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**A SWEDISH MNC'S GOVERNMENT
STRATEGY IN INDIA**

- A case study of Volvo Truck Corporation

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Pär Björckebaum & Peter Sälé

ABSTRACT

The aim with this thesis is to examine and explore how a Swedish MNC in India can achieve a legitimate position by developing and implementing their government strategy. As India is a multicultural country with many strong institutions in society, it is important for an MNC to understand these. By using their government strategy the MNC can gain legitimacy from the government, the industry and societal groups. An MNC must develop strong linkages with government authorities, as the bureaucracy is complex and often inefficient. These linkages serve multiple purposes. Legitimacy from the government is necessary; moreover to operate efficiently an MNC must be able to handle the bureaucracy in order to receive licences, permits and approvals. The theoretical part is mainly constructed by adopting theories and concepts on government strategy and basic institutions analysis.

In order to investigate how government strategy can be formulated and implemented in India, we conducted a qualitative study by using a case study. Volvo Truck Corporation had recently established themselves and implemented their government strategy in India, which made them a suitable case company.

Our research showed that some institutions were undergoing institutional changes, which were triggered by the liberalisation process. The government is moving from being a controller of industry, to instead being a facilitator. We also found that VTC has adopted a government strategy, which was characterised by: respect, patience and flexibility. In doing this, VTC has gained a high level of legitimacy from government as well as from societal groups in India and is thus able to operate efficiently.

Keywords: Government strategy, legitimacy, institutions, liberalisation, India.

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1. INTRODUCTION

1.1. Problem Background

India is by many experts considered to be one of the largest markets of the future. The country possesses high future potential due to, for example, the large domestic market e.g. a middle-class of 250 million people and the advantageous labour market e.g. well educated engineers and IT personnel. In the 90s, the Indian economy has shown steady growth. Despite the frequent change of government they have not strayed from the original liberalisation plan set in 1991. This has led to a constant influx of foreign direct investment by MNCs. Many countries in Asia have been severely damaged by the economic crisis that occurred in 1997. India has not suffered as much as their economy has not been so dependent on foreign trade and due to their large domestic market. Moreover, India's economy is more mature than other Asian economies, that is, they have a heavy industry, which makes them less dependent on basic goods and commodities.

India is a traditionally complex country for an MNC to operate in due to its diversity in culture between states and high government involvement in business life. Business in India is often very dependent on good co-operation with governmental bodies to function efficiently. By co-operating with the government foreign MNCs can access information about institutions important for achieving business success in India. Moreover, it also gives the MNC a great opportunity to influence governmental decisions, e.g. infrastructure projects. The aim for a foreign MNC is to develop legitimacy of the company's activities from the governments at various levels. A high level of legitimacy allows the company to focus on improving its operations in the market, thus gaining a high level of efficiency, which is crucial for its existence in the marketplace.

The liberalisation process in India, that begun in 1991, made it easier for foreign MNCs to enter the Indian market. This was a necessary

development for the Indian economy and business environment in order to remain competitive and attract FDI. Volvo Truck Corporation (VTC) has only been present in India since 1998 and was therefore not present during the first evolving years. Despite this they have been experiencing the gradual process of institutional change in India. The government strategy of VTC and other MNCs must therefore be adjusted to the new institutional settings in India.

There has not been much research regarding Swedish MNCs' government strategies in India previously. Professor Hans Jansson has conducted some studies, although the fast developments of the institutions in India require continuous research within this field. Therefore, theories and models must also be adjusted to the fast changing environment. Our aim with this thesis is therefore to analyse the present situation in India and apply and develop theories and models previously developed.

1.2. Problem

Our main problem can be articulated as follows:

How are government strategies developed and adjusted to the changing conditions in the Indian business environment due to the liberalisation process of the Indian economy?

Research Problems

In order to solve our main problem we have identified two research problems, which we explore further. For us to solve the theoretical problem we have conducted a case study of an MNC in order to see it from a practical point of view. The research problems identified are as follows:

- *How does the change of Indian institutions influence an MNC's government strategy in India?*
- *How do MNCs conduct their government strategy in India after the start of the liberalisation process in 1991?*

These research problems are analysed by applying models and theories developed by Professor Hans Jansson. The first research problem is analysed by applying the Basic Institutions Model where relevant institutions are identified and how these affect MNCs operations in India. The second research problem is analysed by applying theories pertaining to government strategy. This is done by conducting a case study of an MNC's government strategy in India. By conducting a brief analysis of another MNC this assisted us in solving our problem and generalising our findings.

1.3. The Case Company - Volvo Truck Corporation (VTC)

VTC established in India in 1998 and thus had recent experience of how the liberalisation process has affected an MNC's government strategy. Thus, the company had a lot of valid information on the subject of our study of government strategy in India.

VTC is one of the leading manufacturers of heavy-duty trucks in the world. VTC has long experience within the industry as their truck operations began already in 1928. Today, VTC is a global player with production units in ten countries spread all over the world, and with sales in more than 120 markets. In the last couple of years, VTC generated an increase in sales and in 1998 they sold 83,300 trucks. VTC has almost 23,000 employees.¹

VTC are trying to strengthen their international position even further by investing in big emerging markets such as Eastern Europe, India and China. VTC has a global strategy and its objective is to position itself closer to customers in terms of both production and service. VTC has a growth strategy for the year 2000, which includes a doubling of sales in the emerging markets.² Simultaneously, they are expanding and developing operations in already established markets. Volvo's core values of quality, safety and environmental concern are cornerstones in all operations the company undertakes.

¹ <http://www.truck.volvo.se/991105>

² <http://www.truck.volvo.se/991105>

Volvo India Private Limited (VIPL) represents VTC's operations in India. VIPL also represent other divisions in the Volvo organisation e.g. Volvo Construction Equipment. In our thesis we limit our study to VTC's operations and simplify the terminology by using the term VTC even though it is officially presented as VIPL. In order to clarify the difference between VTC and its headquarters in Sweden, the term VTC India is sometimes used. In Appendix 1 the reader will also find a list of definitions of other abbreviations used in this thesis. We will describe VTC's operations in India further in the Institutional Analysis chapter.

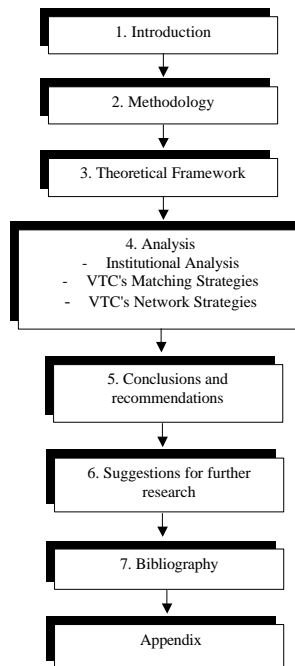
1.4. Limitations

In our study of the Indian government, we have limited our study to the central government in Delhi and Karnataka state government. The experience from different state governments can differ but we have chosen to limit our study to Karnataka state government as VTC India's headquarters is located in this state. Our brief comparison with SKF is limited and not as extensive as we are only interested in their overall experience of relations and interactions with governments after the liberalisation process in 1991.

1.5. General Outline of the Thesis

To give the reader an overview of the thesis we present a general outline of how the thesis is structured.

Figure 1. General Outline of the Thesis



2. METHODOLOGY

This chapter will discuss and explain how different methods of research can be conducted. It also contains explanations of how we have conducted our study.

2.1. Research Strategy

When conducting a research project, the researcher is in need of a strategy for how to do this. The choice of research strategy depends on what kind of questions are to be answered and the problem to be solved. Yin refers to five different research strategies: experiment, survey, archival analysis and case study.³ In order to choose a strategy, it is necessary to understand the difference between them. The strategies are shown below:

Table 1. Research Strategy

Strategy	Forms of research questions	Requires control over behavioural events?	Focus on contemporary events?
Experiment	How, Why	Yes	Yes
Survey	Who, What, Where, How many, How much	No	Yes
Archival Analysis	Who, What, Where, How many, How much	No	Yes/No
History	How, Why	No	No
Case Study	How, Why	No	Yes

Source: Yin, Robert K., 1994

The chosen research strategy for this thesis is the case study. We conduct a study of how the government strategy is handled by the case company (VTC) within the real life settings in the Indian market. Our research

³ Yin, Robert K., 1994

questions are formulated as how and why questions, which also are appropriate for the case study.

2.1.1. Case Study

When a phenomenon can be studied in a real life situation, the case study is a relevant research strategy. A case study is an empirical inquiry that studies a phenomenon within a real life situation where the boundaries between the phenomenon and the context are not clearly evident⁴. The case study is especially advantageous when how or why questions are being asked about events over which the investigator has limited control.

The case study plays a significant role within research and there exist at least five different applications. The most important application is to *explain* causal links in real life settings that are too complex for survey or experimental strategies. The second application is to *describe* the real settings within the context that it occurs. The third application is that a case study can *illustrate* certain topics within an evaluation. Fourth, the case study can *explore* those situations in which the intervention evaluated has no clear outcomes. Fifth the case study can be a *meta-evaluation* - a study of an evaluation study.⁵

Given the identified problem of our thesis, we began searching for relevant theories and valid material on the subject. The theories regarding government strategy developed by Professor Jansson were appealing to us, thus we decided to explore them further. We came to the conclusion that to conduct a case study was the most appropriate path in our further explorations. Our case study is built up around a deductive approach where we want to find information that suits the existing theories. The case company (VTC) is certainly a valid case company since they recently established themselves in India and therefore have recent information on

⁴ Yin, Robert K., 1994

⁵ Yin, Robert K., 1994

establishing strategies and relations with the government, the subject of our thesis.

2.1.2. Case Study Design

Yin (1994) means that all empirical research has a research design that follows a logical sequence connecting empirical data and the study's initial research questions finally leading to its conclusions. The research design can be defined as "the plan that guides the investigator in the process of collecting, analysing, and interpreting observations"⁶. Yin discusses four different types of research designs relevant for case studies; single case designs, multiple case designs, holistic designs and embedded designs. These are shown in Figure 2.

Figure 2. Basic Types of Design for Case Studies

	Single case design	Multiple case design
Holistic (single unit of analysis)	Type 1	Type 2
Embedded (multiple units of analysis)	Type 3	Type 4

Source: Yin, Robert K., 1994

When designing a case study, it is of great importance to make a distinction between single and multiple case designs. The single case design is useful when the case represents "the critical case in testing a well formulated theory"⁷. The single case can be used to discover whether the theories developed are relevant and if there are ways in which they can be extended and further developed. When the same study contains more than a single case the use of a multiple case design becomes relevant. That is, there exist

⁶ Yin, Robert K., 1994

several individual units of analysis that as a whole can be considered as a multiple case designs.

The single- and multiple case studies can be holistic or embedded. The embedded case study involves more than one unit of analysis and attention is also given to sub-units. When no logical sub-units can be identified or when there is a global nature of the problem, the holistic design is preferable.⁸

In this thesis we have applied the embedded single case study. We have chosen to study one single organisation (VTC) and test the developed theories to this specific case. As we have studied the government strategy and the organisation from many different perspectives, we mean that the study is embedded. We have for instance conducted interviews with multiple departments within the organisation and also interviewed persons from the government and an industrial organisation in order to get as good coverage as possible of VTC's government strategy. In addition to our case study of VTC, we also conducted a small comparison of how another Swedish MNC (SKF) conduct their government strategy. SKF has been present in India since the 1930s and could give us a good perspective of how their situation in India changed after the liberalisation of the Indian economy.

2.2. Data Collection

When a researcher collects data there are two major alternatives. The researcher can use primary or secondary data. Below we will explain the differences between them and how this is applied in our thesis.

2.2.1. Primary Data

Primary data are data that are collected specifically for the research. According to Merriam (1998) there are three forms of strategies in data

⁷ Yin, Robert K., 1994

⁸ Yin, Robert K., 1994

collection in the case study. These three strategies are interviewing, observing, and analysing documents.⁹ We have in our study had a major focus on observations and interviews. In order to conduct a valuable study, it was of great importance for us to understand the country in question, India, and its specific culture and institutions. When conducting studies in India, we made some observations of the country that complemented our theoretical knowledge of India and its institutions received through literature studies.

Interviews can be categorised into three different forms: structured, semi-structured and non-structured. When we conducted our interviews, we leaned towards semi-structured type of interviews. Certain areas of interest have been formulated into more or less structured question topics. The semi-structured interview technique gives the researcher the possibility to reflect and respond to the situation at hand and also to explore new ideas on the topic.¹⁰

In order for us to get a good picture of how government strategy in India functions, we conducted 17 different interviews (see bibliography for further details). Within VTC's organisation we met people from different departments with various experience from contacts with the Indian government, both in the establishing stage and the daily running of the operations. To understand the government strategy from a non-company perspective, we also interviewed a government official, an industrial organisation representative and consultants. Our questions in the interviews were formulated as to stimulate discussions between the researchers and the interviewee. Our interview guide can be found in Appendix 2. In order for the researchers to pay full attention to the interviewee, a tape recorder was used during the interviews. The cultural difference between Sweden and India is so great that the researcher needs to understand the cultural settings in India prior to starting the investigation. There is otherwise a risk

⁹ Merriam, Sharan B., 1998

¹⁰ Merriam, Sharan B., 1998

that information collected is not interpreted in its right context. We built up our understanding prior to the actual field study by conducting interviews in Sweden with people that have experience of Indian culture.

Our interviews with VTC were complemented with interviews made with another Swedish MNC (SKF) in order to get the perspective from a company established for a long time period in India. SKF could provide us with information regarding how the liberalisation process affected the companies. The interviews with SKF were conducted after our study of VTC. This enabled us to conduct a stronger generalisation of our findings and to see whether these were applicable to other MNCs' situations in India. The study of SKF also increased the relevance of our findings from VTC, as many of these were also relevant to SKF.

2.2.2. Secondary Data

Secondary data are data that already exist with no particular connection to the specific case. Secondary data can for example be articles, books, previous studies and Internet searches. The theoretical framework used in the thesis is built up around theories developed by Professor Hans Jansson in various books. As Professor Jansson is one of our mentors we have also received information regarding the subject in various lectures and seminars. Several articles in newspapers and searches on the Internet have also helped us when developing an understanding of the institutional set ups that exist in India. Further, we have received assistance from the Indian Embassy in Sweden, the Swedish ministry for foreign affairs, Karnataka State Government of India and Professor Raghunath of the Indian Institute of Management supplying us with publicised information on how to conduct business in India.

2.3. Quality of Research

When conducting research, it is of great importance for the researcher to keep a high level of quality within the research. The persons exposed to the research material must find it reliable and trustworthy, otherwise the

research has no meaning and purpose. The quality of research is examined through validity and reliability.

2.3.1. Validity

Validity is a matter that concerns whether the researcher has measured what he/she intended to measure and whether there exists a relationship between data and theory. Validity is a very important instrument when conducting research and we discuss it as internal- and external validity.

2.3.1.1. Internal Validity

The internal validity deals with how the research findings match the reality. Do the findings capture what is really out there? Are the researchers measuring what they think they are measuring? Internal validity can be addressed by using multiple sources, checking interpretations with individuals interviewed, staying on-site over a period of time, asking peers to comment on emerging findings, involving participants in all phases of the research, and clarifying researcher biases and assumptions.¹¹

In order for us to get as solid and broad information as possible about the case company and its government strategy we conducted several interviews with persons holding different positions at the case company. We were well aware of the risk that these persons wanted their company to look as good as possible and we therefore tried to have an objective and critical approach towards the information given to us. Through several interviews conducted outside the case company, we received a broader picture seen from an outsider's perspective of the case company's actions and relations. By staying on site at the case company in India, we could also build up our own view of what the reality looked like, which enhanced our understanding and created a more accurate picture of the real life situations.

The selection of VTC as our case company was very much valid as they had recent knowledge of establishing contacts and relations with the

¹¹ Merriam, Sharan B., 1998

government. VTC being very transparent could assist us by giving a broad and clear picture of how the relations and strategies towards government are handled by a MNC of today. This may not have been possible if conducting a case study of a less open company.

2.3.1.2. External Validity

External validity deals with the subject of whether the findings can be generalised to other situations outside the single case. One has to answer the question of whether the findings are valid outside the domain studied.¹²

We believe that the findings in our thesis are applicable to other MNCs with the same kind of background that VTC possess. Thus, our findings are valid outside the domain of VTC. The background and history of other MNCs must be taken into account though when considering if the findings are valid outside the domain studied. Our case company, VTC, has a global reputation and a product that is attractive to the Indian market, which is also necessary for other MNCs in order for our findings to be applicable to their case. We would therefore like to point out the importance of understanding the contribution and attractiveness that an MNC can provide the Indian market with. The brief comparison with SKF could also be seen as strengthening our ability to generalise our findings and increase the external validity.

2.3.2. Reliability

Traditionally reliability is a way to demonstrate that another investigator could repeat the research conducted and he/she would come to the same findings and results. The term reliability in the traditional sense can be seen as unsuitable when applied to qualitative research. The question is not whether the findings will be found again but whether the results are consistent with the data collected. The goal for the researcher is also to minimise the errors and biases of the study as much as possible.¹³

¹² Merriam, Sharan B., 1998

¹³ Merriam, Sharan B., 1998

As our study is of a qualitative kind based on many interviews, it is important for us to be clear as to how we received our information. In Appendix 2 we show what type of questions we asked in order for others to see that we are consistent in the results with the data collected. We mean that the reliability of our study is under satisfying conditions as another researcher could come to the same findings and result. What one must be aware of is that the relations between government and MNCs are changing as India is in a liberalisation process of its economy. The rules and regulations that apply to our case company today can be changed in the near future as government policies change.

When conducting interviews there can be a risk that the researchers sometimes miss and do not understand the information that the interviewee is presenting. In most interviews we used a tape recorder in order for us not to misinterpret any information given to us, which enhances the reliability.

2.4. Discussion of analysis

Before we began our studies at the International Business program, our knowledge of the Indian market was rather limited. We have though during the last year come in contact with the South Asian markets as our program focused very much on this region. Lectures, term papers and own studies have been our base in building own knowledge about the region and its culture. When conducting our case study in India, we enhanced our information and we were able to build a clearer picture of our own.

Our analysis in this thesis is based on our own experience in India and material we received from conducting various interviews. In order for us to get a smooth flow in the analysis, we do not use footnotes to any larger extent. We are well aware of that some information could be considered to "belong to someone else". Our knowledge base has been built up from various sources. In the bibliography persons that we conducted interviews with are listed and it is not our intention to take credit for information originally coming from someone else. Footnotes are used in our analysis

when we are presenting published information or exact figures from interviews.

3. THEORETICAL FRAMEWORK

Our theoretical framework is mainly based on theories developed by Professor Hans Jansson in his book "International Strategic Management In Emerging Markets - Global Institutions And Networks".

3.1. The Basic Institutions Framework

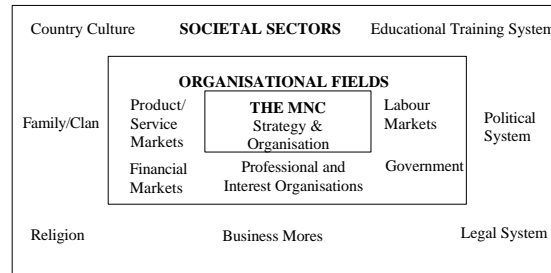
Institutions are factors, which influence or have the potential to influence human behaviour. Institutionalisation is the process where human behaviour is organised in a certain way and follows certain patterns. This pattern follows certain social conventions and programmes. Within institutions we find habits, rules, procedures and conventions. These represent a specific way of organising human behaviour, which is legitimised by e.g. a nation, society, organisation, market, clan or family. Thought styles of members of an institution are much alike and result in certain behaviour. New members will try and imitate it, often unaware of the rules and thought styles behind it. Thus, a main characteristic of institutions is their rule-like or organising nature.

Another characteristic of institutions is their ability to facilitate and constrain the relations among individuals and groups. Moreover, institutions are characterised by predictability. Their behaviour is repeated over time, hence behavioural regularities can be valid for future situations. Uncertainty can be reduced by anticipation of repeated behaviour. As institutions lead to established patterns of behaviour, they are also stable. Thus, the factors mentioned make institutions brilliant instruments for describing, explaining, and predicting actual individual as well as organisational behaviour. Institutions concern behavioural regularities or self-activating social processes whereas institutional change is about how they change.

The regular behaviour patterns vary in society leading to a division of society into different social groupings or organisations, which are characterised by different regularities. These groups form an institutional complex of their own where behaviour follows the specific rules inherent to

them, e.g. the MNC. These groups also influence each other. An institution e.g. an MNC is both influenced by the thought styles within itself and those of other social groupings outside it. Hence, organisations influence each other. The way one part of society is organised will influence how other parts are organised. Figure 3 illustrates how the environment can be subdivided into societal sectors and organisational fields surrounding and creating the environment in which the MNC operates.

Figure 3. The Basic Institutions Model



Source: Jansson, Hans (1999), modified by Björckebaum and Sälé

The Basic Institutions Model focuses on the institutional settings from a MNC's point of view, hence the MNC is placed at the centre of this model. The organisation of the MNC depends upon how its environment is organised. These societal influences are divided into two main groupings: organisational fields and societal sectors. The MNC is perceived as participating directly in organisational fields but not in societal sectors. In organisational fields there is an inter-play between participating organisations, generating a two-way type of influence. In the societal sectors the influence is one directional, from the sector towards the MNC. The organisational fields consist of e.g. product/service markets represented by various organisations such as customers, competitors, and

suppliers, who share common thought styles, norms and rules. In the organisational field, the government represents ministries and authorities, which share a common frame of reference and manners, which are typical for this field. Government in the organisational field is separated from the political system, which is found in the societal sector influencing the MNC directly as well as indirectly through the organisational field. In the societal sector other institutions, which can be seen in organising the society, are the legal system, business mores (business morale in a country), family/clan, religion, and country culture. On a country level, these sectors can be seen to be linked to each other in a certain way, thus creating a specifically organised environment, an institutional framework, in which the MNC operates. The MNC is conceptualised as an institution surrounded by other institutions. The environment is organised and includes institutions where behaviour is reproduced in a rule-like fashion. This behaviour is mainly seen as being influenced by routines, habits, customs, rules and mechanisms of a regulatory nature, which result in stable behaviour of the MNC. Institutions are not completely rigid or stable, though. Behaviour is changed through institutionalisation and deinstitutionalisation processes.¹⁴

3.1.1. Differences between Institutional Frameworks

An MNC's operations are often studied with the underlying assumption that institutional frameworks, which determine the MNC's organisation in different countries, are very similar. This is not the case, MNCs cannot operate in the same way in an emerging market economy e.g. Russia as in a mature market economy e.g. the U.K. The institutional frameworks in these two economies are vastly different. The institutional approach accommodates the specific characteristics of the institutional frameworks, both internal and external, that influence MNCs. Transferring the institutional framework from a Western MNC to a host country depends

¹⁴ Jansson, Hans, 1999

heavily on the possibilities of matching the domestic institutional settings with that of the host country.

3.1.2. *Networks and Institutions*

A major feature of institutions is that they govern relationships between individuals and groups. These relationships will be defined as networks. By using a network approach, one can describe the MNC, implying that an MNC's structure consists of sub-units which are connected through relationships and that it has relations with outside parties in organisational fields through networks. An institutional perspective then suggests that institutions determine network structures. Network relationships influence the MNC's internal and external networks. Relations within the MNC and with outside parties therefore mainly influence organisational behaviour. The shape and configuration of a relationship is determined by institutional factors inside and outside the network. The institutional context of networks can be characterised in many general ways. Linkages between companies might have e.g. a public aspect and have to be justified to an audience of actors by some kind of public "legitimacy". A specific type of institutional complex, which is related to external actors, constitutes legitimacy. Efficiency is another institutional complexity, which is based on a profit rationale and has its main orientation in markets. A useful explanation is that of Meyer & Scott (1983)¹⁵:

"Networks operate in institutional sectors characterised by the elaboration of rules and requirements to which individual organisations must conform if they are to receive support and legitimacy from the environment. Technical sectors are those within which a product or service is exchanged in a market such that organisations are rewarded for effective and efficient control of the work process."

Rules are carried by structures, e.g. a common rule for the whole market system in a country, resulting in a certain type of competition. For instance,

¹⁵ Referred from Jansson, Hans, 1999

MNCs that usually operate in both market sectors demanding efficiently produced outcomes and other institutional sectors, e.g. government. This is captured by Meyer & Scott (1983)¹⁶.

“Organisations are special-purpose collectivities created to achieve goals, to perform work. Their meaning, their legitimacy, and their potency come from appearing to be rational systems.”

Subsequently, efficiency and legitimacy grounds often go together, since efficiency is based on legitimacy-based rules. Organisational networks, which exist in various organisational fields, are also influenced by other external institutional complexes, which are at a higher level in the environmental context, mainly in the societal sectors and worldwide system contexts (the latter is not represented in the Basic Institutions Model). These different levels of institutional contexts influence each other. For example, the common goals or values of a network are guided by values and norms which stem from the societal level, e.g. in national culture.

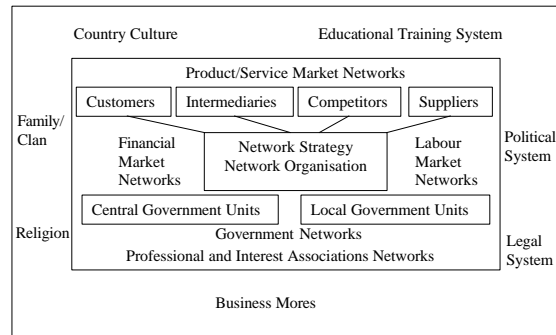
3.2. The General Institutions Networks Model

This model is based on The Basic Institutions Model and explores the network relations between the MNC-network and some of its major external parties in product/service markets and external institutional factors, which affect this network and surround it. The MNC's network strategy and network organisation both influence and are influenced by various commercial actors in the product/service market as well as other actors such as major interest groups in the wider societal environment. Here, various actors in the government sector mainly represent the latter. A main aim of the MNC is to establish and run a network strategy in markets, which is a response to profit motives. The main motive with the network strategy towards government is to respond to policy. Institutional structures such as property rights' system, judicial and penal systems all influence the MNC and its network actors in markets and government. The impact of

¹⁶ Referred from Jansson, Hans, 1999

these institutional structures determines what goes on inside the networks. Other institutional complexes which influence what happens within networks are family, clan, ethnicity, religion, culture, political system in general, trade unions, business mores and conventions. The state is very important in this model since it participates both as a collective network actor, being in direct contact with the MNC, and is seen as an institutional structure outside the network, influencing network strategy and network organisation indirectly. Examples of the latter are national and local laws and regulations.

Figure 4. The Network Institutions Model



Source: Jansson, Hans (1999), modified by Björckebaum and Sälé

3.2.1. Analysis of External Strategic Institutional Framework

The network institutions model is the basis of the analysis of the environment of the MNC. Institutions and networks influencing the MNC are analysed at two main levels of description – organisation fields in the inner rectangle and societal sectors in the outer rectangle. These levels represent the micro-and macro environment in environmental analysis.

Institutions are the basis of the analysis of networks. The analysis aims to identify and analyse the institutions in the two rectangles influencing the MNC. The institutional approach to environmental analysis is divided into four stages: the identification stage, where major institutions are identified; the descriptive stage, where they are described in more detail; and the explanation stage, where the influence of the identified institutions are studied; and the prediction stage, where the reproduction of the institutions into the future is analysed. This analytical method is often more useful than other environmental analysis methods e.g. PEST which seldom touches the explanation and prediction stage. This fact is particularly true for methods, which focus on the macro environment. The main advantage with an institutional approach is the greater possibility to go deeper into the environment of the MNC and to learn more about how the company is influenced. Hence, the most prominent advantage lies within the analysis and prediction stages, but also within the identification and descriptive stages as it makes it possible to focus on the most relevant environmental factors. Other models can be used in order to improve the environmental analysis. The institutional analysis provides this opportunity with its coherent theoretical structure, and is an excellent point of departure for the researcher.

3.2.2. Alternative Perspectives on Environmental Analysis

The environmental analysis can be made from two main perspectives: an inside-out perspective or an outside-in perspective. The inside-out perspective starts with the MNC and moves outwards further away from the company. The outside-in perspective also begins with the MNC but then moves directly out to the outer rectangle and then moves in towards the MNC. Which method is chosen depends largely on the research object of the environmental analysis, whether it is an MNC, a group of companies, an industry etc. This thesis will be based on the inside-out perspective.

3.2.3. Identification of Institutions

In the process of identifying institutions of relevance, models such as the PEST, STEP and Terpstra's model can be useful. Terpstra's model in particular which focuses on parts of society such as: law, politics, technology and material culture, social organisation, education, values and attitudes, religion and language is similar to the institutions networks model and can assist in identifying and describing institutions in greater detail.

3.2.4. Description of Institutions

After the process of identifying a number of relevant institutions with the potential to influence the MNC there is a need to describe them in more detail. We have already identified them as for instance, country culture, family, and political system. Now, there is a focus on the 'rules of the game' being seen as rule systems. There is a need to make a distinction between formal rules and informal rules. Formal rules include political and judicial rules, economic rules and contracts. Informal rules are generally seen as including codes of conduct, norms of behaviour, and conventions. These can be connected with what we call culture. Hence, rules can be seen as a broad social concept, which expresses constraints on many aspects of human behaviour, for instance consisting of norms and values.

As culture and institutional analysis share many similarities, cultural models can be a source of help when conducting an institutional analysis. Here, Hofstede's cultural theory or Jansson's six cultural themes are useful. In our analysis chapter, Hofstede's interaction models are used in order to analyse a part of Indian country culture. The interaction models refer to how people behave and interact with each other. Hofstede has studied the differences in behaviour between nations and found that there are substantial variations.

The interaction models consist of: Individualism vs. Collectivism, which refers to the level of self-reliance or dependence. High vs. low power distance refers to what extent a society and its individuals tolerate an unequal distribution of power in organisations and the society as a whole.

Masculinity vs. femininity refers to what is valued most; assertiveness and personal achievement or caring for others and emphasising quality of life. High or low uncertainty avoidance relates to the tendency to avoid risks and prefer stable situations or a more risk-prone attitude where people as individuals are seen as the engine of change, which is perceived as a requirement for efficiency.¹⁷

3.2.5. *Explanation of Institutions*

When the identification and exploration of the institutions is completed, there is a need to explain them in more detail in order to find out which are the most relevant to the MNC in focus and its immediate environment, which is found in the second rectangle. The aim is to find rules such as explanatory factors or determinants in the third rectangle to explain patterns (rules) and developments in the second rectangle. This results in an ability to pinpoint how the institutions identified and described in the third rectangle influence the MNC and institutions closer to it. The greatest benefits of institutional theory are to be found in this explanatory stage. The main concern is to look into institutional theories that deal explicitly with the relation sought, which is how firms and markets (business systems) found in the center rectangle and the middle rectangle are influenced by institutional factors in the outer rectangle. We will use Whitley's business system theory to explain how background institutions influence business systems, that is, markets and firms.¹⁸

3.2.6. *Business System Theory*

The focus here is on how background institutions influence business systems (markets and firms). In doing so, we are searching for determinants that might explain the appearance or development of specific organisational fields. Background institutions are defined as social institutions that "underpin the organisation of all economic systems and form the background to industrialisation and the development of modern market economies. Typically, they are reproduced through the family, religious

¹⁷ Usunier, Jean-Claude, 1996

organisations and the education system, and often manifest considerable continuity from the pre-industrial societies, especially where industrialisation has been relatively recent and fast." (Whitley, 1992)¹⁹ Hence, they are placed in the third rectangle where institutional characteristics of large societal groupings exist. Whitley has specified six characteristics of these institutions that influence firms and markets:

1. Degree and basis of trust between non-kin.

A market economy does not work, if a minimum degree of trust is lacking between economic actors, who do not usually know each other. Such system-based trust mechanisms are reproduced in the institutions network model through the business more factor. It varies between societies and is more prevalent in Western market economies than in Eastern emerging markets. The high importance of personal networks both inside and between business firms in Southeast Asia is often explained by a lack of such a society-wide trust.

2. Commitment and loyalty to collectivities beyond the family.

In societies where commitment and loyalty are bound to the family or some other smaller unit, cooperation with strangers is difficult. This would make it harder to form large company hierarchies or employ and make people work efficiently in the local unit of MNCs.

3. Importance of individual identities, rights and commitments.

If a market economy based on the self-interest of the individual human being is going to work, individual rights and obligations is a prerequisite. These are usually formally specified in the legal system and contracts are based on it. This is often missing in emerging markets, which are collectively based with less space for the individual, especially in authoritarian societies such as China and Russia. In Western firms, roles and tasks are formally specified based on the individual.

¹⁸ Jansson, Hans, 1999

¹⁹ Referred from Jansson, Hans, 1999

4. Depersonalisation and formalisation of authority relations.

Authority in firms is influenced by how authority is specified in society, for instance whether authority rests on formal rules and procedures or if it is more of a personal kind and based on the moral worth of the individual. Also, for this institutional feature there is a division between the depersonalised and formalised authority found in many firms in emerging market economies, e.g. in Chinese companies in Southeast Asia.

5. Differentiation of authority relations.

The same divide between market economies and emerging market economies is often found in how authority roles are differentiated, which is mirrored in companies.

6. Reciprocity, distance and scope of authority relations.

In emerging market societies, the distance and remoteness of authority roles in relation to the people is usually larger than in Western societies, leading to a lower reciprocity between superiors and subordinates. In contrast to Western societies, power is less instrumental and authority less linked to expertise and less expressed through formally prescribed positions. Political authority, for instance, tends to be wider and not limited to the political sphere, *inter alia* giving a wider responsibility to leaders.

3.2.7. Organisational Fields

We need to specify the institutions closer to the MNC, that is, markets and government before a more detailed analysis of the impact of institutions in the third rectangle can be made. Identification and description of the organisational fields is important in order to study the impact from societal sectors (factors).

3.2.8. Markets

Figure 4 distinguishes between different types of markets; product/service market networks, financial market networks, labour market networks and professional and interest associations networks. The exchange between

these markets is seen as taking place through networks, which consist of inter-firm relationships (linkages) and actors (nodes).

Whitley (1992)²⁰ has developed some common characteristics of such institutionalised basic networks with the purpose of comparing markets within and between Western societies and East Asian societies. For instance to what degree networks are institutionalised according to the following dimensions:

- The extent of long-term cooperative relations between firms within and between sectors.
Markets are normally described as consisting of conflict-oriented relationships of short-term duration, being of an ad-hoc type, where economic agents change partners continuously with the shifting of prices. However, in many cases, the opposite situation prevails, that is inter-firm relationships are long-term and cooperative. This is further developed below.
- The degree to which relationships are personal and trustful.
On many markets, relationships are more personal and dependent on individual trust than on markets in Western societies, which are more impersonal and characterised by organisational trust.
- Types of actors, for instance the significance of intermediaries in the co-ordination of relationships.
- Important characteristics of major actors, for instance the stability, integration, and scope of business groups. Where business groups dominate markets, as for example in South Korea, a large part of the domestic market network is internalised and monopolised by a few economic agents.

²⁰ Referred from Jansson, Hans, 1999

3.3. Matching Strategies

Matching strategies can be seen as a way for the MNC to adjust to institutional pressures. Depending on the institutional setting, different matching strategies are combined in order to accommodate various pressures. The strategies vary in character, from passivity to increasing active resistance. A prerequisite for the MNC to have a successful matching strategy is to gain a legitimate position in the environment and at the same time be efficient.

3.3.1. Matching Strategies in the Government Field

At any time period, interaction between MNCs and government can be characterised along two main dimensions: the extent of cooperation and competition. These aspects are not mutually exclusive but rather are complementary. In figure 5 the degree of competitiveness and of cooperativeness are characterised as being either low or high.

Figure 5. Matching Strategies

Degree of competitiveness	Degree of Cooperativeness	
	Low	High
High	Domination * Manipulate * Defy * Avoid	Consensus * Compromise * Avoid
Low	Peripheral * Acquiesce	Cooperation * Acquiesce * Cooperate

Source: Jansson, Hans, 1999

When applying the different matching strategies (domination, consensus, peripheral and co-operation) an MNC has certain tactics to implement the matching strategies. The MNC has to be capable of finding the correct strategic response matching the institutional environment. The strategic

response can vary from confirming to resistant, from passive to active, from preconscious to control, from impotent to influential, and from habitual to opportunistic, depending on the institutional pressure toward conformity that is exerted on organisations. The awareness of the potential variation of the dimensions of organisational behaviour is the foundation for identifying various strategies in response to the institutional environment. The strategies and tactics used are shown in the table below:²¹

Table 2. Strategic Responses to Institutional Processes

Strategies	Tactics	Examples
Acquiesce	Habit	Following invisible, taken - for - granted norms
	Imitate	Mimicking institutional models
	Comply	Obedying rules and accepting norms
Compromise	Balance	Balancing the expectations of multiple constituents
	Pacify	Placating and accommodating institutional elements
	Bargain	Negotiating with institutional stakeholders
Avoid	Conceal	Disguising nonconformity
	Buffer	Loosening institutional attachments
	Escape	Changing goals, activities, or domains
Defy	Dismiss	Ignoring explicit norms and values
	Challenge	Contesting rules and requirements
	Attack	Assaulting the sources of institutional pressure
Manipulate	Co-opt	Importing influential constituents
	Influence	Shaping values and criteria
	Control	Dominating institutional constituents and processes

Source: Academy of Management Review, 1991

²¹ Academy of Management Review, 1991

Where there is a high degree of conflict and a low degree of cooperation, the relationship between the parties is characterised as domination. There are two main types of matching strategies which are possible. The manipulation strategy suggests that each party tries to influence the other by shaping its values and decision criteria. Notable though is that either one or both may perceive the demands put by the counterpart as illegitimate. Another way is co-optation where one side imports influential constituents, for instance an MNC which employs a former government official. One party may also try to control the other by dominance of institutional constituents and processes. The success of such action depends largely upon the bargaining power of the parties. By using bargaining power, there is a risk that the quality of the relationship deteriorates and it may even put an end to the relationship. As the bargaining power is most likely to tilt in favour of the counterpart, difficulties often arise. As a result, this could be an unstable situation. Defying is the other feasible matching strategy in a situation characterised by conflict.

An MNC, which is strong, may dismiss government demands simply by ignoring explicit norms and values. It could also question the government by contesting rules and requirements or even attack by assaulting the sources of institutional pressure. In a situation where the MNC's bargaining power is low, a strategy of avoidance might be a feasible path, for example by concealing nonconformity or escaping by changing goals, activities, domains or even country. In a book by Jansson (1999)²², a conclusion was made that these matching strategies based upon conflict are not typical for India and not suitable for the Indian government. These strategies have mainly been practised more by MNCs from the U.S than by European or Japanese MNCs, and may therefore have a certain cultural bias. American companies are often strong advocates of the "free-market"

²² Jansson, Hans, 1999

²¹ Jansson, Hans, 1999

ideology as well as being considered to be more conflict-oriented than Asian or European MNCs.

A situation of a high degree of cooperation and competition is complex. In such a consensus situation, the "avoid" and "compromise" matching strategies are most common. The compromise strategy was found by Jansson et al (1995)²³ to be typical of how European MNCs act in India, as there was a high degree of dependence among the parties and where alternatives were few. This results in a basic understanding of the other party's position and that they need each other. This at the same time as the parties are aware of the basic conflict between MNCs and governments. These situations call for creativeness and ingenuity in order to develop solutions that accommodate the conflicting positions. A gain at the cost of the counterpart is to be avoided as it may disturb the balance in the relationship.

A second alternative is to avoid each other by a de-coupling along the time-dimension (buffering), which makes it possible for both parties to achieve their goals but not at the same time. It is reasonable to believe that in such circumstances subsidiaries of MNCs have a particular advantage, since they are part of a worldwide network. Hence, it may provide the subsidiary with a better chance to provide an acceptable 'mix' to the government in return for suitable treatment. The possibilities of reaching a satisfactory agreement with the Indian government are rather good as it is a coalition of interests. There are a number of ministries, which have conflicting views on what needs to be done, all participating in the decision-making process. An MNC can then offer to satisfy a few ministries or groups in order to receive their support.

In a situation where both the degree of cooperation and competition are low, we define the MNC-Government relationship as a peripheral situation on part of the MNC. This situation occurs when MNCs do not have to deal

with governments and are thus able to focus on the business or efficiency aspects. If it has to deal with the government, a strategy based on acquiesce is used, e.g. to comply by following rules and accepting norms or to imitate by copying institutional models.

In the cooperation situation, there is a high degree of cooperation among the parties. Competition in this situation is low. This situation is characterised by a thorough knowledge of the parties' (government and MNC) needs, and these are in many ways complementary. A situation of this kind is characterised by MNCs having a very strong position towards government e.g. the MNC has high technology or export potential and is considered to be very efficient. Moreover, this situation is often present in countries with a positive attitude towards MNCs, which are promoting FDI. Often, these countries also base their evaluation on market performance, supporting a western market ideology. The relationship between the government and the MNC is often characterised by both following taken-for-granted norms and accepting each others' rules and norms. Moreover, there exist shared interests between the parties, as authorities are often dependent on MNCs in decision-making, and for receiving information from the MNC.

3.3.2. The Legitimacy-Based Matching Principle

The major matching principle relevant for the government organisational field is legitimacy. Here, the MNC's strategy is guided and formed by an aim for legitimacy. The same strategic thinking applies as in markets, meaning that MNCs establish and nurture relationships with the host country governments to gain legitimacy, which helps them to grow, prosper and survive. An organisation or person gains legitimacy through other organisations/persons from the actions of that organisation or person. Such an acceptance is based on a test or assessment of these actions, where ideologies, valuations, and norms are the criteria. The actions themselves are tested or, more precisely, the reasons behind them and how justified

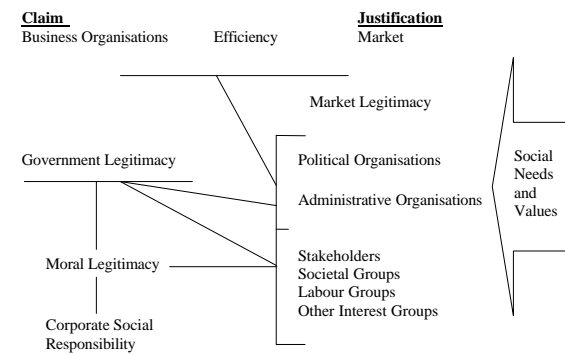
they are. To gain legitimacy is a two-way process. The MNC and the political/administrative actors in its environment are involved in a two-way communication process, claiming and giving legitimacy. In such a way, the MNC works towards gaining business legitimacy. How this is done in various countries depends upon how the political system and executive bodies work in these countries.

Host country governments often evaluate the MNC on two main grounds; the first is market based and focuses on the behaviour of companies in markets. Where an MNC is evaluated on a commercial or market basis, it is defined as market legitimacy. The second ground includes the wider effects of the market behaviour, for instance, whether the MNC also contributes to host country industrial and technological development. This is defined as government legitimacy. It also takes into account adherence and respect for host country governmental laws, rules and regulations, designed to guide, direct, and regulate the MNC and its operations.

3.3.3. Business Legitimacy

The MNC network should be a structure of high technical development with a collective orientation towards efficiency. This is a prerequisite for matching its market-oriented institutional context and achieving a favourable strategic position. As the MNC is involved in other institutional contexts, e.g. government and politics, this is also reflected in the network as having an orientation towards legitimacy. A local strategic business unit (SBU), within the MNC network reflects these two major strategic orientations in its organisation by having a structure legitimated through being efficient in markets and/or another structure that reflects the political interest by legitimating inconsistencies in the environment, primarily by various government demands. The terms of legitimacy and efficiency are illustrated in figure 6 and will form the basis for the concept of business legitimacy.

Figure 6. Types of Business Legitimacy



Source: Jansson, Hans (1999), modified by Björckebaum and Sälé

The need for an MNC to gain legitimacy from government is coupled with the fact that organisations require resources from the environment to remain alive and to function, e.g. money, information and access to markets. Moreover, their activities must be approved by society, for instance, generating income and employment, not polluting the environment or making a contribution in the long run to the development of the country. An organisation has to prove to the environment its right to exist and therefore it must prove itself beneficial to the society, that is, it must gain legitimacy. Legitimation can be defined as "the process whereby an organisation justifies to a peer or subordinate system its right to exist, that is, to continue to import, transform, and export energy, material, or information" (Maurer, 1978)²⁴. Legitimacy in this sense is externally supplied and externally controlled. However, organisations can try to achieve legitimacy by acting in a manner, which is considered to be

²⁴ Referred from Jansson, Hans, 1999

legitimate. Organisations can also try to gain legitimacy through pursuing goals that are considered legitimate by the resource suppliers. As seen above, such a claim for legitimacy is not given and is not achieved automatically. It has to be acted for and can be influenced. A company has to prove its right to operate in a certain country.

A way for MNCs to gain legitimacy is through efficient action. In that way efficiency has two connotations. In a technical sense MNCs must be efficient in order to be competitive and survive in the markets. In a non-market and more ideological way, efficiency is a societal norm through which such behaviour is legitimised by society. From an ideological perspective, efficiency is regarded as a more fundamental legitimacy category in a market economy than in a planned economy, for instance justifying the technological and scientific or rational orientation of the modern welfare state. At this level legitimacy is seen as a concept expressing the MNC's adaptation to dominating values and attitudes in the society, that is gaining moral legitimacy. However, in this section legitimacy is mainly confined to certain organisational fields. Thus, legitimacy is defined as a more specific concept relevant to interest groups in society, mainly within the government and business sectors. In this approach, we define legitimacy from the perspective of different stakeholders, interest groups or coalition members of the company.

A society is large and complex and consists of several groups and sub-groups with different norms, values and concepts of what constitutes legitimacy. In a parliamentary system, governments are expected to reflect the dominant values and norms that prevail in the society. Thus, such a government can be considered to be reflecting and pursuing the dominant concept of legitimacy in the society.

The efficiency concept is defined as market efficiency, which is how efficient companies are at operating in markets, for instance competitive strength. This is a value-oriented concept, which is viewed differently by

various interest groups in society. This is one basis among several, on which MNCs are accepted by government units. It is restricted to the output or the economic performance of the firm, which is defined as market legitimacy. Market legitimacy then connects efficiency and government legitimacy. The latter type of legitimacy is broader than the former type and more generally includes the modes of operation. Within the government sector, efficiency in the market or market legitimacy is thus one basis of legitimization among others, where cost-benefit analysis can be used as a basis for such judgements.

The difference between internal and external efficiency is not the same as the difference between efficiency and effectiveness. In both these cases, efficiency is looked upon from the perspective of the company. Here, efficiency is viewed from an outside party, the government, being the main difference between market legitimacy and effectiveness. A vital question in this context is what this efficiency norm looks like in a specific host country, for instance expressed in government policies and rules, and how it affects the MNCs. For example, are the typical values and norms of a Western market economy shared by this government. If not, how does a company justify its efficiency goal? Governments also attribute validity to MNCs on other than economic grounds, mainly their general behaviour, e.g. if the laws, regulations and customs of the host society are followed, that is government legitimacy.

MNCs act politically and learn the rules of the game and how to gain legitimacy, for which they organise themselves. This organisation is facilitated by knowledge of how political and administrative organisations gain legitimacy, that is, political and administrative legitimacy. The industrial policy documents are often public and their content known, for instance what various government priorities these documents include. An informed and experienced MNC will know them and adapt by including them in the proposals submitted to government. Arguments dear to the industrial policy are highlighted to conform to the letters of the policy.

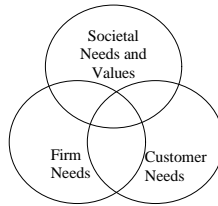
Such conformity to publicly declared policies increases the chances of getting approvals.

MNCs also gain legitimacy from the administrative units by learning the rules and procedures of the bureaucracy and sticking to them. Consequently, legitimacy is achieved by adapting to both political and administrative interests.

3.3.4. Moral Legitimacy

Being competitive in the business life of today takes more and more out of the companies. The companies have to satisfy the most common needs, those coming from the own company and the customers. Those are though not enough to stay competitive on the international markets. There are other needs that have to be fulfilled. These societal needs and values have to be satisfied in an equal way (showed in figure 7) for the companies to be successful in a long-term perspective.

Figure 7. Model for Managerial Strategic Vision



Source: Journal of Marketing, 1994

It is essential for a company to have a social perspective of their activities as well as a financial perspective to stay competitive and profitable in the market. It is therefore of great importance for the MNC to act responsibly when entering a new market and not act in an opportunistic way. In the long run the social performance of the MNC can affect the reputation of the

company on several different markets. Reputation tends to spread fast and therefore more than one specific market will be affected.

Human aspects are becoming increasingly important within the business life of today. The MNCs have to make some contribution to the society where they operate as well. MNCs caring for the societal needs can increase the legitimate position in the market where they operate. We would therefore like to add another form of legitimacy to the government- and market legitimacy already mentioned. This we would like to label moral legitimacy as it is connected to social values, that as mentioned above, are important for an MNC to consider. Moral legitimacy is something, which the MNC gains from the government and other interest groups by behaving in a correct and socially responsible way. Hence, moral legitimacy also influences an MNC's government legitimacy. We categorise moral legitimacy into two stages, moral legitimacy during the establishing stage and during daily operations.

3.3.4.1. Moral Legitimacy during Establishment Stage

When an MNC establishes itself in a new market there are first of all different practical entry barriers that the MNC has to pass through. When successfully entering the market, it is important for the MNC to gain acceptance from the different institutions in the country. One of the most important institutions to gain acceptance from is the government. One aspect of acceptance has to do with moral issues. The government has the ability to give the MNC assistance and provide them with the ability to gain competitive advantage if they find that the MNC's activities are beneficial for the country. The government evaluate the MNC according to the estimated contributions of what the company can provide for the country regarding e.g. social issues. This has effects for how the relationship between the MNC and the government is developed and what legitimate position the MNC will gain. There are a few questions that can be asked when the MNC enters a new foreign market:

- Will the host government perceive rational gain from the MNC and therefore be willing to develop the relationship (e.g. can the MNC help the government to improve and develop social standards and values)?
- Will the host government view the MNC as equitable to involved parties (e.g. the actors in the society where the MNC operates)?
- Will the MNC create imbalance among the institutions where the MNC settles (e.g. MNC bringing in different values and norms)?
- If the MNC do not get immediate acceptance in their social environment, can legitimacy by the government improve the situation?²⁵

3.3.4.2. Moral Legitimacy during Operations

Moral legitimacy during operations can be gained by fulfilling the societal needs that exist where the MNC performs its activities locally and in its surroundings. This will later influence the view the government has on the MNC and also affect the moral legitimacy. Moral legitimacy during operations can according to our point of view be connected to the area of Corporate Social Responsibility (CSR). A company, which assumes its CSR, can enhance its abilities to gain moral legitimacy in the society.

To define what CSR is, we use a definition by Alkhafaji:

*"Corporate social responsibility is the obligation that corporations have toward their stakeholders and the society at large, which goes beyond what is prescribed by law or union contracts"*²⁶

The MNC has to follow standards and norms that exist in the particular society in general. It is very much an issue of showing respect for business ethics for the MNC no matter what market it operates in. To be able to

²⁵ Journal of Marketing, 1994, modified Björckebaum and Sälé

²⁶ Martinsson & Zellman, 1998

show CSR, it is necessary for the MNC to have high degree of local knowledge. The MNC has to have a good understanding of the activities and behaviour in their near environment to be able to give something extra back to the society where it operates. Though CSR projects do entail costs for the MNC and it can be a difficult task to decide to what extent and degree the MNC should engage in activities promoting societal goals.²⁷ There exists a trade off problem between CSR and market efficiency that the MNC has to take into consideration. When finding a balance between these two problems, the MNC can reach benefits when striving for government legitimacy.

We suggest that the MNC's activities within CSR can be categorised on two different levels, internal- and external social responsibility. The internal social responsibility deals with matters that can be directly connected to the company itself. This can be exemplified as:

- physical treatment of employees; how do the MNCs handle rationalisation issues, how are redundancy issues handled by the MNC etc?
- working environment; under what conditions do the employees work, how is safety etc?
- monetary policies towards employees; do employees receive additional monetary benefits than required by law, do the employees receive additional benefits from the MNC's profits etc?

The external social responsibilities are matters that occur outside the boundaries of the company itself. This can for example be:

- treatment of suppliers; do the MNC use and help develop local suppliers or do they engage foreign suppliers etc?
- environmental care issues; do the MNC engage in improvement of environmental care such as pollution control etc?

²⁷ Journal of Business Ethics, 1997

- participation in local social development programs, do the MNC participate in developing the near social environment regarding issues such as contributing to education building schools etc?

An MNC that successfully can handle both the internal- and external social responsibilities will have a greater chance of being accepted and legitimised by the government. Through this they can work in a more efficient way and gain competitive advantage on the market.

According to Martinsson & Zellman (1998) there are five activities that legitimate activities in line with CSR. These factors raise large opportunities to be competitive in emerging markets:

- *Reputation*; building reputation and gaining acceptance by governments, communities and interest groups.
- *Infrastructure*; take part in improvements of social- and educational infrastructure to contribute to economic development and expanding the role of the business.
- *Commitment*; winning the support and commitment of employees, enabling them to contribute in their turn to the civil society.
- *Understanding*; improve the understanding of local issues, attitudes, culture and business partners
- *Conditions*; improving health and stability of workforce and local community.²⁸

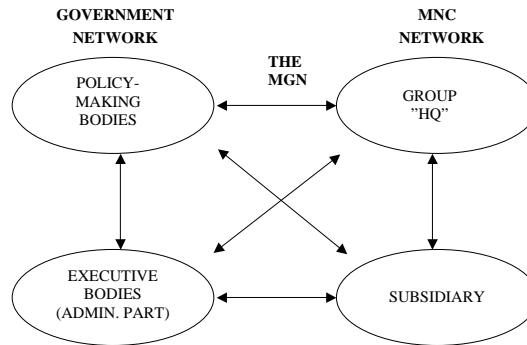
²⁸ Martinsson & Zellman, 1998

3.4. Network Strategy

3.4.1. Network Strategy Towards Governments

Government strategies of MNCs aim at adapting or influencing policy formation and implementation of policies. The better the MNCs manage to do this, the greater their competitive advantage. In order to gain a competitive advantage in the government sector, effective networks with different government units are established. This network is defined as the MNC-Government Network (MGN), see figure 8.

Figure 8. The MNC – Government Network MGN



Source: Jansson, Hans (1999)

The MGN connects two other networks: the MNC network consisting of the two main clusters of group headquarters and local subsidiary, and the government network consisting of the two parts of policy-making bodies, the political part, and executive bodies, the administrative part. The MGN

consists of the linkages between these parts. Adaptations to policy implementation and the influence that MNCs exert on it are part of a conscious strategic process, which is vital as competitive advantages could be gained through the process. Through such actions MNCs gain access to vital resources, for instance, preferential access to various types of permits/licenses to operate in a country, to enter an industry or part thereof, to receive incentives of various types e.g. export incentives, incentives to locate a plant in a particular area etc.

The MNCs use their contacts with government to both cooperate for common causes as well as to compete with one another. In the former case, MNCs within the same industry could cooperate to see that the policy favours their industry, resulting in resources being made available to them. They do this as MNCs belonging to one industry compete with firms in other industries over markets, finance and other resources. Competition over resources also takes place between firms within the same industry. In this respect, government relations are competitive as domestic firms compete against MNCs, local producers against importers etc.

It is important for MNCs both to keep the policy formation stage and the implementation stage in mind. In the first situation, firms in a particular industry or number of industries engage in cooperative strategies and form cooperative organisations (e.g. industrial associations) to appeal for government favour. This often includes lobbying with the government. The network used in this situation is called an action network. In the second situation, the firms keep in contact with the government independently. Each firm maintains its own contacts and develops its own network of relations with the bureaucracy. This is called an organisation network. As seen, an active and durable interaction with the government cannot be achieved without the active participation of the MNCs as well as government bodies.

3.4.2. Mapping of Government Networks

Governments use different enforcement mechanisms, either to attract or restrain firms. Some governments rely more on incentives, other more on restrictions. The various process steps in implementing an industrial policy follow from its formation. Such a chain of events e.g. decisions or procedures is necessary to effect the industrial policy controls, for instance to issue various licenses.

MNCs mainly participate in these networks because they are forced to do so, if they want to operate in the country. There is also the possibility of affecting the policy itself. Companies can participate in two main types of networks to influence the industrial controls. They could be interested in abolishing, changing or adding a control. In this way, the policy formation process will work backwards. By changing a control, e.g. the procedure for industrial licensing, the policy might also be changed, since it is implemented in another way. This change could take place gradually. When small changes are accumulated in a certain direction, the result is a total change of policy.

An action network can also be formed for this purpose, which is then activated for different purposes e.g. lobbying. In such networks, there are common interests among several companies, and therefore they cooperate. Participation in such networks is also instrumental for other purposes. The government could be influenced to interpret a rule to favour a group of companies, for example, local firms compared to competitors from abroad. Another reason for membership could be to get first-hand information on the policy formation process e.g. what is to be expected in the regulation of a certain industry or policy area. This can also be achieved through direct contacts with the government. In any case uncertainty is reduced.

As mentioned earlier, a company could also be interested in influencing the implementation of a policy in order to get a license before its competitors or to hasten the processing of the permit. For such purposes

another network situation is valid. The most significant difference compared to action networks is that companies are now competitors and not collaborators. Companies might achieve a competitive advantage, for instance, by getting an industrial license for a new product, improving its quality or efficiency by investing in new machines or be permitted to increase its capacity or import products not allowed for the competitors. A competitor could, on the other hand, stop or delay such actions and thereby keep its advantage through a good position in influencing the authorities, resulting in a competition for such positions.

3.4.3. Linking Strategy

The linkage strategy aims at the types of interaction undertaken by the MNC within the MGN. The types of linkages are mainly the ones taken up in the network model, that is, exchange of resources, information and social exchange. These linkages are used in various combinations by the MNC in order to create the right balance between legitimacy and efficiency goals.

The linking strategy is used to make parties within the network more dependent on each other e.g. to tie the Indian government to solutions within the transport sectors provided by VTC. The types of interactions taking place within the MGN are often personal, social, based on professional trust and frequent. These interactions vary depending on their purpose and the level of experience that the parties have of each other. There is a dependence created which results from this "tie-up", which also creates greater risks for the parties involved. The stronger the tie-ups, the greater the risk as the cost for replacing each other rises. The tie-up normally grows stronger over-time as the two parties become more absorbed by the relationship. In acquiring e.g. permits, the MNC faces high costs initially due to the need to establish contacts and create trust with the government. As the linkage becomes stronger over-time, these costs decrease gradually. The government knows what the MNC represents and has a good picture of its intentions, core values etc. Moreover, the government officials in contact with key persons from the MNC also feel

confidence and trust in these. Thus, in this situation, commitment between the two parties is high.

4. ANALYSIS

Our analysis of the institutions and VTC's government strategy is based on our own experience from India and the general view we built from conducting various interviews in India.²⁹

4.1. Institutional Analysis – India

4.1.1. Introduction

In our institutional analysis we have an inside-out perspective. Thus, we start with a brief analysis of VTC followed by analyses of organisational fields and societal sectors. In the analysis, we use a combination of the basic institutions theory and the general institutions network theory, which we have explained in our theory chapter. We have chosen the institutional framework, as it is appropriate for our level of analysis of the institutional elements.

The economic history in India is characterised by a high degree of government involvement in a mixed economy. The government has heavily controlled the rules and regulations in the different markets. Through the liberalisation, the rules in the markets change as the government assumes the role of being a facilitator rather than a controller for the industry. The government do still have an important role though as they act as an agent and driver of change in the product/service-, labour-, financial- and professional and interest associations markets. To be successful in these markets, it is essential for the MNC to have good relations with the government.

The societal sector is the outer rectangle in the Basic Institutions Model and includes institutions in the society existing at a macro-level. This analysis aims at providing an understanding of the different institutions, their main characteristics and what influence they have on VTC in India. This analysis is important as it gives valuable information about parts of the “playing field”, facing an MNC in India – in this case VTC.

In our analysis of the institutions we have focused on aspects of particular influence on an MNC in India. In the organisational fields it is more a matter of interaction between the MNC and the institutions. This can be seen as matching strategies and will be further explained in the chapter VTC's Matching Strategies. The norms and values in the societal sector is difficult for an MNC to change. The MNC is mainly influenced by the societal sector and cannot affect this sector itself. Hence, in our analysis we emphasise the characteristics of the various societal sectors important for the MNC.

4.1.2. VTC – A Brief Company Profile

In June 1998, VTC established a production unit in Bangalore, India (see Appendix 3 for location). VTC set up a 100 per cent foreign equity owned subsidiary, as the local manufacturers were not perceived as suitable for a joint venture. This was the first wholly owned subsidiary set up by a foreign MNC in the automotive sector in India. The VTC factory in Hosakote was built in 13 months, which was seen as a record even by VTC standards. The initial investment was US\$ 80 million. The factory has a capacity to produce 4000 vehicles per annum. Today, they are manufacturing 250 vehicles per annum.³⁰ VTC India has 200 blue-collar workers and 100 white-collar workers.³¹ Among the employees, approximately 10 are Europeans while the rest are native Indians.

VTC India is developing a vendor program for global sourcing which aims at exporting parts from India to other manufacturing units in Asia, as costs for production are lower in India.

The trucks produced in India with most success are tractor-trailers and multi-axle heavy trucks. VTC mainly focuses on long-haul trucks (2000-2500 km) but plans to move into other light vehicle segments. VTC emphasises their focus on the service- and aftermarket. This is also done in

²⁹ See methodology chapter "Discussion of analysis"

³⁰ Interview, Freiesleben Anton, VTC, 991008

³¹ Interview, B.K. Bhagwan, VTC, 991008

order to avoid breakdowns and reduce operating costs. The VTC truck is three times as expensive as an Indian truck. VTC tries to win market shares by providing the customers with state of the art technology and giving their customers the ability to make goods transportation more economical and efficient. The major competitors in the Indian market are TATA, AshokLeyland and some European manufacturers who formed joint ventures with local manufacturers.

VTC has focused its presence in the Western parts of India and does not have as many service shops as their competitors, as the reliability of their trucks is much higher, and due to the high technical skills required to repair and maintain their trucks.

4.1.3. Organisational Fields

4.1.3.1. Product/Service Markets and Networks

The three essential sectors in India (industry, services and agriculture) contribute with similar amounts to the GDP. India is the thirteenth largest industrialised nation in the world. The recent liberalisation initiatives by the Indian government are expected to further boost industrial growth. The major industries are iron, steel, aluminium, textiles, heavy chemicals and power generation. The service sector has in the last couple of years showed a steady growth and is dominated by rail and road transport, telecommunications, cargo shipping and airline transportation. The agricultural sector in India provides important resources for the manufacturing industry. A large part of India's population is dependent on agriculture even though this has decreased in the last couple of decades.³²

The Indian industry is characterised by the government owned public sector and the private sector, both playing active roles. Traditionally, the public sector played a dominant role within the Indian infrastructure development and in the basic industries, while the private sector has played an important role in other sectors. The trend within Indian industry today is

toward a larger role for the private sector, with public investments more restricted to strategic and essential infrastructure areas. Most big businesses in India are controlled by state owned corporations, large family groups and MNCs. This structure is starting to change though with the entry of non-resident Indian technocrats and successful first generation entrepreneurs to the Indian market.³³

The liberalisation process carried out by the government affected the public companies in a significant way. The publicly owned companies were previously receiving state subsidies of about 15 percent, which implicitly signalled to public companies that they could be inefficient by 15 percent.³⁴ When a private sector company wanted to enter a market where a public company operated, the public company could deny entrance to the private company. The government used to have great influence in many markets and this made competition unfair. This is though starting to change as the rules of the game are in many ways changing with the liberalisation process of the Indian economy. Today the government is less involved in the running of companies and they are also trying to disinvest their interest in many public sector companies. The government is increasingly playing the role of being a facilitator for the industry instead of being controlling industrialists themselves.

The pre-liberalisation era in India was characterised by heavy involvement by the government in product/service markets. The government controlled capacity and output of companies in these markets in order not to create oversupply in the different industries. The competition in many markets is becoming fairer as the characteristics of a market economy with demand and supply become more important. The new situation with increased competition can sometimes be difficult for the Indian companies to handle. A long-term perspective is sometimes lacking in many Indian companies as

³² Ernst & Young, 1994

³³ Price Waterhouse, 1996

³⁴ Interview, Uppal Ravi, 991008

they try to cash in profits as fast as possible without considerations for future relations. As a consequence of this, customer care activities and customer retention are not as common as in western markets.

Many foreign companies enter the market with new values and norms, which the former protected Indian industry has to adjust to. The foreign companies have to adjust as well, and for instance, understand that quality measures such as Just In Time can be hard to practice in the Indian market due to the poor infrastructure in the country. The government now prioritise the improvement of infrastructure, e.g. roads and power-supply. The exposure of international competition with MNCs entering into India leads to a rise in the general quality levels within Indian companies.

4.1.3.2. Labour Markets and Networks

India has a large pool of skilled, semiskilled and unskilled labour. The pool of trained workers in India is the third largest in the world and includes scientists, computer software and electronics professionals, accountants, advertising and marketing experts.³⁵ The leading business management institutions are co-operating with universities abroad, bringing in international influence. Moreover, many young professionals in India have education and schooling from abroad, introducing international market values and norms to the Indian market.

A great mobility of skills can be seen in the Indian labour market of today. If a certain skill was found in one industry before, it has now migrated to other industries. This can be seen in e.g. the service industry which was previously not so large but has now increased in size. This has resulted in skills from the manufacturing industry migrating to the service industry.

The wage rates for employees in India are fairly low in comparison with developed countries. The average industry wage rate in India is

³⁵ Ernst & Young, 1994

approximately US\$80 a month.³⁶ When comparing wage levels between India and developed countries one must take into account the fact that productivity-, efficiency and quality levels of the Indian workforce can differ compared to labour in developed countries. The entrance of many MNCs to the Indian market with demands of high efficiency and quality has been a challenge for the Indian workforce. The people have realised that they have to improve e.g. computer literacy and specialised studies to be able to stay competitive in the market. There is now more value creation of the workforce as it becomes exposed to many different areas of work instead of just one.

The socialistic history of India has implications for the labour legislation with high protection of the labour. The Indian government has a lot of rules and regulations on the labour side even though its interpretation is not as strict as previously. To understand why the Indian labour legislation has so many regulations regarding employment, one must consider the background for this. Previously labour was not given the minimum rights, which then called for regulations from the government to ensure a certain amount of benefits for the employees. Most of the regulations are focused on improving social welfare issues e.g. working conditions, remuneration, pension funds and health conditions etc.

It is not a simple task to dismiss a person in India, especially blue-collar workers. They can only be dismissed if engaged in gross misconduct or if they commit a very serious offence. At management levels, e.g. engineers and senior people, the company can ask the person to leave after being given one or two warnings. The Indian culture is very caring for people's emotions and therefore dismissal is strenuously avoided.

Due to the increased competition in the Indian industries, many companies need to raise productivity and efficiency to stay competitive. Rationalisations within many companies are needed and this has

³⁶ Interview, B.K. Bhagwan, 991008

traditionally been very complicated with strict regulations from the government. It is still difficult to make these rationalisations but it is becoming easier as the unions and the government are aware of the needs to restructure the companies to stay competitive. When making rationalisation programmes, the companies need to negotiate with the government and the union regarding the terms and finally receive approval from the tax authorities before it can be realised. These rationalisation programs can be costly for the companies, as they need to pay three to five years of salaries as compensation in voluntary retirement schemes.

The liberalisation has somewhat changed the government's approach towards the industry, and the labour laws seem to be redefined. There are no official amendments to the legislation but the earlier stringent focus on following rules are starting to change with more room for flexibility. The interpretations of the labour legislation are changing towards being more understanding of industry conditions in order to meet the requirements companies have to stay competitive. The unions are also becoming more aware of the need for globalisation and FDI, which can be seen in the decreasing number of strikes and other union actions. The focus in the relationship between unions and companies today is more towards discussions and consensus rather than conflict.

4.1.3.3. Financial Markets and Networks

When the liberalisation policies were implemented in mid 1991, the Indian economy was near bankruptcy. After this, the Indian economy has recovered fast from a GDP growth of 0.6 % in 1991 to the expected 5.1-5.5 in 1999. The inflation rate in the Indian economy was at its peak in 1991 and has since then decreased to more reasonable levels. Inflation rates are still a worrisome problem though and are for 1999 expected to be around 6.5-7 %.³⁷

³⁷ <http://www.tradeport.org>, 991108

Historically, the Indian government has been heavily involved in the different financial markets. The banking system is poor but is at the moment going through a changing process and is slowly improving. Many banks have had financial problems as the government decided to whom and what industry the banks should lend money, according to what industries the government wanted to see investments in. Some of the lenders were not capable of repaying the loans, which was reflected in the poor economic performance by the banks. A change can, however be seen as the government increasingly delegates the power and control of the banking sector to the Reserve Bank of India (RBI).

The RBI is the central bank of India and act as a banker and financial adviser to the government. Moreover, the RBI executes the government's monetary policy regulating credits by controlling interest rates. The RBI's monetary interventionist role is being reduced and is more focused on a supervisory role of the banking system in line with international standards. The commercial banks (the State Bank of India and its associates, nationalised banks, private sector banks, regional rural banks and foreign banks) are by RBI increasingly being pushed to stand on their own feet. To cope with the increasing demand in the banking sector, the government has permitted the expansion of private banks. The commercial banks in India meet working capital and medium to long term finance requirements but are primarily involved in short term lending. The Indian financial sector includes long term lending institutions, investment funds, development banks, venture capital funds and equipment leasing companies.

India has 23 recognised stock exchanges located in various cities all over the country. The most important ones are the National Stock Exchange and the Bombay Stock Exchange, accounting for over two-thirds of the total trading volume. Over the last decade, the rapid growth of the capital market necessitated the creation of a market regulator in form of the Securities and Exchange Board of India (SEBI). SEBI regulates the operations of all the players in the market and oversees the development of the capital market.

The economic crisis in Asia has so far only had modest impact on the Indian economy and the nation's stock market. The modest impact on the Indian economy is due to the fact that India has a very large domestic market and experienced relatively low exposure to global markets.³⁸

Even today, the Indian currency, Rupee, is not really convertible in the sense that the Reserve Bank of India pegs the exchange rate. On trade account it is fully convertible but for individuals to bring Rupees in and out of India there are still restrictions. The Rupee is not tradable on international markets and officially one needs permission from the government to transfer money in and out of the country.

India has a well-developed tax structure with the central government and the state governments as authorities that levy taxes. The central government levies direct taxes such as personal income tax and corporate tax, and indirect taxes like customs duties, excise duties and central taxes.³⁹ The state governments are empowered to levy state sales tax and other local taxes. The tax laws in India are going through reforms with e.g. lowering of corporate tax rates and reduction in customs and excise duties. The customs duties are still high compared to many other countries and the World Trade Organisation (WTO) has put pressure on the Indian government to level them to ASEAN level by 2001. The custom duties are a large provider of income for the government, which makes their reduction difficult.

The insurance sector in India has been under state control since the 1950's. The government has intentions of opening up the insurance sector for competition from Indian private sector companies and foreign investors. This requires a change of legislation and the newly appointed government is expected to pass the new insurance bill as one of the first bills to be passed by the new parliament.

³⁸ Investors' guide to India, 1999

³⁹ India means business, 1998

4.1.3.4. Government and Networks

India's poor economic performance forced the government to implement a liberalisation of the economy in 1991. A new trade policy was implemented and India has gradually reduced the high import tariffs, liberalised imports and delicensed many industries. Foreign investment is encouraged by the government, especially when it leads to generation of export markets, induction of proprietary technology, import substitution, employment generation etc. The government has substantially liberalised the foreign investment policy, removed some of the bureaucratic controls and provided many incentives in order to attract foreign investments to the country. Moreover, the different states now have more responsibility of their own to attract FDI.

The Ministry of Industry has expanded the list of industries that are eligible for automatic approval of foreign investments. The level of foreign ownership has been raised from 51 % to 74 % and in some industries even 100 % foreign ownership is accepted⁴⁰. The government has a commitment of clearing all foreign investments within a 90-day period.

Prior to liberalisation, companies needed a license from the government stating how much they could produce and where they were allowed to produce it. In the annual report, the companies had to present how much the installed capacity was, production in terms of sales and license capacity. After the liberalisation, the license rules have changed and companies do not have to show all these figures in the annual report. The procedure of getting your industrial license was very complicated and time consuming where you had to go through various steps before you got your license. Negotiations, corruption and dealing with people being "experts" in helping the companies to receive the various licenses were common. These license procedures have after the liberalisation process changed in many ways even though they still exist in certain restricted industries e.g.

⁴⁰ Interview, Uppal Ravi, 991008

arms & ammunition, atomic energy, tobacco, minerals and railway transport.

In the 60s and 70s, the Russian model was adopted in India where the government had large holdings in the companies. With the liberalisation process India realised that this was not efficient with a lot of bureaucracy and huge losses with subsidies from the government. Today the government wants to privatise many of the companies under government control. The purpose of the privatisation would be to create new assets and retire high cost debts. The government does have a large responsibility though as many people are employed by these companies and might need rationalisations if they are to be privatised.

The Indian bureaucracy is an issue one must consider when investing in the country. The bureaucratic process is time consuming, hence patience and planning are important traits when dealing with the Indian government. There are often delays in the bureaucracy with many procedures that have to be gone through before one receives clearance from the government. There is a lot of paper work in the bureaucracy and approvals can sometimes take two to three months. It is important to have local knowledge in order to understand the bureaucracy and work through it as efficiently as possible. Some states have less complicated bureaucracy to go through, which e.g. can be seen in the state of Andhra Pradesh where the use of computers speeded up the bureaucratic process significantly.

The Indian constitution provides for a federal system of government, with a division of power between the national and the state governments. Despite the existence of a powerful central government, the state government has control over such important subjects as public order, police, and administration of justice, agriculture, water supply, irrigation, education, public health, land rights, industries, and mineral development. They have also been given the right to levy taxes to raise revenue for the administration and to determine policies related to land use and land

distribution as well as agricultural and industrial development within the state.⁴¹

The different states in India are competing for resources from the central government, which can lead to a rather non-cooperative situation. In order for more cooperation to take place the central government's allocation system must change, e.g. rewarding state cooperation to develop a certain economic region in the country. Some states have better abilities to attract foreign investments and the imbalance between the different states must be levelled in order for the Indian states not to be divided in to A- and B-states. The states expect MNCs entering India to provide jobs to the local workforce. It is also vital for MNCs to take social responsibility towards citizens, the state and the environment. The contact between state and MNC is at its peak during the establishment phase and then becomes less frequent. A problem for companies operating in India is that there is sometimes a gap between policy formulation by the central government and actual implementation by the state governments. The companies must then monitor changes by the central government and try to influence the state governments to implement the new policies.

4.1.3.5. Professional and Interest Associations and Networks

In order to promote their interests, industrial and business elites have made several successful efforts to organise themselves. Many of these organisations came into existence during the British period, and others were organised after independence. More recent associations have been organised on an industry-wide basis, seeking to protect the newly established industries against foreign competition.

There are three business organisations of national standing: the Federation of Indian Chambers of Commerce and Industry (FICCI), the Associated

⁴¹ Baxter, C et al, 1998

Chamber of Commerce and Industry of India (Assocham), and the All-India Manufacturers Organisation (AIMO).⁴² Moreover, there is the Confederation of Indian Industry (CII), which has offices in different regional parts of India and abroad, promoting Indian industry.⁴³

Today, the FICCI is the largest and most influential business organisation in India. It represents more than 100, 000 business firms.⁴⁴ Labour organisations in India, unlike the business organisations, are highly politicised and lack organisational autonomy. India's major trade unions are divided along party lines e.g. The Indian National Trade Union Congress (INTUC), with a membership of 2.4 million, is affiliated with the Congress (I).⁴⁵

The two well-established top industrial houses, the Birlas and the Tatas, vie with each other to influence government policies as well as public opinion to enlarge their industrial empires and strengthen their business interests.

With the introduction of economic liberalisation by the Rao government in 1991, there has been a dramatic change in the environment surrounding the business organisations. Business people and industrialists' organisations have assumed greater importance. Party leaders and government ministers seek to address their gatherings, assuring them of their cooperation in the economic growth of the country. Leading industrialists and businessmen are often included in the government delegations visiting the United States and Europe in quest of FDI.⁴⁶

⁴² Baxter, C et al, 1998

⁴³ Interview, Mehta Abhay, 991014

⁴⁴ Baxter, C et al, 1998

⁴⁵ Baxter, C et al, 1998

⁴⁶ Baxter, C et al, 1998

4.1.4. The Societal Sector

4.1.4.1. Political System

India is the world's largest democracy. The Constitution of India, adopted by the Constituent Assembly on 26 November 1949, was inaugurated on 26 January 1950. The preamble declares that the People of India solemnly resolve to constitute a Sovereign Democratic Republic and to secure to all its citizens justice, liberty, equality and fraternity. The Union of India comprises 25 states, six Union Territories and one National Capital Territory.⁴⁷

The President is the head of the Union, exercising all executive powers on the advice of the Council of Ministers responsible to Parliament. He is elected by an electoral college consisting of elected members of both Houses of Parliament and the Legislatures of the States. The President holds office for a term of five years and is eligible for re-election. He may be impeached for violation of the Constitution. The Vice-President is the ex officio Chairman of the Rajya Sabha and is elected by a joint sitting of both Houses of Parliament.

The Parliament of the Union consists of the President and two Houses: the Rajya Sabha (Council of States) and the Lok Sabha (House of the People). The Rajya Sabha has 245 members while the Lok Sabha has 543 members⁴⁸.

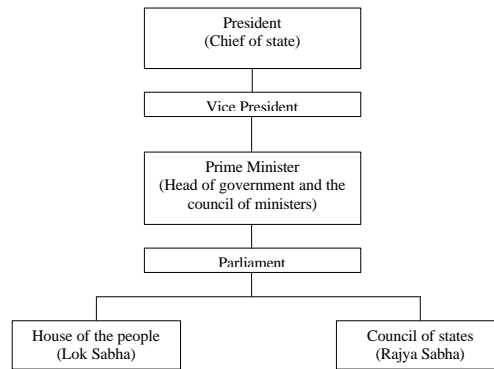
The government structure of the states closely resembles that of the union. Each of these states has a governor at its head appointed by the President for a term of five years.

⁴⁷ The Far East and Australasia, 1999

⁴⁸ The Far East and Australasia, 1999

The structure of the organisation of the central government is as follows:

Figure 9. Organisation of Central Government



Source: Baxter, C et al. 1998

In 1967⁴⁹, the consensus-based Congress system disintegrated and since then the Indian parties have consisted of a multiparty system. The two largest parties today are the Congress party and the BJP coalition. The Congress party is a coalition of diverse interests, factions, groups and individuals. The Congress party started the liberalisation process in 1991 and is considered to be the most progressive party of the two. The BJP coalition is more nationalistic and not as progressive as the Congress party. This has led to a slowing down of the liberalisation process although it is impossible to stop this process. In the 1999 elections in India, the BJP

⁴⁹ Baxter, C et al, 1998

coalition, comprising 24 parties, was re-elected with Prime minister Vajpayee, remaining in office.⁵⁰

Influence on VTC

The political system has to accommodate the interests of numerous groups within the Indian society e.g. ethnic and religious groups. The multiparty system is one way of assuring representation of these various groups in e.g. the Lok Sabha. The democratic traditions in India minimise the risk for political instability such as e.g. coups, military intervention in politics etc. This is important for VTC as it provides them with a rather stable environment in terms of basic constitutional rights established and adhered to in India. This feature is often a basic requisite when an MNC is planning to enter a developing country. Preferably, a democratic constitution is present in the country as it puts the interest of the people in focus and is a pre-requisite for development of the country.

Depending on the political party in office, the pace of liberalisation is affected. As the BJP currently rules India, this will probably result in a higher level of protection of the Indian industry against foreign competition. Subsequently, it is reasonable to expect that VTC's Indian competitors can gain from this. The positive effect of BJP being re-elected is the stability of policies, which makes it easier for VTC to predict future policies, thus reducing uncertainty.

4.1.4.2. Legal System

The Indian legal system is based on English common law, which goes back to the time when India was colonised by the British Empire.⁵¹ In comparison with other emerging markets, e.g. China, legislation in India is transparent. The Supreme Court is the highest judicial tribunal in India. India has a unified judicial system. There are no separate state supreme courts. Each state has a high court subordinate to the Supreme Court, and at the national

⁵⁰ Far Eastern Economic Review, 21 October 1999

⁵¹ Ernst & Young, 1994.

level, the Supreme Court sits at the head of an integrated judiciary. In significant civil and criminal cases, the Supreme Court serves as the final court of appeal. The Indian Supreme Court has been the primary protector of civil liberties and fundamental rights, especially the right to private property.

Of the two houses of parliament, the Lok Sabha is far more powerful than the Rajya Sabha. The Lok Sabha has effective control over both ordinary legislation and money bills. Moreover, the Lok Sabha exercises ultimate control over the prime minister and the council of ministers, as only the Lok Sabha can pass a vote of no confidence. The Rajya Sabha has no such power.

The parliament in India is a rather ineffective legislative body. Legislative initiatives belong to the cabinet. The ruling party's majority in parliament generally enables it to get its legislative agenda through the Lok Sabha without much difficulty.⁵²

A problem with many Indian courts today is their ineffectiveness. Many courts are working with an extreme backlog of unsolved cases. A lack of the appropriate resources and tools, e.g. computerisation, is compounding this problem. Thus, the enforcement mechanism needed in order to have a completely functional legal system, is somewhat lacking. Moreover, there are some gaps in the legislation e.g. the protection of property rights, which need to be filled in order to protect foreign MNCs and Indian companies.

Influence on VTC

The existing legal institutions and framework in India is a crucial part of the legal environment for VTC. As mentioned above, one of the main deficiencies in the legal system affecting VTC is the protection of property rights. VTC is therefore very observant and currently has some legal processes in progress regarding violation of property rights. Hence,

signalling their intolerance of violations against these rules. As courts are ineffective and clogged up, it can be a lengthy and costly process if VTC wants to file a lawsuit e.g. regarding a breach of property rights legislation. This fact might encourage companies to violate these "weak" areas of legislation. Although relatively transparent in comparison with other emerging markets, the legislation is often interpreted differently by various institutions. This makes it difficult for a foreign MNC to understand how the legislation is actually enforced by the courts.

4.1.4.3. Religion

India is a melting pot of various religions; Hindi, Islam, Christianity, Buddhism and Jainism to mention but a few. The dominant religion is Hindi, which with its religious teachings of Hinduism and its belief system deeply influence the social behaviour and political attitudes of its followers. Hinduism is known for its flexibility, sectarian organisations, and religious tolerance. Because there is no organised church or clerical authority among the Hindus as there is among the Christians, there is no uniform enforcement of the rules among Hindus.

Their belief system enables Hindus to live side by side with the followers of such other religions as Buddhism, Jainism, and Christianity without friction. Peaceful coexistence between Hinduism and Islam has however been difficult to achieve. Although Hindus are flexible in their religious practices, they do tend to separate politics from religion. These characteristics have enabled the predominantly Hindu political elites of India to build the political institutions of the new republic on secular principles.⁵³

Influence on VTC

It is important for VTC to recognise the role that religion plays in the Indian society. Moreover, an awareness of the potential conflicts between

⁵² Baxter, C et al, 1998

⁵³ Baxter, C et al, 1998

different religions is important, as there is a risk of these affecting workplace conditions and atmosphere. Especially, the relationship between Hindus and Muslims should be carefully monitored as to be aware of potential clashes. Also, respect and understanding of the existing religions is crucial in order to understand values, norms and codes of conduct.

4.1.4.4. The Caste System

Despite its flexibility in other areas, Hinduism retains one of the worlds most highly structured and stratified social orders, the caste system. This traditional social order divides Hindus into a hierarchical structure consisting of four castes: the Brahmins (priests and custodians of sacred knowledge), Kshatriyas (warriors and rulers), Vaishyas (traders), and Sudras (persons performing manual labour and menial jobs). In this hierarchy, the Brahmins occupy the top position and the Sudras the lowest. This system also influences the political life, where 20% of the seats in the Parliament are reserved for people of low caste, which can be seen as positive discrimination, but at the same time contributes to legitimise and preserve the caste system.⁵⁴

The traditional norms and values of the caste system are reflected in the whole society and also influence the business culture, where both organisations and the government are very hierarchical and have several levels. As mentioned earlier, affirmative action is taken by the government in order to integrate the lower castes into e.g. positions within government administration. This can take place through e.g. quotation. In rural areas, the caste system still plays an important role, as society there has not developed as much as in city areas. The city areas have developed due to international exposure while in the rural parts, development has been slow. There is a transitional period occurring at the time being towards a more equal society. Discrimination still exists due to conservatism but it is not institutionalised in the Indian society in general.

⁵⁴ Baxter, C et al, 1998

Influence on VTC

The caste system plays no major role for MNCs operating in India. VTC does not take religion or caste into consideration when recruiting, although they have recognised the importance of understanding the potential conflicts, which might arise. For instance if a local employee of a lower caste is hired for managerial duties, this might create a difficult situation for that person in his/hers home-village, where people of a higher caste might consider this appointment highly inappropriate.

4.1.4.5. Country Culture

The stability of a political system is dependent upon the support that it enjoys from its citizens. In return, social institutions transmit socio-political values and norms of political behaviour. They become instrumental in creating support for the system and enhancing its legitimacy.

India is an ancient civilisation but a new nation; the values and attitudes of its citizens, the nature of its political culture, and its political processes are influenced by both its traditional past and its contemporary experience. Indians are proud of the operation of their contemporary democratic institutions and of the uniqueness of their culture, which gives its people a distinct identity.

Through a complex network of primary and secondary structures, the people of India have successfully transmitted several key elements of their cultural and political structure from generation to generation. It is through this process of socialisation that India has developed its distinct social and political culture.⁵⁵

Using Hofstede's⁵⁶ interaction model and cultural themes as a framework for analysing characteristics of the Indian society is useful. The four cultural themes consist of; individualism vs. collectivism, high vs. low

⁵⁵ Baxter, C et al, 1998

⁵⁶ Hofstede, Geert, 1980

power-distance, masculinity vs. femininity and high or low uncertainty avoidance.

As in many countries with socialist traditions, the Indian society has been a mainly collectivist society. The group comes first, the individual second. Without the group the individual becomes weak. The power distance is very high in India. Subordinates expect their superiors to display their power and exercise it. Tolerance exists between superiors and subordinates although it is more of a human nature, that is, respect for the human being.

Masculinity and femininity are rather equal in India, although masculinity has a slightly more dominant role. This means, there are both large groups valuing wealth, earning money and assertiveness as most important, as well as groups advocating interdependence between people and caring for others.

Uncertainty avoidance in India is rather low. Here, religion plays an important role in keeping anxiety regarding the future low as the future is perceived as being influenced by the behaviour of an individual through his or hers actions in life. The low uncertainty avoidance can also be reflected in the generally low level of aggressiveness and high level of tolerance of the Indian people.

Influence on VTC

The political structure's strong support from its citizens creates an environment, which does not abandon its core values and beliefs. This creates a stableness, which is desirable, especially in a country with a relatively short history. In addition, the tolerance against e.g. foreigners is a very important aspect of the Indian society for a foreign MNC such as VTC. The society puts certain demands on VTC entering India, but does not discriminate due to the company's foreign origin. Knowledge about the caste system, its values, norms, and influence on society as a whole is imperative. Moreover, it is important for VTC and other MNCs to come to

terms with the complex hierarchical structures present in politics and administration.

Moreover, knowledge about the characteristics of interaction between people in the Indian society is vital as it provides VTC with valuable knowledge that can be used in understanding the culture, resolving conflicts as well as preventing them from occurring.

4.1.4.6. Family and Kinship

Along with a person's caste, an Indian's socio-political behaviour is likely to be influenced by family and kinship group. The basic unit of Hindu society in particular and of religious communities of India in general is not the individual but the extended or joint family, which consists of three generations living under the same roof.

Kinship is one of the most important organisational structures in the Indian religious groups. This structure includes numerous real or supposed uncles, aunts, brothers, sisters, and cousins as well as maternal and paternal grandparents. Each person is accorded a status in the kinship hierarchy and receives due respect. Indian children brought up under this complex structure of kinship relations learn about politics from their families, in which there are frequent exchanges of political views and a high degree of trust between parents and children.⁵⁷

Influence on VTC

The strong family values and bonds present in Indian society serve as a strong base for any Indian in their daily life. This is valuable as the individual has a feeling of belonging and security. Moreover, in case of a crisis e.g. in working life, the Indian may seek support from the family which helps in getting through the crisis. These aspects are important for VTC as most employees are assumed to have a strong family base. It gives

⁵⁷ Baxter, C et al, 1998

the employees the strength to survive tough conditions and crises. In contrast, the Swedish family bonds are traditionally not as strong, where families have been shattered by e.g. divorces and the tradition of the younger generation leaving the home at an early age. Moreover, the elder generation is mostly living separate from their grown up children and their families.

4.1.4.7. Business Mores

Business ethics in India are often criticised by Western business people. The difficulty in understanding what underlying mechanisms exist in the Indian business community is often stressed. In a recent "Times of India" opinion poll, ten segments of society were evaluated for corruption. "Business" was in fifth place and 67% of the respondents rated this as a corrupting force. Politicians and Ministers had the highest rank, as 98% of the people participating in the survey thought of them as being corrupt.⁵⁸

The relation between politicians and business is often corrupt, mainly because of expensive campaign elections that are not state-financed, and thereby businesspeople can influence elections by sponsoring the participants. The corruption in the society is referred to as the "iron-triangle" of bureaucrats, politicians and businesspeople. Corruption clearly exists but it partly has to be seen as consequence of the poor people's morale, which is adjusted, in order to survive.

When doing business with Indians, it is recommended to go straight to the top when contacting an enterprise, since it is at the highest level that decisions are taken. When addressing professionals, it is important to use the right titles in order to show respect. This can be related to the high power distance in Indian society. Once a personal contact has been established with the business partner, Indians prefer to build the relation on mutual trust and friendship, instead of formal rules and contracts.⁵⁹

⁵⁸ Journal of Business Ethics, 1997

⁵⁹ Conaway, W. et al, 1994

Influence on VTC

In order to understand the Indian business culture, that is, norms, values and codes of conduct, VTC India has employed experienced and skilled Indians who have knowledge of how to navigate the waters of Indian business life. VTC has a strict policy, which forbids any involvement in activities that might be called corruption. This sometimes results in applications and permits being "delayed", as VTC does not comply with certain government officials and others' demands for e.g. gifts, money or other favours. VTC has recognised this but is being patient and, if necessary, takes the matter to a higher level in the bureaucracy in order to get the application or permit. VTC has developed good relationships with politicians and bureaucrats at state- and central level, who are highly placed in the hierarchy. This is imperative, as it becomes more difficult for e.g. lower ranked bureaucrats to exercise their influence on VTC without risking intervention from higher ranked officials.

4.1.4.8. Educational/Training System

The literacy rate among the total population of age 15 and over is 52%⁶⁰. The rate is almost twice as high for men as for women. Each state in India is responsible for the local schools, and therefore large differences prevail in the educational level in India. The number of graduates and post-graduates in the fields of engineering, science and medicine is about 2 million every year. This serves as an important attraction for foreign investors. Most managers and engineers or other skilled workers speak English and many have studied or worked abroad. Many schools at a higher level have a three-language-system, where the children learn Hindi and English, except for their regional dialect. English is the official working language and is the most important language for national, political and commercial communication.⁶¹

⁶⁰ Baxter C et al, 1998

Influence on VTC

The educational level is highly important for VTC, which requires skilled engineers and workers to design and manufacture their trucks. The availability of skilled manpower in Bangalore was one reason for locating VTC's plant there. As English is the official working language, it makes it easier to work in multi-cultural teams which include e.g. Indians, Swedes, Belgians and Brits. Moreover, complex technical instructions written in English did not need translation, which made the training of the Indian engineers and workers a lot easier.

The existence of many higher educational institutions in India ensures a steady influx of new skilled and qualified labour with the latest knowledge into the labour market. This is especially important as the pace of technology development is increasing, requiring constant upgrading of knowledge and skills.

4.1.5. Predictions of Future Institutional Developments

The institutions in India today have been strongly influenced by the socialistic values introduced at the time of India's independence in 1947. Thus, the government involvement in the public and private sector was then of a dominating character in accordance with the socialistic politics. The start of the liberalisation process in 1991 increased the exposure of the different institutions to global values and norms. Thus, there is an institutional change adjusting values, norms, thought styles and routines in society in general as well as in business life. The involvement of state and government is decreasing, though this is a slow process as the former values and norms are strongly entrenched in the Indian society. We expect some institutions to transform faster than others e.g. the product/service markets as it is exposed to international competition and legislation, which has to be improved in order to attract FDI. Institutions like country culture and religion are likely to remain rather unaffected as these are deeply rooted in the Indian society.

⁶¹ <http://www.odci.gov/cia/publication/factbook/in.html>, 991105

4.2. VTC's Matching Strategy

In this section we will analyse VTC's matching strategies including aspects such as legitimacy and efficiency. Different strategic responses and tactics influence the matching strategy and will be a recurring theme in our analysis of VTC's matching strategy. At the end of section 4.2 we will conclude VTC's matching strategy in the governmental field.

4.2.1. VTC's Strategies and Tactics in the Organisational Fields

Matching strategies in the organisational fields are developed because of resource dependence. There are different degrees of interaction in the respective market and networks and VTC has to use various matching tactics in order to gain legitimacy and operate efficiently.

4.2.1.1. Product/Service Market and Networks

Traditionally the Indian truck-market is dominated by the domestic producers TATA and Ashok Leyland. Due to the low competition in the market, their research and development efforts are slow or passive, hence the quality and standards of their products are not very technologically advanced. VTC's entrance into the Indian market exposed the customers to modern truck technology and standards that can develop the transport economy for the customers. With VTC entering the Indian market, new values and norms are brought into the truck-industry and VTC acts as one of the engines in the government's wish to restructure and increase competition in the market. These activities can be categorised as influence tactics as VTC is influencing the industry standards. This tactic is part of the manipulation strategy and is the most active response to the institutional demands and expectations. Moreover, this creates a favourable position for VTC as they are now evaluated on technological criteria.

The initial market shares that VTC will gain in the Indian market are small, still one can sense the worries from competitors as they try to lobby the government for formation of policies more beneficial to the domestic manufacturers. The competitors have to raise the quality and technology of their trucks as the customers can compare VTC's trucks with the domestic

ones. Thus, it is evident that VTC also influences their competitors, making them assume the costs for e.g. quality upgradation. Direct interaction between VTC and their Indian competitors is rare. Indirectly, they co-operate in industrial organisations such as the Confederation of Indian Industry (CII), to lobby against government towards more beneficial regulations for the whole truck-industry. This is a type of bargaining activity, which is typical of for example professional organisations trying to work in favour of their members.

When approaching customers, it is important for VTC to show respect for the customers and avoid imposing VTC's values on customers. It is vital to understand the market, and develop sales and marketing activities to the local circumstances in India. VTC strives to create a close relationship with the customers in order to comprehend feed back from customers and adjust the products to the customer's special needs and demands.

To be competitive in the Indian market, it is of great importance for VTC to produce parts locally. The Indian truck manufacturers are producing trucks with low technology and quality levels and due to this, the Indian suppliers in the truck industry have supplied them with old solutions suitable to these demands. VTC being a global player has to have the same quality and technology demands on suppliers in India as on other markets, leading to the suppliers in India having to make some adjustments towards international standards. Many Indian suppliers are capable of producing products to VTC's high technological specifications but the Indian competitors within the truck industry are not willing to pay for it. Therefore, it can be difficult for the suppliers to achieve profitability producing low volumes according to VTC's high technological specifications. For VTC it is a matter of balancing tactics, as they have to accommodate demands of producing locally and at the same time demand higher quality from the Indian suppliers.

VTC tries to assist some of the suppliers in developing their quality awareness and cost orientation. In India today, there exists a drive towards reaching international levels of quality with ISO awards etc. Sometimes, communication between VTC and their suppliers is difficult. For example, when VTC tries to get across the sense of urgency to a supplier, he can find it difficult to understand this. When VTC expects a product to be delivered on Monday they do not want it delivered on Tuesday and it can sometimes be frustrating for VTC to make their suppliers understand this.

4.2.1.2. Labour Markets and Networks

In the labour markets and networks, VTC has to understand and adjust to the rules and regulations and they do not participate in the formulation of new routines to the same extent as they do in the product/service markets and networks. The government's control of the labour market and networks is more strict and regulated. VTC is complying with the rules and accept norms that exist in these markets and networks. By doing this VTC can gain benefits that may range from social support to resources or predictability.

When entering India it was imperative for VTC to emphasise their values and norms in order to build a strong corporate culture. The process of selecting the first 50 employees was very selective and thorough and VTC brought in experts from the headquarters in Sweden to assist in this process. Some of the Indian staff were also trained in Sweden to assume the VTC culture. Many key positions in VTC's Indian organisation were given to VTC employees with international experience from other markets. These people are expected to provide the Indian organisation with VTC's international business experience and build a solid base for native Indians assuming many of these positions in the near future. It is important to have a thorough understanding and local knowledge of labour regulations and the Indian work culture. Therefore the head of human resources is a native Indian with experience of human resource matters in India.

VTC is a very attractive company for many Indians to work for, as VTC being an MNC brings international values and opportunities that many Indian companies cannot offer. From our own experience spending time with VTC employees, we learnt that employees are very proud of working for VTC. The average wage rate at VTC is US\$140 a month and thus higher than the average industry wage rate. VTC receives many applications from people wanting to work for the company and have a rigorous selection process where the key words are: objectivity and competence, in selecting the right persons.

The relations with labour authorities and unions are good, as with the whole industry, and more focused on co-operation instead of conflict. VTC comply to the rules and regulations thus reducing their vulnerability to negative assessments of its conduct, products or services. Occasionally VTC receives visits from labour officials coming to check that VTC follows the rules and regulations. These visits are arranged though and not of the harassing kind that was more common in Indian business life in the pre-liberalisation era.

4.2.1.3. Financial Markets and Networks

VTC's role in the financial markets is similar to labour markets with small abilities to influence rules and regulations. Moreover, VTC has a tactic of complying to the rules and regulations in the financial markets and networks. VTC has experience from the changing process within the banking sector in India. A couple of years back the banking system was different with fixed interest rates controlled by the central government. Now the situation is changing and VTC has been given bank loans with floating interest rates with a cap and a floor.

When establishing itself in India, VTC received incentives from different states wanting to attract VTC's operations to their state. These incentives included e.g. different tax incentives. Through negotiations with Karnataka state, some incentives were received, for example VTC is exempted from paying sales tax for a period of 12 years, enjoys exemption from entry tax,

and are given protection against any possible future taxes until VTC's project takes off. Sales tax structures differ between the states and India would benefit from implementing a VAT system similar to the European one. There can be problems when transporting goods and products between states, as there are checkpoints where one can get stuck for five to six days. This adds to the logistics problem with long queues and risks for corrupt behaviour by officials, controlling the checkpoints.

VTC has experienced some problems with the high customs duties in India. It is hard for VTC to bring in parts from Europe and at the same time be cost competitive due to the high levels of customs duties. There also exist different duty classes depending on whether the government considers that you bring in finished products or component imports. VTC has now been classified as a component importer and therefore pays lower duties. This is a result of VTC bargaining tactics.

One future problem for VTC concerns how money can be transferred in and out of India. This is something that will become more important in the future when VTC generates profits and they want to make remittances to the headquarters in Sweden for the initial investment. The government monitors these transfers of money in and out of the country and VTC has to negotiate and bargain over the terms as to how this will be done. VTC also monitors the inflation rate of the Rupee, as this is important in terms of the value of their original investment.

VTC has had some problems with the insurance companies in India. The different insurance companies, all under state control, charge the customers more or less the same tariffs. VTC's trucks are placed in the same category as the competitor's trucks and this is something that VTC is not pleased with. VTC tries to prove that their trucks have higher reliability and safety and therefore should be categorised differently than their competitor's trucks. This is a matching strategy that is characterised by influence tactics,

that is VTC is trying to influence the basis on which their products are evaluated.

4.2.1.4. Government Network

The influence on VTC and how the government acts and the relations and interaction between them will be dealt with in the chapter VTC's Network Strategy Towards Government.

4.2.1.5. Professional and Interest Associations and Networks

In order to influence government policies and decisions on state-and central level, it has become increasingly important be a member of at least one strong and influential industry organisation. There are many industry and professional organisations as well as the two major industry families; the Birlas and the Tatas, which are fighting for the government's attention. VTC established contact with CII at the establishment stage and has nurtured that relationship since then. VTC's Managing Director, Mr Ravi Uppal is currently the vice-chairman of CII in Bangalore. This is extremely valuable to VTC as Mr Uppal can influence the agenda of CII in Bangalore.

The changing attitude of politicians which now seek assistance from leading industry organisations and leaders is creating a more cooperative situation, which makes it easier for VTC to approach the government officials and have a constructive dialogue instead of one characterised by suspicion and mistrust, as previously.

4.2.2. Types of Business Legitimacy

As seen from the theory chapter there are several types of business legitimacy, which are interlinked. Starting with analysing the efficiency aspect, VTC has long experience in operating in the truck industry on a global basis, which has resulted in a large base of accumulated knowledge and expertise on how to operate efficiently in various markets. VTC has all the necessary knowledge in e.g. production process management, materials

management, marketing, finance and human resources etc., which makes them one of the market leaders in the truck industry.

VTC's daily work in India is sometimes interrupted by State government officials' visits, a so-called "Inspector Raj", to the plant in Hosakote. The officials come to monitor that VTC complies with the various rules and regulations that exist e.g. labour protection laws. At these visits, VTC must present all the relevant information to the official, often with several VTC managers attending these meetings. These types of government activities result in VTC managers "wasting" time on these issues instead of concentrating on the crucial issues of e.g. operating the plant efficiently. Thus, we found that VTC's efficiency is somewhat distorted due to these government interventions. Previously, these visits were not always announced in advance and were often frequent, but today most visits are scheduled and the number of visits has decreased. In order to work efficiently, VTC complies with the rules and regulations from the government.

4.2.2.1. Market Legitimacy

Market legitimacy refers to the economic performance and e.g. the technical know-how of a firm. It also refers to how MNCs' ways of gaining efficiency correspond to the government's view of efficiency.⁶² We believe VTC gained a high level of market legitimacy in India as they transferred state-of-the art technology and introduced many new concepts to the Indian truck industry. Moreover, VTC's trucks were of a much higher quality than the Indian manufacturers' trucks. The gap between VTC and domestic producers was huge. Many state governments realised the benefits of having VTC in their state and therefore approached them in the scanning phase of VTC's project. VTC finally chose Karnataka State, which is promoting the automotive industry, trying to attract many automotive manufacturers. As VTC introduced top of the range trucks, they also contributed to raising the quality level of the whole truck industry as Indian

⁶² Jansson, Hans, 1999

customers now began to demand the same quality levels from the domestic producers. This effect was expected by Karnataka State, and hence it increased VTC's market legitimacy. The matching tactic used by VTC is of an influencing character as VTC indirectly contributes to the development of the Indian truck industry.

4.2.2.2. Government Legitimacy

Government legitimacy is broader than the previously mentioned types and generally includes many other aspects.⁶³ Our primary research in India, proved that VTC is very much complying and working according to the rules and regulations, norms, values and codes of conduct that exist in India. As India is a very complex society, it can be difficult to gain government legitimacy without local expertise. VTC used local expertise when establishing in Bangalore. This was extremely useful as it made the process much easier, without any major obstacles or problems. The matching tactic of imitation is prevalent in this case, as VTC to a large extent accepted advice from consulting firms and consciously mimicked institutional models in order to gain government legitimacy.

We believe that VTC gained government legitimacy through a number of different ways. In their contacts with government officials, VTC was open-minded and showed respect for the local values and norms. They were also interested in learning more about them. VTC also proved their commitment to the Indian market by introducing their latest models and technology. These factors contributed to the high level of government legitimacy.

Moreover, VTC has been very "transparent" in their operations in India. Thus, the state government has had no reason to be suspicious regarding VTC's plans and intents, which has created a trustful relationship. Moreover, by employing mostly natives, VTC gained respect from the government. VTC intends to further "Indianise" the company by gradually

⁶³ Jansson, Hans, 1999

replacing the non-Indians with Indians. This is an example of a pacifying matching tactic as VTC is clearly copying and accommodating institutional elements in their operations. Additionally, by contributing more money than mandatory to the employees' pension funds, VTC assists in improving the employees' social security. Last, but not least, we found that the job opportunities created and the local economic improvements generated by VTC's establishment in Bangalore are other factors, which increase VTC's government legitimacy.

As seen, aspects such as the ones previously mentioned all contribute in creating a high level of government legitimacy for VTC. It is extremely important to have this, as it will improve VTC's efficiency, that is, the state government will look upon VTC as an asset and will co-operate and assist in providing the right conditions for VTC to flourish. VTC, on the other hand will be able to concentrate on its core activities.

4.2.2.3. Strategy for Establishing Moral Legitimacy

Moral legitimacy is becoming increasingly important for MNCs. Society puts demands on the MNCs to assume more responsibility for certain parts of the society such as health issues, infrastructure and the general welfare of people. This can also be seen as a way for the MNC to justify its operations to the society.

We believe that VTC is helping developing social standards and values in India. An example of this is the introduction of VTC's core values: quality, safety and environment, which are relatively new to the Indian market. For instance, VTC is introducing their "environmental" technologies with the aim of reducing e.g. pollution and noise levels. When VTC brings these new values to the market, new standards will be set for the whole truck industry, hence creating benefits for society in general, e.g. less emissions, lower noise levels and decreasing congestion. We think that VTC is seen by the government as a role model for other manufacturers within the truck industry, which are often negotiating with the government regarding e.g.

emission levels, as they have problems in meeting new and more stringent regulations.

Moreover, we found that safety, another of VTC's core values has become increasingly important in the automotive industry, e.g. the drivers' safety has been discussed. The quality aspect is also in focus. With the entry of VTC, the higher reliability and quality of their trucks have put pressure on Indian manufacturers to match these. Customers in India are becoming increasingly aware of the quality now available on the market, a development that benefits VTC and, which they promote. Moreover, the gradual improvements in quality and other standards in the truck industry in India, which are happening, will in the long run provide new opportunities for domestic producers to export their products to e.g. other Asian markets. The introduction of VTC's core values will influence and affect how the standards for the industry will be set in the future. Thus, we have found that VTC uses influence as matching tactics in this sense.

When VTC established their plant in Hosakote, a small community outside Bangalore, the community was obviously affected. The local people had no major previous experience of having an MNC operating there. VTC needed land to build the plant and this resulted in some farmers having to put their land at VTC's disposal (VTC gave the farmers a good price, so that they would not feel mistreated in any way). This process was conducted by KIADB (Karnataka Industrial Area Development Board), which is compulsory. This is also a way of avoiding the situation of landowners demanding a too high price, taking advantage of the situation. The landowners cannot refuse to sell the land according to law. They can refuse a price offer but have to come to an agreement after negotiations with the KIADB and the MNC. In the bargaining, VTC also agreed to hire some of the locals. Preference was also given to locals with the right skills when recruiting personnel to the plant. These actions were taken in order to compensate for the "disturbance" created by VTC to the locals. As seen this is a type of bargaining matching tactic used by VTC in order to gain

acceptance and accommodate pressures from the local community and its stakeholders.

We believe there is a risk of conflict when an MNC brings western thinking to a developing country, such as India. If the MNC does not consider local customs, history, culture, tribe structures, religion and caste, the MNC might unconsciously or blatantly irritate and offend the locals, creating a negative attitude towards the MNC in the local community. We think VTC was aware of most of these potential areas of conflict or clashes and therefore adopted a very open-minded and respectful approach towards the local community in Hosakote. For instance, on some occasions, the local tribe leaders were consulted regarding employment of tribe-members in order to avoid conflicts due to caste. Although respecting the local culture, VTC tries to have international values at their plant, e.g. no employee is hindered from becoming a manager due to low caste. VTC needed to find a balance between their internal interests and the institutional pressures and expectations. Therefore VTC used a balancing matching tactic.

VTC as a global truck manufacturer has a legitimate position in the eyes of the state and central government in India, and this was used in various ways when they established themselves in India. For example, VTC received many incentives from Karnataka State in forms of sales tax exemption and immunity from any new taxes imposed on them in the future. Moreover, Karnataka State built a new substation for power supply and laid a completely new fibre-optic cable to Bangalore (40 km from plant). These are examples of how important Karnataka State believed the establishment of VTC's plant was for the region, the industry and the local community.

4.2.2.4. Moral Legitimacy through CSR

Corporate Social Responsibility (CSR) is becoming increasingly important for companies operating in India and it is a major way of expressing moral legitimacy towards stakeholders and government. It is especially important for MNCs coming to a developing country like India, as CSR raises the

level of legitimacy from many sectors of the society. MNCs must contribute to the development of the society, not solely creating job opportunities but other contributions too, e.g. in health, infrastructure, education etc. Labour groups and other societal groups are influenced by VTC's values and standards and thus raise these issues in society in general and vice versa. We believe this further strengthens VTC's government legitimacy. In order for VTC to know what they should contribute to society, they need to have a thorough knowledge of what social projects to support. Some "welfare" projects are run by corrupt people who only work for their own gain. Therefore, in many instances, VTC avoids this risk by initialising new welfare projects themselves, thus avoiding the risk of a scandal caused by people with fraud on their minds.

4.2.2.5. Internal CSR

Internal CSR is related to how the company takes care of its employees, e.g. providing appropriate facilities etc. The matching tactic of influence is undertaken in various forms within the internal CSR as VTC contributes to the shaping of values and norms in the Indian society. At our visit to VTC's factory in Hosakote, we talked with VTC staff and perceived them as very satisfied and proud of their facilities at the plant.

We found that VTC has emphasised the importance of having a stimulating working environment with e.g. modern and well-kept premises with many green areas, a well-run canteen, and a factory with low noise levels and modern equipment with high safety standards. Moreover, VTC provides their employees with some additional compensation for their retirement fund than is mandatory. The wage rate for many workers is also higher than the industrial average.

4.2.2.6. External CSR

VTC engages in developing their suppliers and in training them, in order to raise their quality levels. The Indian suppliers often have the abilities to produce high standard products, but as there has not been any demand for

them from Indian manufacturers, suppliers have not invested in this until now, after the entry of VTC on the Indian truck market. This initiative by VTC can be seen as helping them to gain legitimacy from the government as VTC is developing the industry. VTC is also gaining from this progress, as they are able to source parts locally, which is a pre-requisite for operating in the Indian market due to the high imports tariffs.

As VTC's trucks are more environmentally friendly than competitors' trucks, VTC's customers are educated in e.g. how emission levels can be reduced. This results in customers demanding higher environmental standards from the Indian truck manufacturers. There is a slow change of attitude among customers but today it is not possible to sell trucks on environmental friendliness, as Indian customers are not yet willing to pay for this. We believe that with more VTC trucks on the roads, the environmental issues will increase in importance among customers.

As it is still difficult to sell trucks on environmental issues, VTC mostly communicates their environmental friendliness to the Indian media, which is more interested in these issues. VTC thereby gains respect from the public, thus improving their government legitimacy.

VTC is promoting local development by supporting some voluntary welfare projects, e.g. the building of a new road in one of the local villages, vaccination of locals, the set up of a small local clinic, the provision of eye-check facilities and the Managing Director participating in charity for a hospital. These initiatives are contributing towards creating a positive image of VTC, thus enhancing their moral legitimacy.

4.2.3. VTC's Matching Strategies in the Government Field

When analysing the matching strategy of VTC, we found that the relation with the state government today was much characterised by cooperation. Previously, Swedish companies often used a consensus strategy, as the competitive content of the relationship was higher than present. This has changed somewhat. This was especially obvious in the case of VTC, where

they have more cooperation. VTC still has to adjust and follow government rules and regulations but there is more room for negotiations between VTC and the government. This is one effect of the liberalisation where both the central and state governments' attitude toward MNCs has changed.

VTC was the first foreign MNC in the automotive sector that was allowed a 100 per cent foreign equity owned subsidiary in India. This illustrates how attractive VTC's investment was to the Indian government and is an example of the change in government attitude. We believe that from a government point of view, VTC brings high technology, creates new jobs, raises quality standards etc. Moreover, VTC shares their knowledge on environmental issues, creating a debate, which the government advocates. From VTC's perspective, a good relation with the government means they can more easily cope with the Indian bureaucracy and focus on operating efficiently. Moreover, VTC's position enables them to exercise influence on the various environmental institutions. The effect of this influence is not perceivable today although we expect that a degree of domination will be found in VTC's matching strategy in the future.

Another example of the good relationship is the fact that VTC gets immediate access to government officials if they want to raise an issue. Moreover, VTC has a government official which is appointed their "personal" contact. If VTC has any problems with low-level bureaucrats who are e.g. demanding "favours", VTC can approach a higher level official to have the matter resolved. The degree of cooperation is high as both parties stand to gain from the relationship. This leads us in to our analysis of the network strategy towards government.

4.3. VTC's Network Strategy Towards Government

In this section we will analyse the different parts of VTC's network strategy towards government. A solid network strategy includes multifaceted actions in order to establish a strong position in the market. Here we will

analyse three parts of VTC's network strategy towards government; the MNC-Government network, mapping of government networks and linkage strategy. Corruption is also analysed as it affects the different types of networks.

4.3.1. The MNC - Government Network

In the theory chapter we explained how MNCs such as VTC form government strategies in order to adapt to and influence policy formation and implementation of policies. Different units of the government and VTC are in contact and a network between VTC and the government is formed according to figure 8, the MNC - Government Network (MGN), in the theory chapter. There are different relations between VTC's headquarters, VTC India and the political- and administrative parts within the Indian government. The political part is interpreted as central levels of government, while the administrative part concerns more state governments.

4.3.1.1. VTC's Headquarters vs. the Political Part

We believe the relationship between VTC's headquarters and the political part within the government was most important in the establishment stage of VTC's operations in India. VTC's headquarters had experience from establishing subsidiaries in other emerging markets, which was valuable when establishing in India. VTC's headquarters mostly had a legitimising role in negotiations with the government regarding the terms of VTC's establishment in India. VTC is a global player in the truck industry and by bringing in powerful persons from the headquarters in the negotiations with the government, VTC could demonstrate to the government their commitment to the Indian market. In the negotiations, it was important to make clear that both parties stood to gain from VTC entering the Indian truck industry. VTC had profits and other advantages to gain in a long-term perspective and from the government's perspective VTC's entrance helped develop and modernise the Indian truck industry.

4.3.1.2. VTC's Headquarters vs. VTC India

For VTC India it is of course important to have good relations with the headquarters in Sweden, as they are the ones supplying the initial resources for VTC India's operations. At the start up of VTC India's operations, the headquarters could support VTC India with expertise from other foreign markets. The present "start up" organisation at VTC India has many people with European backgrounds at management levels. We believe that in the future, many of these positions are to be replaced with Indian people when the VTC culture and values have been implemented successfully. In the establishment stage of VTC's operations, key employees in India were also brought to Sweden for training and introduction to VTC's corporate culture. We mean that the relationship between VTC India and the headquarters is of course important in the long-term perspective as well, as the headquarters providing VTC India with transfer of technology and know-how from e.g. research and development projects in other parts of the world.

We believe that it can be difficult for the headquarters in Sweden to understand how business should be run in India. Therefore it is important that the relationship between VTC India and the headquarters is open and trustful. VTC India is responsible for running the operations and adjusting to local conditions, as the Indian way of doing business can be difficult for the headquarters to interpret and understand.

4.3.1.3. VTC India vs. the Administrative Part

In the relationship between VTC India and the administrative part within the government, it is essential for VTC to understand and interpret the way the Indian bureaucracy functions. We believe this can be difficult for an MNC to do on their own and VTC hired local expertise to get assistance with this. In the establishment stage, the local expertise consisted of different consultants. As time passed, VTC has built up own knowledge within the company and the use of consultants is not necessary to the same extent. Many of VTC's employees also have experience from dealing with the bureaucracy from prior employment in other Indian companies. This

can also be a disadvantage, as the mindset of these employees are sometimes focused on how complicated the bureaucracy used to be, and therefore have problems seeing the new opportunities given.

MNCs' need for licenses, approvals and permits is decreasing as the liberalisation process in India proceeds. It is though still an important issue as some approvals and permits are essential for VTC to conduct business in India. Permits and approvals that are needed from the administrative body can concern issues such as factory conditions regarding safety issues, and pollution control from the factory. VTC provides the administrative part with information regarding e.g. the company's revenues and the working conditions for the employees. Tax revenues are of course also an important issue for the administrative part. Moreover, the administrative part provides VTC with infrastructure improvements such as development of road connections, power supply and telephone lines.

4.3.1.4. Political vs. Administrative Part

There is sometimes a "time-lag" effect between the political- and the administrative part within the government. Policies decided at the political part can take a long time before they are actually implemented at the administrative part. The political part wants more dramatic changes in the liberalisation process in order to improve the Indian economy. With less permits etc. the administrative part loses income, whereas it can sometimes be hard for the administrative part to accept the changes demanded by the political part.

We found that policies from the political part are often open for "own" interpretations by the administrative part. Different states and institutions can sometimes interpret policies differently. Thus, it can be difficult for VTC to know what rules to follow and in what way these rules and policies are being interpreted and applicable in different situations. As there can be different political parties in control at central- and state governments, there can be conflicts between the political- and administrative part within the network. The political party BJP are in control at the central level while in

some states, the Congress party is in control. These parties have different ideas of how progressive the liberalisation process should be, the Congress party being more progressive, which we believe can be a source of conflict.

4.3.1.5. Relations within the Network

As relations between VTC's headquarters in Sweden and the political part within the Indian government are most common at the establishment stage, the same thing also applies in the relations between the headquarters and the administrative part. Different administrative parts (states) competed for VTC's investment and offered different incentives to become more attractive. The relations consisted of negotiations and discussions with local ministers regarding terms of VTC's potential investments. As time passed by, the contacts and relations with the administrative part was increasingly handled by VTC India.

The contact and relation between VTC India and the political part within the government mostly consists of different forms of lobbying, where VTC tries to influence decision- and policymaking. VTC does in some cases conduct this lobbying on their own and in other cases through industrial organisations. When VTC lobbies via industrial organisations this can e.g. occur through the CII, where the truck-manufacturers work together trying to change policies affecting the whole industry. Some issues in the lobbying process can though be more specific for VTC, as VTC sees policies from another perspective than the domestic truck-manufacturers do. VTC then tries to conduct lobbying on their own towards the government. VTC can partly be seen as the government's driver of change and developer of the Indian truck industry. Therefore, they might listen to VTC's demands and then make the rest of the industry follow through formulation of new general policies. In the lobbying process, we found that it is important for VTC to use as many channels as possible to be able to influence and affect policies and their formulation.

4.3.2. Mapping of Government Networks

The competition for licences among companies in India has decreased, as many industries have now been de-licensed. Therefore, VTC's action network towards the government is more focused on lobbying for changes or adjustments of regulations. It is crucial for VTC to know what departments and contacts to approach at a high level. In order to do this, VTC recently employed an ex-government official with good government contacts, to handle some of these relations. Moreover, the managing director makes visits to central government level in Delhi to lobby for e.g. the Indian truck industry adopting Euro II standards of emission instead of Euro I. Lobbying is also conducted through the action network. VTC is a member of the CII, which is trying to improve the conditions for Indian industry as a whole. Due to the conflicts of interest between VTC and other Indian truck manufacturers, it has been difficult to lobby effectively in matters regarding the truck industry through CII. This is instead mostly done individually.

Permits are still needed in India but not to such a large extent as previously. Prior to liberalisation, a company had to approach several government authorities to get all the necessary permits. Today, they still need many of these permits but one authority, instead of several, administers them all.

To have a good mapping of government departments and the right contacts within this network was more important in the pre-liberalisation era. In that era, companies could gain a competitive advantage by having the right contacts, e.g. receiving licences before competitors (first-mover advantage). Today, it is more a question of lobbying towards the government in issues related to certain rules and regulations. The above-mentioned issues have become easier to deal with for VTC, but the government in India still plays a powerful role in influencing many businesses. Moreover, by having contacts within government networks, VTC is able to receive first-hand information regarding e.g. new industry

policies. Uncertainty about the future rules and regulations for the industry is thus reduced.

4.3.3. Linkage Strategy

Most of VTC's contacts with the government is at "lower-levels". There is still a need for "pushing papers" e.g. in order to get a permit or in dealing with customs and tax authorities. Customs clearance can be complicated and VTC therefore uses an agent for clearing goods at harbours and airports. VTC employees at lower levels mostly handle routine errands involving the Indian bureaucracy. When there is a need to "push hard" to prove a point, higher-level managers at VTC are involved. This is only done with issues that are very important to VTC.

It is difficult for VTC to develop and nurture a relationship with government bureaucrats on a long-term basis. This is due to the "rotation" system that exists in the Indian bureaucracy. Officers rather frequently change positions, which means that a new relationship must be established every time this happens. Therefore, trust can only be established to a certain extent. Contact between VTC and the government is most frequent in the establishment stage where the two parties learn about each other and contacts are often of a personal and social character, professionally based and trustful.

VTC's applications to the government must be processed through a complicated approval system within the Indian bureaucracy. Some applications have to be approved by 10 different people. If one person has an objection of any kind, the process of approval must start all over again. The importance of having good contacts with lower level bureaucrats cannot be neglected as these bureaucrats are "pushing" VTC's papers through the process. When submitting an application it is important to have it stamped by the government official as proof of the application being submitted. This is necessary in case the application is "lost" by a bureaucrat. Another important issue is the cost VTC has for preparing

documents on e.g. technical specifications or revenue data for submission to the government. This is often done on a regular basis.

VTC sometimes invites government officials to attend information meetings or dinners in order to present information on VTC's activities and to maintain a good relationship with the government. Moreover, we believe it is a way for VTC to be "transparent" in their activities, which is seen as positive by the government.

4.3.4. Corruption

With the de-licensing of many parts of the Indian industry, corruption has decreased. Government bureaucrats no longer have the same power to "stop" a company from attaining a licence. Corruption though, still exists in India. Government officials putting pressure on companies to employ relatives of the government official in return for "favourable treatment", is one example of this corrupt behaviour. Corruption also exists within the customs authorities e.g. at harbours and airports. Companies often have to pay an extra "fee" to have their completely legit goods cleared. Thus, people often pay for getting a job as a customs officer as it is seen as an "investment" that will generate a good return. It is often particularly complicated dealing with customs, hence many companies engage agencies, which handle these issues. Moreover, "speed-money" is common as it is seen as a means of making the bureaucrats do what they are appointed to do. Provoked delays often occur as bureaucrats indirectly put pressure on companies to "speed-up" the process.

We believe that corrupt behaviour in India must be put into its context with its traditional history and culture. Many low-level servants in the public sector have very low wages. In order to support their families and survive they must earn "extra" money. This is one of many reasons why there is a corrupt culture among many of these servants. Poverty is thus one factor, which causes corruption.

VTC has a very strict policy regarding “gifts” of any kind and do not give in to pressure from bureaucrats. This sometimes results in “delays” but VTC is being patient and finally receives e.g. the permit or approval.

4.4. The SKF Experience in India

VTC was established in India in 1998, and it can be difficult for them to see whether the liberalisation process, started in 1991, meant any major changes in terms of government relations for an MNC. Therefore, we have chosen to make a brief comparison with SKF, another Swedish MNC with longer experience of the Indian market.

SKF has been present in the Indian market since 1933. SKF is today well established as the largest bearing manufacturer on the Indian market. SKF has production units in Bangalore and Pune and direct imports from warehouses in Europe and other parts of Asia. SKF India's customers are within the automotive industry (cars, trucks, two- and three wheelers), household appliances, washing machines, industrial applications and the textile industry.

Companies that were already established in India, prior to the liberalisation process, experienced some dramatic changes after the process started. Pre-liberalisation India was a protected market with heavy involvement and control from the government e.g. in form of licenses and permits. The procedure of getting licenses was very complicated and time consuming where a company had to go through various steps before it received its license. Corruption was not uncommon, with people being "experts" in helping the companies to receive the various licenses. The government interfered more in the businesses through regulations and there were restrictions on e.g. how large a market share and company asset value the companies were allowed to hold. It was then important for a company to have very good relations with the government in order to get first hand information from the government to build up a competitive advantage to competitors. With the liberalisation process, SKF's government contacts have decreased and are not as important as previously.

The Indian market is still under some degree of protection from the government, but with lower import tariffs India is attracting new foreign

entrants to the their markets. This has led to stiffening competition in the markets. SKF thus, has had to restructure their Indian operations in order to become more effective and competitive. With foreign companies entering the Indian market, the customers' quality awareness has increased and the production for companies like SKF has to be adjusted to the new situation. SKF had to rationalise their organisation by decreasing their workforce from 2 900 to 2 200 employees. Upgradation of existing plants was also necessary and SKF invested around US\$ 30 million in this process. During the rationalisation process, SKF believes that the understanding and cooperation from government and labour organisations were good. SKF made clear to all involved parties the necessity of the rationalisations, in order for SKF to survive and stay competitive on the Indian market, and therefore received support for their actions.

We found that SKF over a long period of time has established and developed good relations with the government and gained a legitimate position. SKF gained government and market legitimacy through several ways e.g. providing the Indian market with transfer of knowledge and technology, giving employment opportunities and following rules and regulations set by the government. We believe moral legitimacy has been gained by SKF proving to be a good citizen within Indian business life. SKF tries to implement the values of environment, health and safety in the Indian market. They also try to assume their corporate social responsibility by providing their employees with e.g. education, healthcare, good canteens and the building of some housing projects.

SKF has its own specialists handling the contact with government authorities in different areas e.g. imports, legal applications and taxes. The importance of contacts with the government in Delhi has decreased for SKF, since the liberalisation. Previously, there was a need to make regular visits to Delhi and monitor how licenses and papers were moving from different departments. When you needed a license, it had to pass through at least a dozen departments before it was approved. Previously, politicians

received the application, bureaucrats reviewed it and it was important that the bureaucrats worked in your favour. SKF needed to have a person specially designated to handling the contacts with the bureaucrats, being friendly with them, e.g. play golf with them or have dinner with them. Today, this has changed and these kinds of contacts are not necessary and people from the management team of SKF only has to go to Delhi on very special occasions. Lobbying government also occurs through industrial organizations, e.g. the organization for roller bearing manufacturers in India, which lobbies the government for the industry as a whole.

Today, SKF mostly has contact with the different state governments. Problems for SKF are related to the different sales taxes that occur in different states as the states vie for tax incomes. There are complicated systems when moving products between states for sales and transfer of goods. Both the central- and the state tax authorities want income tax from SKF. SKF has to prove to whom they are obliged to pay taxes. The movement of products can cause a "grey market" as regulations can differ between the states. In Europe, we have managed to realise a common internal market and this seems to be needed for the Indian market as well.

5. CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

When analysing India, one must consider the size and diversity of the country. It is a country with hundreds of languages, several religions and local cultures. Therefore, India must be considered as a continent rather than a country. It is centrally controlled but with a large extent of independence of the states.

The liberalisation process of the Indian economy has presented Indian business life with a new set of rules. The government is gradually withdrawing its involvement in industry and is divesting itself of companies within the public sector which are unprofitable. The liberalisation process is unstoppable although its pace can be altered, as there are different political views on how it should progress.

Many business executives are posing doubts about entering the Indian market. This is due to India's reputation of being a rather inward looking, complex, bureaucratic and corrupt country. These things are changing fast. Although some of these problems still exist, they can be handled with the assistance of local expertise. Today, there are plenty of opportunities for investors in India. Keywords of today are de-regulation, privatisation and industry incentives. Moreover, MNCs need to stress the importance of planning and patience.

From our study of MNCs operating in India, MNCs do not have to be involved in any corrupt behaviour in order to survive. It is crucial to recognise the existence of corruption and that there are ways to work around it by being transparent, complying with rules and regulations and by following legal procedures. Moreover, one must understand the reasons for the corrupt behaviour in India, although one does not have to accept them. As the liberalisation process progresses, there will be less opportunities for corrupt behaviour as "rules of the game" become more transparent with a

decreasing number of licenses, permits and approvals needed from the government.

5.2. VTC's Matching Strategies in India

Matching strategies and tactics vary depending on which actor VTC has interaction with in their environment. We found that VTC's matching strategies are mostly characterised by cooperation towards various actors in their environment. VTC uses different tactics in their matching strategies in order to work as efficiently as possible. We found that some of the tactics VTC used are complying, balancing and bargaining. These tactics are used since it is important for VTC to fit in and gain legitimacy from different actors in their environment.

Various stakeholders have different interests and it is important to find a balance to the expectations whereas some compromises have to be made by the different actors. As VTC's investment in India brought in new values of technology and quality, VTC has been given some room to influence and develop the truck industry. VTC's investment was attractive to the government and VTC does in some ways shape and form the new standards in the industry for the future. When VTC's position in the Indian truck market change in the future, other matching strategies and tactics will become relevant.

It is important for VTC to gain a legitimate position in the eyes of the government and the market. In the case of VTC, both parties are benefiting from the relationship as VTC generates profits (in the long-term) and the government and the market receive transfers of high technology and know-how, which assist in developing the Indian economy as well as the truck market. VTC had an attractive "product" to contribute to the Indian truck market and thus gained market legitimacy rather easily. Other MNCs bringing an already existing product to the market might find it somewhat more difficult to gain this type of legitimacy, as it is not seen as important for the market. Therefore, an MNC bringing new high technology products can more easily gain high market legitimacy.

VTC also has to operate efficiently in India. By doing this, they achieve market legitimacy. Previously, efficiency could be disturbed by government interventions in daily business life although this behaviour is becoming increasingly unusual. Without efficiency, having high legitimacy becomes irrelevant, as efficiency is a basic pre-requisite for achieving market- and government legitimacy. This applies especially to a foreign MNC.

We discovered that VTC's government legitimacy is increasingly influenced by actors that put pressure on VTC to assume its CSR. Thus moral legitimacy is increasing in importance in India and stakeholders in the societal sectors demand more social responsibilities from VTC. The matching tactic that VTC mostly advocates is complying as they follow the social conventions and norms in India. Another tactic is influence where VTC is using their core values in shaping values and norms for the future.

5.3. VTC's Network Strategy in India

As seen from our case study, VTC's headquarters was most important in the establishment stage in order to demonstrate commitment and thus gain a legitimate position in the eyes of the government. Later, VTC India has become more independent and handles government relations on their own. Government contacts today are mostly for lobbying and sharing of information. VTC India has mostly frequent contacts with state government and thus develops a necessary understanding of the different elements of the state bureaucracy. At an initial stage it can be difficult for a foreign MNC to grasp different elements of bureaucracy and therefore it is highly recommended that local expertise is used. Still, the importance of establishing a good MNC-Government network cannot be neglected, as there is a need for receiving e.g. permits and approvals from the government.

5.4. Generalisations from VTC's and SKF's Experiences

Our findings from studying SKF's operations in India support our findings from VTC's experience and therefore generalisations can be made. One of the main findings is that the set of rules and routines in the Indian business environment have undergone a dramatic change with the liberalisation process. Moreover, the need for different licenses has decreased in a major way. Contacts and relations with government officials at central level have become less important, while interaction with state governments has increased in importance. This is due to the increasing transfer of power from central to state level.

Legitimacy in India can be established in various ways and also over a different amount of time. As SKF has been established in India for a long period of time they have built up a legitimate position towards the government and gained acceptance. VTC on the other hand has only been present in India for a short period of time but has already gained a legitimate position. This is due to the attractiveness of VTC's product and core values and their contribution to the Indian truck industry.

5.5. Institutions in India

An MNC operating in India must have a thorough knowledge of the various institutions. There is an institutional change as the government is altering the rules and regulations affecting the industry. Complex bureaucracy still exists although the government has understood that their role must be facilitating and not so much a controlling body. The change in the government's mindset from a mixed economy (mix of planned and market economy) towards a more market oriented one is a crucial change affecting companies operating in India.

Some institutions are deeply rooted in Indian society, e.g. country culture, caste and religion. These institutions will not change to any great extent in the near future. Institutions that are changing are found in the organisational fields, e.g. in the product/service market where market

oriented thinking is becoming increasingly evident, as well as the diminishing role of government in business life. Indian society is extremely tolerant which is advantageous for foreign MNCs as the Indians are open to new companies entering India.

A great challenge facing the present Indian government is the poor infrastructure, which hampers economic development in India. We believe there is still much work to be done but positive initiatives are being taken by the Indian government, which is a step in the right direction. Resources have to be redistributed, primarily from defence spending to investments in infrastructure and health services, which are both poor. Moreover, the Indian government lacks long-term policies e.g. fiscal policies. Previously, much attention has been devoted to "fire-fighting", focusing efforts on the present problems without a long-term perspective.

5.6. Matching Strategies in India

Companies can benefit from handling their matching strategies successfully as there is more room for interaction between the different actors today. The matching strategies today are characterised by cooperation including elements of acquiescence and compromises. Typical tactics are complying, balancing and bargaining.

The MNC mainly gains market and government legitimacy at the establishment stage. Later, it is imperative to maintain and nurture this legitimate position as the business environment might change, posing new threats to the MNC. Moreover, the MNC can achieve government legitimacy by being "transparent" in its operations, thus reducing eventual doubts from the government's side on the intentions of the MNC.

A legitimate position can also be achieved by having good relations with the media. Media influences many societal groups in society, which in turn influence the government. Hence, media is an instrument to influence various societal groups in Indian society.

An MNC entering India must also gain moral legitimacy. Assuming its CSR is essential as it also influences how various societal groups and stakeholders perceive the MNC. MNCs must return something to society, which is beyond creating job opportunities for the local community. An MNC's CSR can be demonstrated in various ways e.g. assisting in infrastructure development, contributing to charity and improving health conditions of employees. CSR is becoming increasingly important in India as it also affects the other forms of legitimacy. Society is increasingly demanding MNCs to assume more CSR.

5.7. Network Strategy in India

The power of the central government is gradually shifting towards state governments. MNCs primarily have frequent contacts with the lower levels of bureaucracy at both central and state levels. MNCs must be aware of the existing time lag between central government policy formulation of new policies and the actual implementation at state level. The policies are often interpreted differently in the different states, often according to what is most beneficial to the state government. This often results in confusion among MNCs on what actual regulatory framework they are supposed to follow.

Many models and theories that have been developed for conducting business in India are becoming increasingly outdated. This development is due to the many changes in the rules and regulations for businesses in India. Still, it is imperative for an MNC to develop a strategy including relations towards the government and authorities. The major difference is that it is for other purposes than before. Previously, companies could achieve competitive advantage by developing the right contacts within government authorities, e.g. receiving a license before a competitor or even blocking a competitor from entering the market. Today, it is crucial to nurture contacts within government in order to get first-hand information regarding new policies and to lobby for changes of existing policies. Moreover, the government is more open for ideas and opinions from the

industry than previously. This is an effect of the government assuming the role of a facilitator for the industry.

In our study of the MNC-Government relations in India, we discovered that there is a shift from consensus to cooperation. As mentioned previously, this is due to the changing attitude from the government and the government's increasing dependence on MNCs in helping develop the Indian economy. MNCs are as of today still dependant on the government but this dependence has decreased, as there is a process of de-licensing and de-regulation of many industries. MNCs are still dependent on the government to continue forming and implementing the policies needed for further liberalisation of the economy and to make it easier to conduct business in India.

For an MNC operating in India, it is crucial that it manages to work efficiently through the Indian bureaucracy. As many state governments lack computerisation, "paper-pushing" is literally the means of administering various errands e.g. applications for permits. At lower-levels of bureaucracy it is important for an MNC to establish a solid and functional network in order for applications to be processed as quickly as possible. MNCs have to invest in these relationships with the government officials but must be aware of the fact that government officials often "rotate" and subsequently, the MNC must then establish new relations with a new person in office.

5.8. Theoretical Contributions and Conclusions

When applying Professor Hans Jansson's theories we found that the Basic Institutions Model was an appropriate tool for identifying and analysing the relevant institutions affecting an MNC in India. However, it was appropriate to make a small adjustment to the model as we found that professional and interest associations were interacting closer with the MNC, and thus belonged in the organisational fields instead of in the societal sector.

The models for matching- and network strategies were applicable to our research even though some adjustments had to be made. The Indian institutions are not completely rigid or stable hence other models which are influenced by these institutions have to be adapted to the changing environment. The business legitimacy model is an example of where we had to adjust certain elements in order to apply this model to the current situation. Moral legitimacy and CSR are two elements which we added. Government legitimacy is still important for an MNC to gain although other stakeholders and interest groups have emerged in India. These stakeholders emphasise the elements of moral legitimacy and CSR which are influencing the government.

We believe that government strategy will continue to play an important role for MNCs in India but to a decreasing extent as the Indian government becomes more “market-oriented”. MNCs considering establishing in India should not be discouraged due to complex government networks or bureaucracy. These obstacles can be overcome with the right type of mindset and by using local expertise. The liberalisation process is one of the drivers of change in the Indian economy heavily affecting government strategy formulation. Thus, government strategies are constantly being developed and adjusted in order to be effective in an environment characterised by institutional change. Moreover, matching strategies are becoming increasingly important as government control is gradually diminishing and being shifted to market forces. Network strategies are still imperative but not to the same extent as previously. Liberalisation and deregulation have made network strategies less influential in gaining competitive advantage e.g. there do not exist a limited number of licenses for the companies to attain. Network strategies are mainly useful in lobbying for future policies and regulations.

There are various ways of gaining legitimacy in India, a company must discover what the most appropriate means are for them. One must follow certain rules but the exact rulebook cannot be formulated as conditions are

constantly changing. After analysing the vast amount of material collected in India, we have found three keywords for an MNC to be successful with its government strategy; respect, patience and flexibility. Finally, we will quote Anton Freiesleben at VTC India, who we believe captures the essence for an MNC operating in India, with the words; "In India, one must find the right path while walking."⁶⁴

5.9. Recommendations VTC

In this section we will give some recommendations to VTC although many of these are also applicable to other MNCs operating in India. India is undergoing an institutional change. Therefore VTC must adjust their matching strategies to the fast changing environmental conditions. Strategies relevant today might become obsolete in the near future as institutional change progresses. Matching strategies of influence must be used with respect and understanding. The government is very positive towards VTC's upgradation of the Indian truck industry but other stakeholders might not be as positive as their interests are threatened by VTC's behaviour. We therefore recommend VTC to analyse what stakeholders are influenced and in what way in order to avoid unnecessary conflicts with stakeholders. The importance of CSR in India will increase in the future as social responsibility previously held by the government is increasingly put on companies. Therefore we recommend VTC to formulate clear strategies and policies that demonstrate their CSR.

We believe VTC has established a well functioning government network during a relatively short period of time. We recommend that VTC remains proactive in developing and nurturing this network in the future. Proactivity is beneficial as VTC then can influence the standards for future policies in the truck industry. Moreover, proactivity is essential in order to be one step ahead of competitors as VTC can gain first hand information and easier adjust to changes in the environment. A reactive position can result in

⁶⁴ Interview, Freiesleben Anton, 991008

disadvantages such as e.g. slow response to environmental changes and thus lag behind more proactive competitors. Lobbying is an important tool in adopting a proactive approach.

Our findings have shown that transparency results in a high level of government legitimacy. Transparency reduces mistrust and suspicion from actors in the environment, e.g. authorities, the public and other stakeholders. We believe VTC should continue to adopt a very transparent approach to its environment. Another factor that can improve VTC's government legitimacy is "Indianisation" of their operations in India to a larger extent. Today non-Indians hold some of the key positions in VTC India's operations and we recommend that these positions are replaced with natives when VTC's culture and standards have been successfully implemented.

6. SUGGESTIONS FOR FURTHER RESEARCH

Our research has focused on how MNC's in India develop and maintain their government strategy. Moreover, it has analysed the implications of government strategy from the liberalisation process in India. As the institutional change in India is a continuous process, we recommend further studies of these developments and their effects on MNCs' government strategies. We have studied VTC, which contributed with products that could develop the Indian industry and thus rather easily gained a legitimate position. It would be interesting to study how an MNC within e.g. the consumer goods industry conduct their government strategy and what challenges they face.

Moreover, a study of an MNC's government strategy in another country would be interesting. A country of particular interest would be e.g. China as many of their institutions are undergoing a process of substantial change. There are many Swedish MNCs operating in China, which are suitable for this type of research, e.g. ABB and SKF.

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APPENDIX 1. Definitions

In order to clarify some terms and abbreviations in our thesis we will here define them.

AIMO - All India Manufacturers Organisation
ASEAN - Association of South East Asian Nations
Assocham - Associated Chambers of Commerce and Industry of India
BJP - Bharatiya Janata Party
CII - Confederation of Indian Industry
CSR - Corporate Social Responsibility
FDI - Foreign Direct Investment
FICCI - Federation of Indian Chambers of Commerce and Industry
FIPB - Foreign Investment Promotion Board
INTUC - Indian National Trade Union Congress
ISO - International Standards Organisation
KIADB - Karnataka Industrial Area Development Board
MGN - MNC-Government Network
MNC - Multinational Corporation
SBU - Strategic Business Unit
VAT - Value Added Tax
VIPL - Volvo India Private Limited
VTC - Volvo Truck Corporation

APPENDIX 2. Interview Guide

This guide includes some of the questions used during our field study in India. The interviews involved discussions and the questions had to be adjusted depending on the people we interviewed (e.g. VTC, SKF, government officials or industry officials).

1. How much/little does the central and state government influence your operations in India? If so, in what ways? What are the levels of cooperativeness and competition in your relation with Indian authorities at various levels?
2. What changes/effects have you experienced from the liberalisation process that started in 1991, and in what way has it affected your operations in India?
3. Is the pace of the liberalisation process fast, medium or slow? Please develop your answer.
4. Please describe the typical characteristics of the Indian economy and its implications for your MNC's operations in India.
5. What cultural influence has the Indian culture on your operations in India? (adjustments to local habits, ways of conduct etc)
6. What role has religion in India and in what way is it affecting your operations in India?
7. Please describe the implications of the Indian legal system on your operations in India in terms of its structure and level of complexity.
8. How easy/difficult is it to source skilled labour and manpower in India?
9. What role does the Indian family play in the society? Effects on working life, operations etc.
10. What role has professional/interest organisations in India? What level of influence do they have on your operations in India?
11. How important are industrial associations and competitors in the relation toward government?
12. What government (state or union) do you have the most frequent contact with and have you noticed a shift in this aspect during the last couple of years?

13. What is the response to a Swedish MNC coming to India at different government levels?
14. What actions did VTC take, when entering India, in order to gain acceptance with the Indian government at central and state level respectively?
15. In what way does VTC maintain its relationships with different government authorities in India? (E.g. personal meetings, social events, conferences, telephone contacts etc)
16. What is the most difficult part in handling the relationship with the Indian government at central and state level respectively?
17. How do VTC handle the issues of social responsibility when entering a new market?
18. How do the core values of Volvo influence VTC's operations in India?
19. Do VTC function as opinion builders regarding social issues in India?
20. How do VTC fit in and adjust to the local conditions where they operate?
21. Do VTC cooperate with any local interest organisations in the area, e.g. environmental groups?
22. Is VTC participating in any Action Network, and if so in what way?
23. Why did VTC choose Karnataka state when entering in India?
24. Why did VTC choose to enter with Greenfield investment?
25. What characterised the negotiations with the Indian government at central and state level respectively when entering India?
26. What competitive advantages did you expect to gain from being the first European truck manufacturer establishing production in India?
27. How do VTC's core values "fit" with the Indian market or culture?
28. What actions did VTC undertake to fit in to the Indian culture?
29. Could VTC's presence in India help develop the social situation?
30. Did the establishment of VTC's operations affect the values and norms of the local community in India, and were VTC's own values and norms changed?

APPENDIX 3. Map of India

