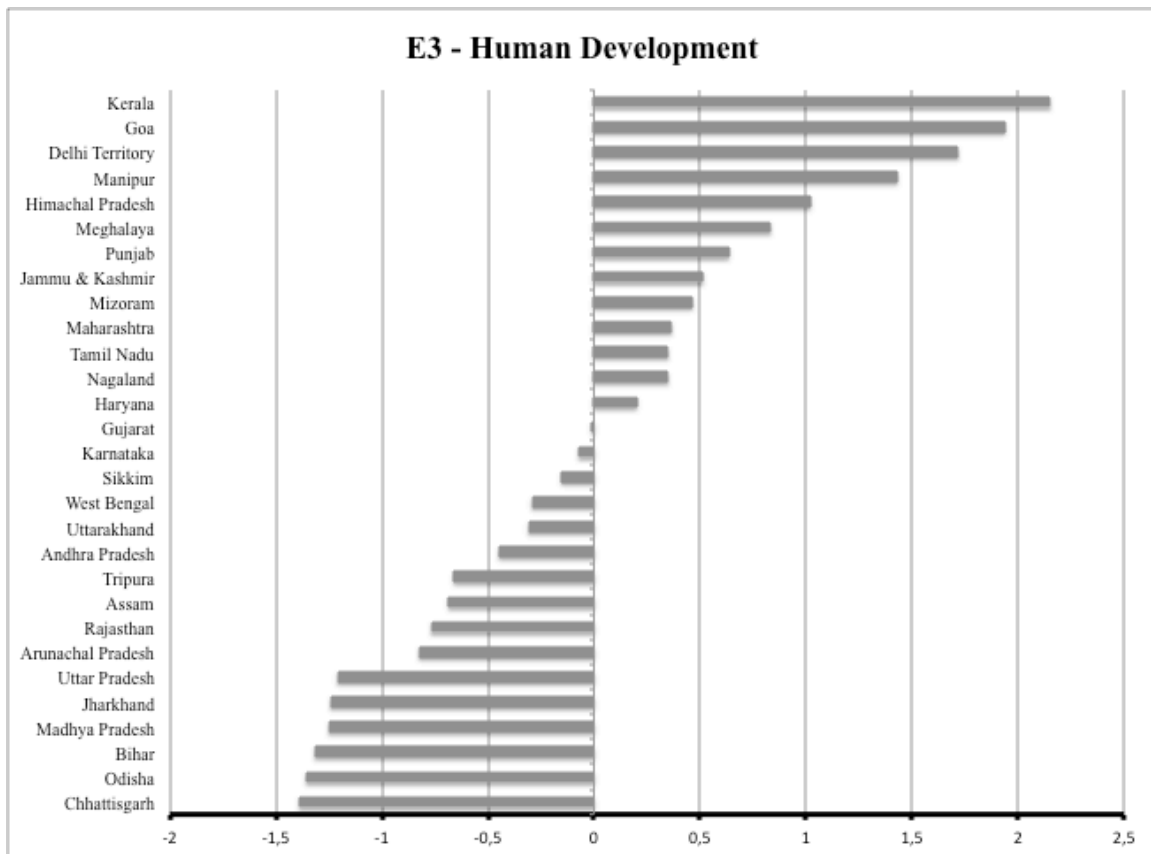
Geographic market distance



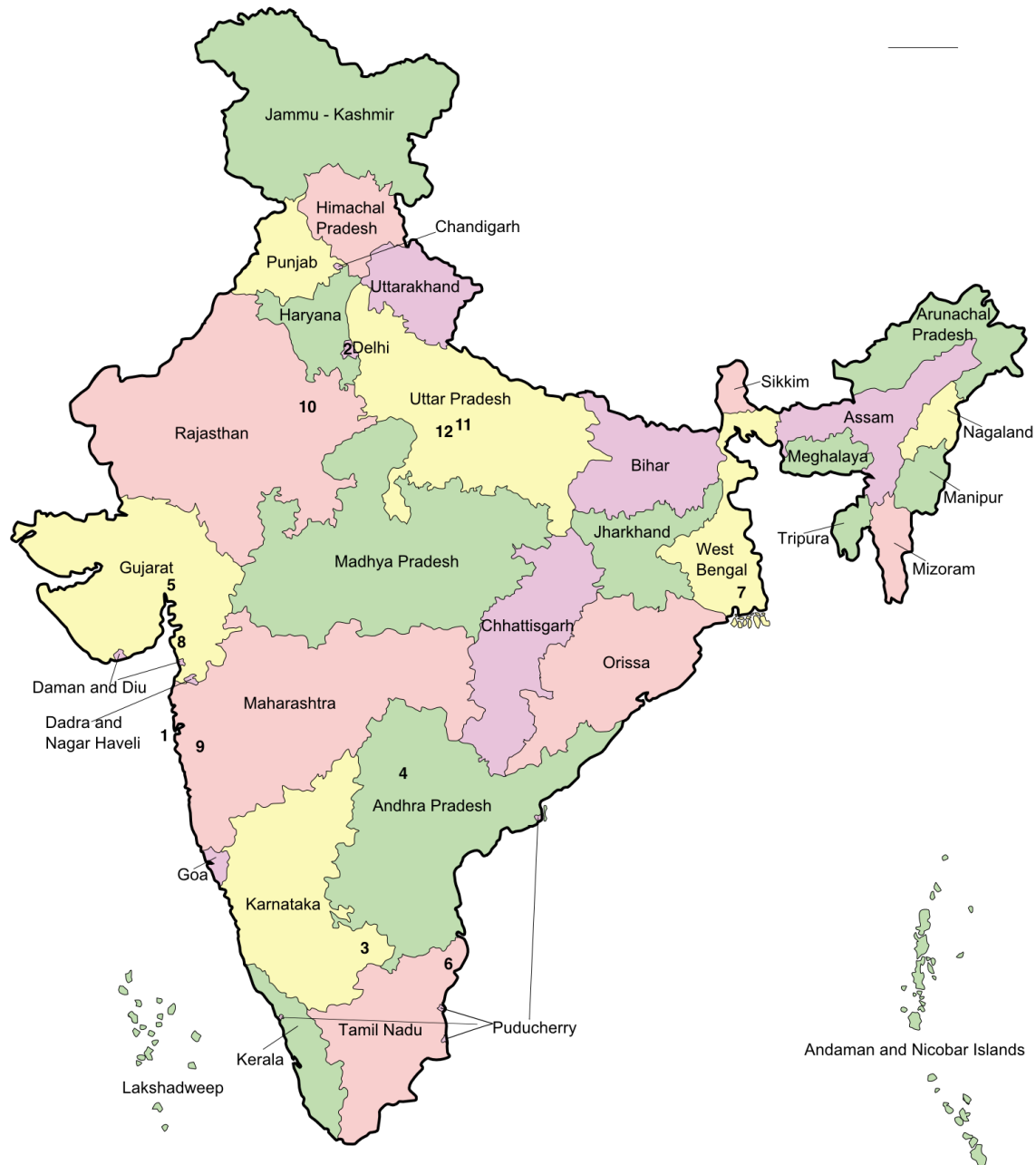


Economic market distance





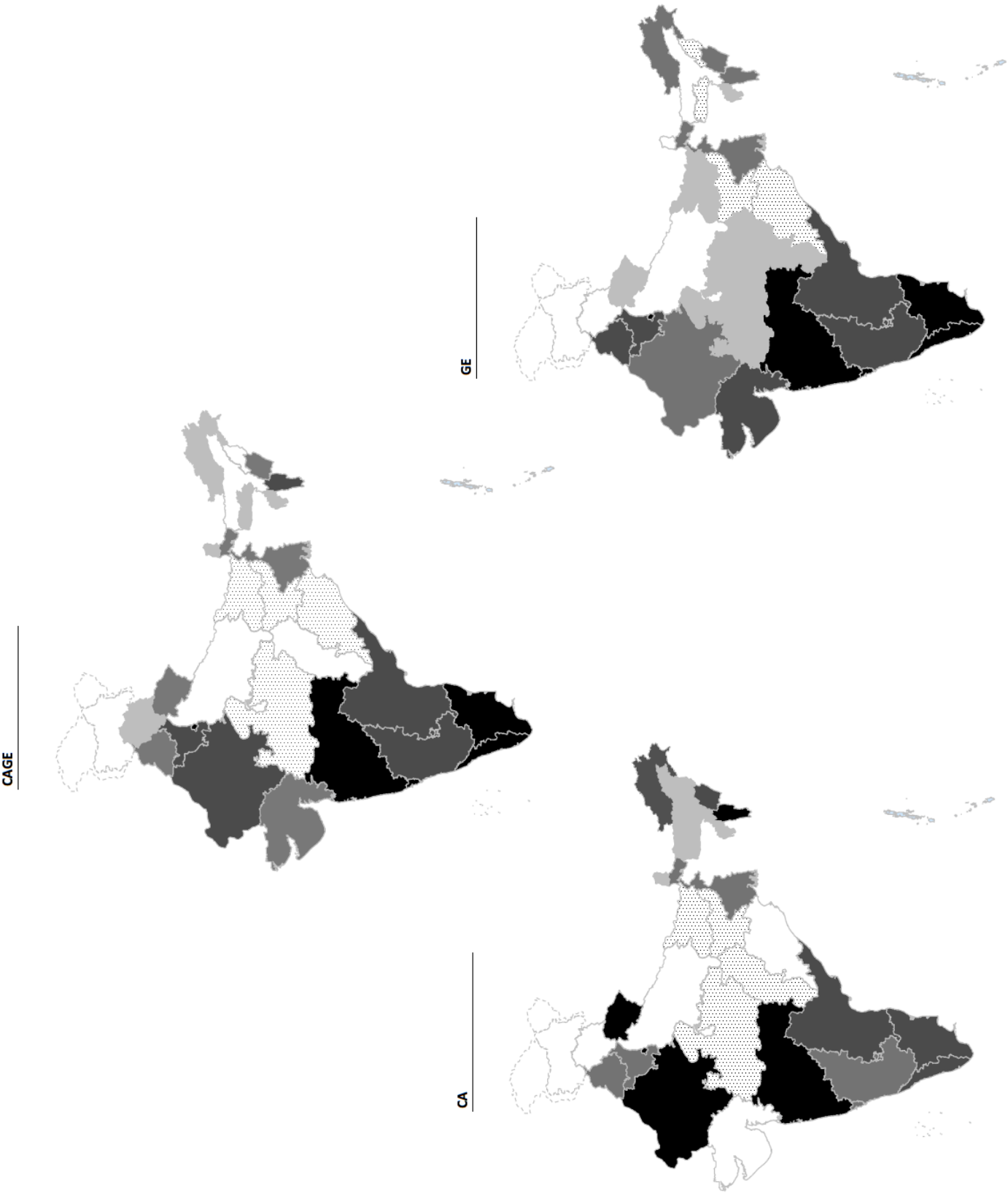
Appendix 6. Map of India



Main cities of India							
#	City	Population	State	#	City	Population	State
1	Mumbai	12,5 MM	Maharashtra	7	Calcutta	4,5 MM	West Bengal
2	New Delhi	11 MM	New Delhi	8	Surat	4,5 MM	Gujarat
3	Bangalore	8,4 MM	Karnataka	9	Pune	3,1 MM	Maharashtra
4	Hyderabad	6,8 MM	Andhra Pradesh	10	Jaipur	3,0 MM	Rajasthan
5	Ahmedabad	5,6 MM	Gujarat	11	Lucknow	2,8 MM	Uttar Pradesh
6	Chennai	4,7 MM	Tamil Nadu	12	Kanpur	2,8 MM	Uttar Pradesh

Appendix 7. Model Rankings

Rank	CAGE	CA	GE
1	Delhi Territory -	Maharashtra -	Delhi Territory -
2	Maharashtra 2 456	Delhi Territory 733	Goa 2 894
3	Kerala 4 377	Uttarakhand 1 280	Maharashtra 3 189
4	Goa 4 412	Mizoram 1 410	Kerala 3 359
5	Tamil Nadu 4 981	Rajasthan 1 501	Tamil Nadu 4 033
6	Haryana 5 377	Himachal Pradesh 1 526	Haryana 4 350
7	Andhra Pradesh 5 636	Andhra Pradesh 1 562	Gujarat 4 398
8	Karnataka 5 746	Manipur 1 637	Karnataka 4 481
9	Mizoram 5 761	Tamil Nadu 1 681	Punjab 4 554
10	Rajasthan 5 793	Kerala 1 752	Andhra Pradesh 4 807
11	Manipur 5 897	Haryana 1 760	West Bengal 4 845
12	Punjab 6 065	Karnataka 1 998	Arunachal Pradesh 4 987
13	Uttarakhand 6 219	Punjab 2 244	Manipur 4 994
14	Gujarat 6 358	Goa 2 252	Rajasthan 5 026
15	West Bengal 6 458	West Bengal 2 347	Mizoram 5 084
16	Himachal Pradesh 6 510	Meghalaya 2 429	Chhattisgarh 5 350
17	Arunachal Pradesh 7 181	Tripura 2 484	Madhya Pradesh 5 485
18	Tripura 7 324	Nagaland 2 537	Bihar 5 508
19	Meghalaya 7 585	Assam 2 588	Tripura 5 573
20	Sikkim 7 639	Sikkim 2 661	Uttarakhand 5 672
21	Chhattisgarh 7 687	Gujarat 2 693	Sikkim 5 712
22	Assam 7 714	Uttar Pradesh 2 771	Uttar Pradesh 5 712
23	Uttar Pradesh 7 750	Jammu & Kashmir 2 821	Himachal Pradesh 5 717
24	Nagaland 7 778	Arunachal Pradesh 2 927	Jammu & Kashmir 5 732
25	Jammu & Kashmir 7 820	Orissa 2 949	Assam 5 859
26	Orissa 8 111	Chhattisgarh 3 071	Meghalaya 5 890
27	Madhya Pradesh 8 154	Jharkhand 3 166	Orissa 5 895
28	Bihar 8 237	Madhya Pradesh 3 402	Nagaland 5 974
29	Jharkhand 8 408	Bihar 3 462	Jharkhand 5 975



Appendix 8. Sensitivity Analysis

8.1. Overall Top-5: Variables that contribute more than 20 % to a single state ranking are highlighted below.

CAGE			CA			GE		
State	Variable	% of total contribution	State	Variable	% of total contribution	State	Variable	% of total contribution
Delhi Territory			Maharashtra			Delhi Territory		
	G1. Infrastructure	17,1%		C3. International Tourists	37,6%		G1. Infrastructure	25,0%
	A2. Foreign Corporate Presence	15,5%		A2. Foreign Corporate Presence	19,0%		E4. Internet Penetration	19,3%
	E4. Internet Penetration	13,2%		A1. FDI Attitude	12,5%		G2. Urbanisation	18,2%
	G2. Urbanisation	12,5%		A3. Corruption Index	10,6%		G3. Air Traffic	13,8%
	G3. Air Traffic	9,5%		C1. Literacy Rate	6,8%		E1. GDP per Capita	9,9%
Maharashtra			Delhi Territory			Goa		
	C3. International Tourists	22,4%		A2. Foreign Corporate Presence	49,5%		E1. GDP per Capita	23,9%
	G3. Air Traffic	18,5%		C1. Literacy Rate	12,6%		E4. Internet Penetration	20,0%
	A2. Foreign Corporate Presence	11,3%		C3. Foreign Tourists	12,6%		E2. Real GDP Growth Rate	-15,3%
	A1. FDI Attitude	7,5%		A1. FDI Attitude	-7,7%		E3. Human Development	15,1%
	E1. GDP per Capita	6,7%		C4. Higher Education	4,9%		G2. Urbanisation	13,2%
Kerala			Uttarakhand			Maharashtra		
	C1. Literacy Rate	19,2%		C4. Higher Education	38,4%		G3. Air Traffic	45,6%
	E3. Human Development	19,1%		A1. FDI Attitude	17,2%		E1. GDP per Capita	16,6%
	G2. Urbanisation	7,8%		A3. Corruption Index	14,5%		G2. Urbanisation	9,4%
	G4. Climate difference	7,2%		A4. Anti-Corruption Efforts	-8,1%		E4. Internet Penetration	8,3%
	G1. Infrastructure	6,8%		C2. Religion Match	-7,9%		G4. Climate Difference	7,8%
Goa			Mizoram			Kerala		
	E1. GDP per Capita	15,8%		C2. Religion Match	34,1%		E3. Human Development	33,8%
	E4. Internet Penetration	13,3%		C1. Literacy Rate	21,6%		G2. Urbanisation	13,8%
	E2. Real GDP Growth Rate	-10,1%		A3. Corruption Index	13,5%		G4. Climate Difference	12,7%
	E3. Human Development	10,0%		A1. FDI Attitude	-8,4%		G1. Infrastructure	12,0%
	G2. Urbanisation	8,7%		C4. Higher Education	-7,7%		E4. Internet Penetration	12,0%
Tamil Nadu			Rajasthan			Tamil Nadu		
	C3. International Tourists	18,9%		A4. Anti-Corruption Efforts	44,6%		G3. Air Traffic	26,6%
	C4. Higher Education	12,0%		A1. FDI Attitude	14,2%		G4. Climate Difference	21,9%
	G3. Air Traffic	11,7%		C1. Literacy Rate	-13,3%		G2. Urbanisation	18,6%
	G4. Climate Difference	9,6%		C4. Higher Education	-6,4%		E2. Real GDP Growth Rate	-12,7%
	G2. Urbanisation	8,2%		C3. International Tourists	6,3%		E1. GDP per Capita	8,9%

The histograms presented in Appendix 5 gave an indication of the SSV:s that show up in the top-5 ranking. For the sensitivity analysis, we choose to drill even further and study the impact of excluding some of the SSV:s from the ranking, for all states. Both the SSV-driven state and the top-10 rankings for CAGE, CA and GE variables are shown below.

8.2. Top-10 rankings, all variables included

Rank	CAGE		CA		GE	
1	Delhi Territory	-	Maharashtra	-	Delhi Territory	-
2	Maharashtra	2 456	Delhi Territory	733	Goa	2 894
3	Kerala	4 377	Uttarakhand	1 280	Maharashtra	3 189
4	Goa	4 412	Mizoram	1 410	Kerala	3 359
5	Tamil Nadu	4 981	Rajasthan	1 501	Tamil Nadu	4 033
6	Haryana	5 377	Himachal Pradesh	1 526	Haryana	4 350
7	Andhra Pradesh	5 636	Andhra Pradesh	1 562	Gujarat	4 398
8	Karnataka	5 746	Manipur	1 637	Karnataka	4 481
9	Mizoram	5 761	Tamil Nadu	1 681	Punjab	4 554
10	Rajasthan	5 793	Kerala	1 752	Andhra Pradesh	4 807

8.3. Maharashtra without International Tourists – remains #2 and #1.

Rank	CAGE		CA	
1	Delhi Territory	-	Maharashtra	-
2	Maharashtra	3 299	Delhi Territory	38
3	Goa	4 285	Uttarakhand	206
4	Kerala	4 298	Mizoram	313
5	Haryana	5 218	Himachal Pradesh	539
6	Tamil Nadu	5 420	Andhra Pradesh	545
7	Andhra Pradesh	5 538	Manipur	550
8	Mizoram	5 595	Rajasthan	701
9	Karnataka	5 666	Haryana	704
10	Manipur	5 737	Kerala	821

8.4. Delhi without Foreign Corporate Presence – disappears from the CA ranking.

Rank	CAGE	CA
1	Delhi Territory -	Maharashtra -
2	Maharashtra 2 240	Uttarakhand 848
3	Kerala 3 881	Mizoram 1 006
4	Goa 3 910	Rajasthan 1 121
5	Tamil Nadu 4 772	Himachal Pradesh 1 147
6	Haryana 5 245	Andhra Pradesh 1 259
7	Andhra Pradesh 5 458	Manipur 1 280
8	Mizoram 5 540	Kerala 1 435
9	Rajasthan 5 585	Tamil Nadu 1 510
10	Manipur 5 705	Haryana 1 598

8.5. Uttarakhand without University Enrolment - disappears from the CA ranking and drops from #13 to #16 in CAGE.

Rank	CAGE	CA
1	Delhi Territory -	Maharashtra -
2	Maharashtra 2 537	Delhi Territory 708
3	Kerala 4 225	Mizoram 1 125
4	Goa 4 578	Rajasthan 1 229
5	Tamil Nadu 5 266	Manipur 1 413
6	Haryana 5 533	Kerala 1 514
7	Mizoram 5 591	Himachal Pradesh 1 658
8	Rajasthan 5 636	Andhra Pradesh 1 813
9	Manipur 5 786	Haryana 1 814
10	Karnataka 5 834	Tamil Nadu 1 870

8.6. Mizoram without Religion Match - drops from #9 and #4 to #16 and #12 in CAGE and CA respectively.

Rank	CAGE	CA
1	Delhi Territory -	Maharashtra -
2	Maharashtra 2 420	Delhi Territory 717
3	Kerala 4 566	Uttarakhand 1 212
4	Goa 4 676	Rajasthan 1 442
5	Tamil Nadu 5 026	Himachal Pradesh 1 466
6	Haryana 5 257	Andhra Pradesh 1 555
7	Andhra Pradesh 5 566	Haryana 1 695
8	Karnataka 5 646	Tamil Nadu 1 777
9	Rajasthan 5 668	Manipur 1 942
10	Punjab 5 948	Karnataka 1 956

8.7. Rajasthan without Anti-Corruption Efforts - drops from 10 and 5 to 16 and 20 in CAGE and CA respectively.

Rank	CAGE	CA
1	Delhi Territory -	Maharashtra -
2	Maharashtra 2 418	Delhi Territory 720
3	Goa 4 273	Uttarakhand 1 210
4	Kerala 4 457	Mizoram 1 403
5	Tamil Nadu 4 859	Himachal Pradesh 1 473
6	Haryana 5 268	Tamil Nadu 1 611
7	Mizoram 5 685	Haryana 1 708
8	Karnataka 5 762	Andhra Pradesh 1 759
9	Andhra Pradesh 5 769	Manipur 1 871
10	Manipur 6 064	Kerala 1 872

8.8. Delhi without Infrastructure – still up top, but distances shrink.

Rank	CAGE	GE
1	Delhi Territory -	Delhi Territory -
2	Maharashtra 1 478	Goa 2 193
3	Goa 4 072	Maharashtra 2 385
4	Kerala 4 137	Kerala 2 877
5	Tamil Nadu 4 667	Tamil Nadu 3 493
6	Haryana 5 099	Haryana 3 828
7	Andhra Pradesh 5 403	Gujarat 3 892
8	Mizoram 5 530	Karnataka 4 009
9	Karnataka 5 575	Punjab 4 094
10	Rajasthan 5 583	Andhra Pradesh 4 378

8.9. Kerala without Human Development – drops one CAGE rank

Rank	CAGE	GE
1	Delhi Territory -	Delhi Territory -
2	Maharashtra 2 283	Maharashtra 3 066
3	Goa 4 771	Goa 3 148
4	Kerala 4 787	Kerala 3 699
5	Tamil Nadu 4 977	Tamil Nadu 3 964
6	Haryana 5 363	Gujarat 4 265
7	Andhra Pradesh 5 476	Haryana 4 266
8	Rajasthan 5 564	Karnataka 4 337
9	Karnataka 5 689	Andhra Pradesh 4 591
10	Mizoram 5 839	Punjab 4 593

8.10. “Capital Punishment” - Delhi without Highways/state area and Foreign corporate presence

Delhi remains #1 in CAGE and GE, but the others close in considerably in CAGE, not GE, as Maharashtra and other developed states are also struck when removing the highway variable. Delhi falls to #11 in the CA ranking.

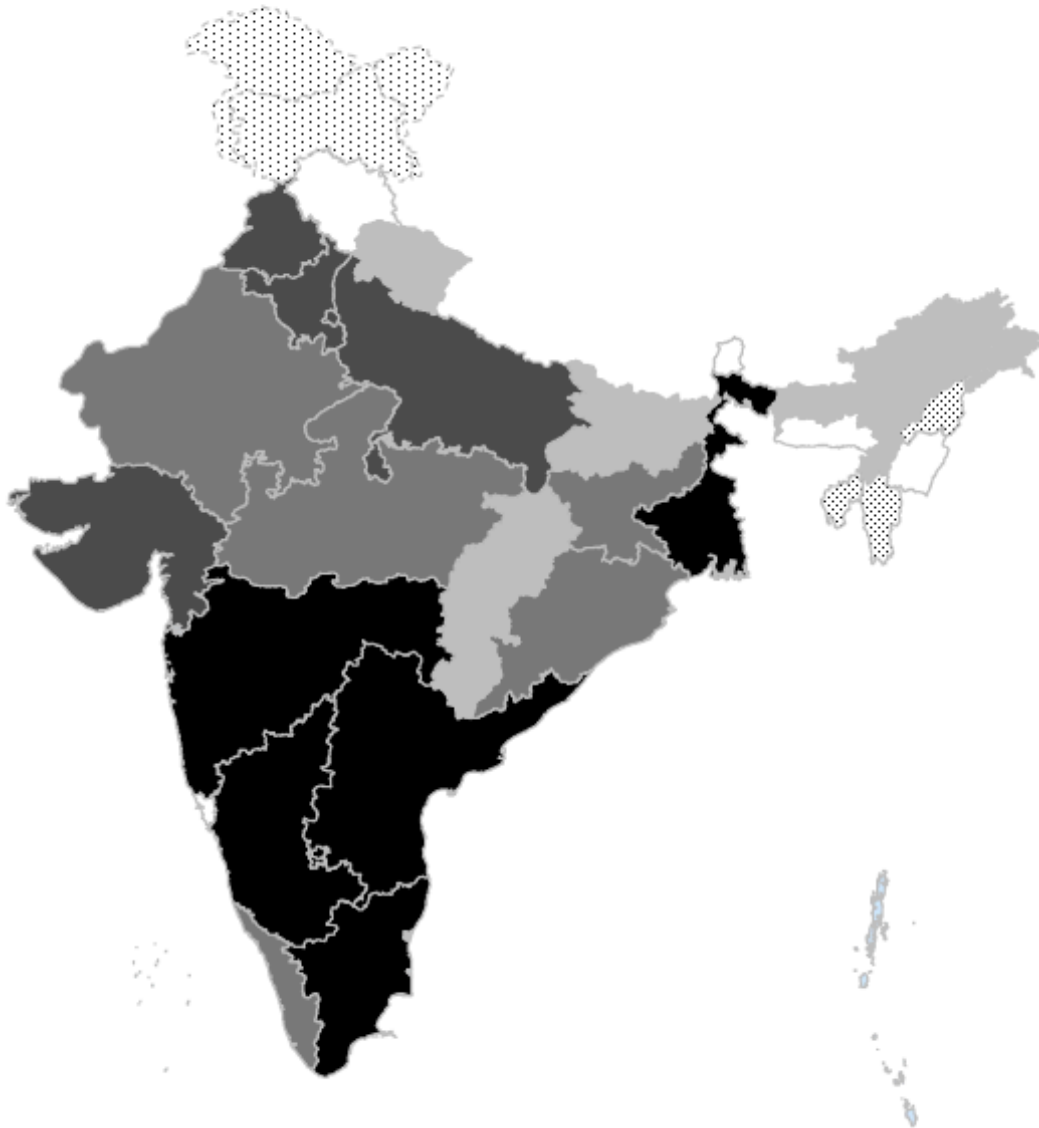
Rank	CAGE	CA	GE
1	Delhi Territory -	Maharashtra -	Delhi Territory -
2	Maharashtra 928	Uttarakhand 1 105	Goa 2 795
3	Goa 3 324	Mizoram 1 310	Maharashtra 3 040
4	Kerala 3 424	Rajasthan 1 461	Kerala 3 667
5	Tamil Nadu 4 308	Himachal Prad. 1 495	Tamil Nadu 4 453
6	Haryana 4 850	Andhra Prad. 1 640	Haryana 4 879
7	Andhra Prad. 5 108	Manipur 1 667	Gujarat 4 961
8	Mizoram 5 178	Kerala 1 869	Karnataka 5 110
9	Rajasthan 5 254	Tamil Nadu 1 967	Punjab 5 218
10	Manipur 5 401	Haryana 2 082	Andhra Prad. 5 580

Appendix 9. Current Presence of Swedish Companies in India

Each time a company reported presence (fully owned or JV) in a state, it counted as a point on this list. On average, the 41 companies were present in five states, with a median presence of four states. In total, 206 state-wise presences were recorded.

Rank	State	Companies present
1	Maharashtra	25
2	Karnataka	23
3	Tamil Nadu	20
4	Andhra Pradesh	19
5	West Bengal	17
6	Haryana	16
7	Gujarat	15
8	Delhi Territory	13
9	Uttar Pradesh	11
10	Punjab	7
11	Jharkhand	5
11	Madhya Pradesh	5
11	Rajasthan	5
14	Kerala	4
14	Orissa	4
16	Assam	3
16	Uttarakhand	3
18	Bihar	2
18	Chhattisgarh	2
20	Arunachal Pradesh	1
20	Goa	1
20	Himachal Pradesh	1
20	Manipur	1
20	Meghalaya	1
20	Sikkim	1
20	Tripura	1
27	Jammu & Kashmir	0
27	Mizoram	0
27	Nagaland	0
Sum of state-wise presences:		206

Current Presence of Swedish Companies in India



Appendix 10. Suggested State-wise Expansion Pattern

The distances presented in Appendix 7 have been converted to the aggregate state-wise expansion patterns suggested by each of the three dimensions. The suggested company presences in each state below thus relates the market distance to the share of total company presences that a state *should have*, if the dimension would have full explanatory power.

Rank	CAGE	CA	GE
1	Delhi Territory 29	Maharashtra 19	Delhi Territory 38
2	Maharashtra 20	Delhi Territory 15	Goa 20
3	Kerala 14	Uttarakhand 12	Maharashtra 18
4	Goa 14	Mizoram 11	Kerala 17
5	Tamil Nadu 12	Rajasthan 11	Tamil Nadu 12
6	Haryana 10	Himachal Pradesh 11	Haryana 10
7	Andhra Pradesh 9	Andhra Pradesh 11	Gujarat 10
8	Karnataka 9	Manipur 10	Karnataka 10
9	Mizoram 9	Tamil Nadu 10	Punjab 9
10	Rajasthan 9	Kerala 10	Andhra Pradesh 7
11	Manipur 9	Haryana 10	West Bengal 7
12	Punjab 8	Karnataka 8	Arunachal Pradesh 6
13	Uttarakhand 7	Punjab 7	Manipur 6
14	Gujarat 7	Goa 7	Rajasthan 6
15	West Bengal 7	West Bengal 6	Mizoram 6
16	Himachal Pradesh 6	Meghalaya 6	Chhattisgarh 4
17	Arunachal Pradesh 4	Tripura 5	Madhya Pradesh 3
18	Tripura 4	Nagaland 5	Bihar 3
19	Meghalaya 3	Assam 5	Tripura 3
20	Sikkim 3	Sikkim 4	Uttarakhand 2
21	Chhattisgarh 2	Gujarat 4	Sikkim 2
22	Assam 2	Uttar Pradesh 4	Uttar Pradesh 2
23	Uttar Pradesh 2	Jammu & Kashmir 4	Himachal Pradesh 2
24	Nagaland 2	Arunachal Pradesh 3	Jammu & Kashmir 2
25	Jammu & Kashmir 2	Odisha 3	Assam 1
26	Odisha 1	Chhattisgarh 2	Meghalaya 1
27	Madhya Pradesh 1	Jharkhand 2	Odisha 1
28	Bihar 1	Madhya Pradesh 0	Nagaland 0
29	Jharkhand -	Bihar -	Jharkhand -
Sum state-wise presences: 206		206	206

Appendix 11. Companies Included in the Study

ABB
Alimak Hek
Assa Abloy
Assam Sripad Steels
AstraZeneca
Atlas Copco
Autoliv
Consilium Marine Pvt. Ltd.
Dellner Couplers India Pvt. Ltd.
Elcome Technologies Pvt. Ltd.
Eletta Medical Systems
Elof Hansson
Envac Environmental Technology Pvt. Ltd.
FlexLink AB
Gambro
Gunnebo
Haldex
Höganäs
KMT
Nefab
Nobel Biocare
Oriflame
Ostberg
Pergo
SAAB
Sandvik
Scania Commercial Vehicles India
Seco Tools
Securitas
SKF
SPM Instrument
Systemair
Tapflo Pumps
Tetra Pak
Trelleborg Automotive Pvt. Ltd.
Trelleborg Engineered Systems Pvt. Ltd.
Trelleborg Industrial Products India Pvt. Ltd.
Trelleborg Marine Systems Pvt. Ltd.
Trelleborg Sealing Solutions Pvt. Ltd.
Volvo Buses
Volvo Cars