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SMEs on the way to India



PERSPECTIVES ON THE INTERNATIONALIZATION OF
FINNISH SMALL AND MEDIUM-SIZED COMPANIES TO INDIA

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Abstract

India among many other developing countries has become the main drivers of growth of the global economy, while the developed countries have witnessed a relatively modest growth rate during the last few years. The vast Indian market provides tremendous business opportunities also for small and medium-sized enterprises (SMEs). In the coming years, India will invest substantially in infrastructure development, environmental technology, energy production, and information and communications technology. In addition, India develops forest industry, health care, education and food technology. India is expected to be one of the largest economies by 2025. (Suomen Intia-toimintaohjelma)

This geographically and culturally distant market also poses challenges to SMEs. SMEs are commonly characterized as having less human, financial, as well as other resources required for internationalization compared to large companies. Overall, emerging markets differ highly from the developed markets in their political, economic, socio-cultural, technological and environmental contexts. SMEs willing to do international business in developing countries should carefully analyse the operational environment and develop capabilities, partnerships and strategies suitable for that particular market.

Despite the importance of the Indian market, there is limited research on the internationalization of Finnish SMEs to India. This paper aims at increasing understanding of this topic, based largely on interviews with Finnish SMEs operating in India. In this study we describe how nine Finnish SMEs have undertaken their internationalization to India. It shows that Finnish SMEs have a variety of motives for operating in India and many competitive advantages that enable them to compete on Indian market. Moreover, the study illustrates the comprehensive preparation required before entering the market, what kind of challenges the SMEs have encountered and how they see that Finnish SMEs can make it on the Indian market.

This report starts with a brief introduction on the aspects of SME internationalization towards emerging markets and India as a target market. Following, the results of the company interviews are presented. And lastly, the final chapter presents the conclusions and suggestions for further studies.

Keywords: Internationalisation, India, SMEs

Tiivistelmä

Kehittyvät maat, kuten Intia, ovat nousseet maailmantalouden vetureiksi, kun taas kehittyneiden maiden talouskasvu on ollut suhteellisen vaatimatonta viimeisten vuosien aikana. Intian laajat markkinat tarjoavat paljon liiketoimintamahdollisuuksia myös pienille ja keskisuurille yrityksille. Tulevina vuosina Intiassa investoidaan merkittävästi infrastruktuurin kehittämiseen, ympäristöteknologiaan, energiantuotantoon ja tieto- ja viestintäteknologiaan. Lisäksi Intiassa tullaan kehittämään metsäteollisuutta, terveydenhuoltoa, koulutusta ja elintarviketeknologiaa. Intian odotetaan olevan yksi suurimmista talouksista vuoteen 2025 mennessä. (Suomen Intia -toimintaohjelma)

Maantieteellisesti ja kulttuurisesti verrattain kaukaisena markkinana Intia asettaa myös haasteita pk-yrityksille. Pk-yrityksillä on yleensä vähemmän kansainvälistymiseen vaadittavia resursseja (muun muassa henkilöstö- ja taloudelliset resurssit) verrattuna suuriin yrityksiin. Kaikenkaikkiaan, kehittyvien markkinoiden poliittinen, taloudellinen, sosiokulttuurinen, teknologinen ja ekologinen ympäristö poikkeaa huomattavasti kehittyneistä markkinoista. Kehittyvistä markkinoista kiinnostuneiden pk-yritysten tulee huolellisesti analysoida toimintaympäristöä ja kehittää kyvykkyyksiään, kumppanuuksia ja strategioita soveltumaan juuri kyseiselle markkinalle.

Tutkimuksia suomalaisten pk-yritysten kansainvälistymisestä Intiaan on tehty verrattain vähän. Tämän raportin tavoitteena on lisätä ymmärrystä aiheesta perustuen valtaosin suomalaisten, Intiassa toimivien pk-yritysten haastatteluihin. Tässä tutkimuksessa kuvataan yhdeksän suomalaisen pk-yrityksen kansainvälistymistä Intiaan. Haastattelut osoittavat, että suomalaisilla pk-yrityksillä on lukuisia eri motiiveja käynnistää liiketoimintaa Intiassa ja useita etuja, joilla on mahdollista kilpailla Intian markkinoilla. Lisäksi tutkimus esittää, miten kattava valmistautuminen on tarpeen ennen markkinoille menoa, millaisia haasteita pk-yritykset kohtaavat ja mikä on haastateltujen yritysten näkemys siitä kuinka suomalainen pk-yritys voi menestyä Intian markkinoilla.

Raportin johdannossa kerrotaan lyhyesti pk-yritysten kansainvälistymisestä kehittyville markkinoille ja Intian erityispiirteistä kohdemarkkinana. Kappaleessa 2 esitetään raportin tavoitteet ja kappaleisiin 3-5 on koostettu yrityshaastattelujen tulokset. Viimeinen kappale sisältää yhteenvedon ja johtopäätökset. Kappaleessa ehdotetaan myös aiheita jatkotutkimuksille.

Avainsanat: kansainvälistyminen, Intia, pk-yritykset

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1. Introduction

This chapter gives a brief background on the internationalization of small and medium-sized companies (SMEs) towards emerging markets. Also two reports concerning India as a target market for company internationalization are presented.

1.1 Internationalization of SMEs towards Emerging Markets

Internationalization of SMEs has expanded due to technological changes, deregulation of markets, the liberalization of world trade, and the establishment of regional economic cooperation agreements, for example. (Hessels & Kemna 2008) SMEs' lack of specific resources and their small size is often seen as the most significant challenge concerning their internationalization. These resources are related to limited market knowledge, low financial and human resources and insufficient network relationships. Consequently, entering into markets that are remote both culturally and geographically is risky for SMEs. (Fink & Kraus 2007; Gemser, Brand & Sorge 2004) However, even small, resource-constrained firms can succeed when operating in foreign markets and are able to access valuable resources through partnerships with other relevant actors. (Hessels & Kemna 2008)

Companies starting their internationalization have been found to favor markets within a low geographical and cultural distance (Fink & Kraus 2007; Gemser et al., 2004; Coviello & Munro 1997), but SMEs have also become a more frequent actor in more challenging environments, such as the emerging markets. A significant development of the past decades is the increasingly important role of emerging markets in the world economy. As most emerging economies have only recently begun to open up to the world economy, there are many opportunities for companies entering these markets. Low production costs have often been emphasized as advantages of these markets, as well as the opportunities arising from the rapidly growing middle class and income levels. (Hessels & Kemna 2008)

London and Hart (2004) argue that a traditional organizational mind-set, partnerships and international business strategies designed for developed countries rarely work in developing countries. Indeed, due to the highly dissimilar business environment compared to developed markets, companies need to reconfigure their offerings in order to be successful in these markets. Low-income markets are characterized by weak economic conditions, including lower income levels, scarcity of specialized services, an inadequate institutional framework, and insufficient infrastructure. The link between the government and business is often closer than in developed

markets, and the importance of personal relationships and networks is high in emerging countries. As has been stated in several studies, partners and networks are prerequisites for doing business in emerging countries, and additionally, SMEs may overcome obstacles related to resource scarcity by building networks with relevant actors. (Reficco and Marquez 2009; Rivera-Santos and Rufín 2010; Sanchez and Ricat 2010; Schuster and Holtbrügge 2012)

Taking these characteristics into consideration, companies need to carefully analyse and understand not only the local business environment, but also the cultural, political and environmental contexts and adapt their operations accordingly. (Reficco and Marquez 2009; Rivera-Santos and Rufín 2010; Schuster and Holtbrügge 2012)

1.2 India as a Target Market

The Indian market is generally considered challenging what comes to legislation, bureaucracy and foreign trade, as shown in Table 1. (Kettunen, Penttilä & Kosonen 2012) Comparing the data from 2013 and 2015, it can be noticed that there is an improvement in the business environment regarding the protection of investments and starting a business. On the contrary, especially in getting access to electricity, registering property and resolving insolvency, India ranks lower in 2015 compared to 2012. It is important to take into account that states operate under different conditions which calls for state-level evaluations of the business challenges and opportunities.

The Indian market is generally considered challenging what comes to legislation, bureaucracy and foreign trade.

Table 1. Ease of doing business in India (World Bank 2012 and 2015).

Ease of doing business in India	Rank in 2012 (among 185 countries)	Rank in 2015 (among 189 countries)
Starting a business	169	158
Dealing with construction permits	183	184
Getting electricity	99	137
Registering property	97	121
Getting credit	23	36
Protecting investors	46	7
Paying taxes	149	156
Trading across borders	125	126
Enforcing contracts	184	186
Resolving insolvency	109	136
Overall rank	132	142

According to a report concerning India as an operational environment for Finnish companies (Korhola, Penttilä, Shimizu, Kerola, and Kosonen 2008), it is the public sector that causes the most challenges for Finnish companies operating on the Indian market. Especially the following are highlighted: the legislation and judicial system, heavy bureaucracy, corruption, non-transparency of authorities, partial distrust towards foreign companies and weak infrastructure.

To handle these challenges, companies try to build relationships with different Indian stakeholders, utilize the expertise of local personnel and consultants, and reserve enough resources for long processes. The companies can choose locations in states most favorable to business operations and try to minimize the risk of legal

Relationships are in the core of business.

disputes by negotiations and contracts. What comes to infrastructure, the companies can prepare themselves for cuts in electricity and telecommunications by setting up reserve systems. (Korhola et al. 2008)

Related to work force, Finnish companies have faced challenges in the availability and motivation of personnel, as well as the company's responsibility for its employees. Also seniority-based hierarchy, the caste system and differences in communication styles raise questions among the companies. Providing competitive salaries and demanding tasks, career paths and possibilities to work abroad are mentioned as ways to overcome these challenges. Local employees can help in forming teams in order to take the seniority and caste aspects better into consideration. Improving company familiarity in India and corporate social responsibility that covers not only the employees, but also their families and the society as a whole are also mentioned as ways to address work force challenges. (Korhola et al. 2008)

With respect to relationships with local companies, the following challenges were brought up: finding reliable partners and subcontractors, quality problems of Indian subcontractors, and the fierce and partly dishonest competition. A thorough background search is always needed when looking for partners and building networks. Existing partner networks can also be acquired through acquisitions. It was pointed out that it is essential to invest in maintaining relationships in India. The services of the embassy can be used to open doors to Indian large companies. Constant quality monitoring is important as well as good relationships with subcontractors in order to reduce quality problems. (Korhola et al. 2008)

Considering the tight competitive market, challenges mentioned were too high price level of Finnish products, pirate copies and unforeseen renegotiations of contracts initiated by the Indian party. The companies underlined the importance of continuously improving competitiveness, fast R&D and tailoring the offering when striving to meet the market needs and local price level. (Korhola et al. 2008)

The Swedish Chamber of Commerce in India conducted a survey in 2014 among Swedish companies based in India. According to the majority of the companies that participated in the survey, the business and investment climate in India is more favourable compared to the year before. The size and potential of the Indian market, GDP growth, infrastructure improvements and revised government policies are seen as key drivers for setting up a business in India. And for starting manufacturing and product development in India, the proximity to market and lower production costs are the main motives.

Continuous improvement of competitiveness, fast R&D and tailored offerings highlighted as success factors.

The companies perceive the quality of their product, innovative technology and strong brand recognition to be their competitive advantages on the Indian market. The majority of companies continue to identify bureaucracy and corruption, taxation issues, import regulations and custom duties to be the most significant challenges when doing business in India. Also Swedish companies have encountered challenges related to the unavailability of labor with the right skill set, retention and increasing salaries.

2. Purpose of the Study

The main objective of this study is to increase understanding of the internationalization of Finnish small and medium-sized companies to India. The study comprehends nine depth interviews with Finnish SMEs. The managing director or other representative of the management in nine Finnish SMEs operating in India were interviewed either over the phone or face-to-face. These companies met one or more of the criteria of SMEs at least at the time of setting up their business in India. The interviews were semi-structured open-ended theme interviews, which allow the respondent to recall his/her own experiences and the freedom to bring into discussion matters estimated relevant by him/her. The interview data was grouped according to themes that provide relevant information about the research topic.

The interviews generated information related to what kind of motives the companies had for the establishment, what entry mode was chosen and why, and how the companies describe their own competitive advantage and the market competition in India. Additionally, the topics covered early phases of establishing operations in India, what kind of challenges and barriers the companies have encountered and how they have overcome them. Lastly, the respondents described the success factors that enable Finnish SMEs to operate successfully on the Indian market.

The report depicts internationalization stories of nine small and medium-sized companies.

The companies interviewed operate in various fields and they have established operations in India largely between 2009 and 2012. They are located in different parts of India, mainly in the regions of Delhi, Chennai and Mumbai. These regions are major growth centers in India and are also important locations for Finnish companies.

Why India?

Huge market ...

Low costs ...

Emerging opportunities ...

The true stories of nine Finnish SMEs

3. Preparing for the Indian Markets

This chapter discusses the motives of the companies to look for opportunities and start operations in India as well as what kind of background preparation the companies did prior to the entry.

3.1 Motives for Entering the Indian Market

The motives of the companies for entering the Indian market varied and each company mentioned more than just one motive. Table 2 lists the factors that were identified as motives for the interviewed SMEs to establish operations in India.

Table 2. Motives for entering the Indian market.

Motives for entering the Indian market
The growth potential of the market
Following the current customer
Lower costs
Recruiting personnel
No growth possibilities on the Finnish market
The potential of markets close to India
Enhance company image
Support local distributors/easier to find local distributors
Grasp the business opportunities in India better

The huge growth potential of the market was a prominent motive for the companies. The growth had slowed down due to the global recession and had not met the sometimes very high expectations. The growth is, however, anticipated to increase. One reason being the new Prime Minister and government who have expressed their intention of reviving the Indian economy. One respondent said that their company was a bit late on the Chinese market and they wanted to make sure that the same would not happen on the Indian market. In addition, the ability to

provide better and faster service for current customers that already were present on the Indian market was brought up as a motive for establishing operations in India. The existing customers are often not enough for doing viable business and thus there is a need to search for new customers once the company has established on the Indian market. To be able to lower the cost structure and in this way increase competitiveness was also one motive for entering India.

One of the interviewed company representatives had experienced difficulties in recruiting competent personnel in Finland and therefore outsourced some activities to India. Another company stated that there were hardly any growth opportunities to foresee in Finland and therefore the company searched for opportunities in India. In addition, the future potential of areas close to India, like The Middle East, and Indian communities for example in Africa, was regarded as a motive for establishing operations in India.

Local presence attracts customers and distributors, and enables better and faster service for customers based in India.

The companies see business in India as a way to enhance the company image in the country, as local presence attracts customers and distributors. Moreover, when you are present on the local market, you are also able to better support your distributors. One respondent mentioned as a motive of setting up business in India that they wanted to see what is going on in India and to be able to better grasp business opportunities when they arise.

3.2 Background Research for Entering the Indian Markets

The majority of the respondents used the services of an expert organization when preparing their entry to the Indian market. The organizations mentioned were Finpro, Finnpartnership, Finnfund, Finnish Embassy and Honorary Consul in India. In addition to these, Team Finland as a whole was also mentioned. Each of the companies interviewed had done their own background research and analysis prior to entry, as much as possible from Finland. Some had themselves previous experiences from the Indian market, others had discussed with people with expertise of and knowledge from India and some had even traveled to India to do background work on the spot.

The combination of own research and support from export organizations is a favorable way of creating knowledge of business in India.

From Finpro, the companies had received information regarding the market (market analyses), assistance in administrative issues (e.g. in setting up a business in India and in registrations) and in building networks. Finpro is seen as a good partner that is easily approachable. Finnpartnership and Finnfund provide mainly funding for investments and for market entry. Regarding Team Finland, comments received were related to the often high price and bureaucracy of the services, but it was also stated that there are good ideas and that it is recommended to use their services. One comment was that they would have needed more information on the unwritten business rules and “red tape”.

4. Early Stages of Establishing Operations in India

In the early stages of establishing operations in India, the company needs to make decisions related to the entry mode and finding the right partners, which has been found especially important in the Indian context.

4.1 Entry Modes

The choice of entry mode is one of the prominent questions when a company is planning to internationalize. It is to be considered, what are the requirements related to each entry mode in India. The interviewed SMEs had chosen different entry modes for entering India, namely the following: wholly owned subsidiary, liaison office, joint venture and exporting. In general, the companies experienced that their choice of entry mode had been the right one for them.

A **wholly owned subsidiary** was chosen in order to be able to decide by oneself how to set up the operations, build the organization, and choose the equipment and software. Also, one respondent stated that there is no added value in a joint venture if you already have existing customers operating in India.

Entry modes depend on reason to be present in the markets.

A **liaison office** was chosen primarily for supporting local sales and distributors. According to one respondent, with a liaison office they are present on the market and can observe how the market is evolving. A liaison office is a good way to get to know the market and be present

locally, which can be a significant competitive advantage. Another respondent said that they wanted to be present but not set up a subsidiary, as they are cautious in their expansions.

Joint venture was used as entry mode as well. Joint ventures have required extensive search for partner companies around the country. One company had changed the partner as well, as it had not worked with the first option.

Some companies saw **exporting** as the most suitable entry mode, at least to begin with. Also exporting from India to third countries is seen as an opportunity at a later stage.

4.2 Finding Partners and Creating Networks

Partners and experts from different fields are required to make things work in India, stated one respondent. Another respondent expressed that networking really works in India. If you talk with someone, you get to meet many others through his/her networks. Doors open easily in India, people are happy to help. As English is spoken commonly, it is easier to communicate than for example in China or Russia. It was also emphasized that you must go to India and familiarize with the industry actors and find out the rules of the game. This cannot be done from Finland.

Some of the interviewed SMEs have needed and created local subcontractor networks. It had required an active search process, a thorough analysis, and “trial and error”, as one interviewee stated. Subcontractors related to manufacturing have been audited and validated by the companies. Also finding suitable distributors has required an extensive search process by the companies. One respondent said that in the beginning one needs to be really active when looking for agents or distributors, but as the business grows, potential distributors start to contact the companies.

Helpful people and English as a common language facilitate partnering.

Banks and insurance institutions needed in running the business have been found based on e.g. experiences of other Finnish companies operating in India, or on recommendations from Finnish banks. One respondent stated that Indian banks have been most cumbersome and time consuming, as their bureaucracy has been arbitrary.

Lawyers, recruiting companies and accountants as well as other experts needed (e.g. customs) have been found, among others, with the help of Finpro networks. When doing business in India, the role of the government cannot be overlooked. One respondent finds it more

straightforward to work with the government than with the banks, as with the government a company can follow standard procedures.

5. Challenges and Possibilities on the Indian Market

This chapters covers, on one hand, the challenges the companies interviewed have encountered on the Indian market, and on the other hand, factors that provide them competitive advantage when operating on the Indian market. In addition, the companies give their view on what are the success factors of Finnish companies on the Indian market.

5.1 Challenges on the Indian Market

Based on these interviews, seven challenges were identified (Table 3). Each challenge is discussed briefly in this chapter.

Table 3. Challenges encountered on the Indian market.

Challenges encountered on the Indian market
Price competition
Personnel
Bureaucracy
Corruption/bribery
Judiciary/laws
Infrastrucutre
Partners
Financial issues

All of the interviewed companies emphasized the fierce **price competition** as one of the biggest challenges. On the Indian market, there are both Indian companies, as well as European and American companies competing for customers. According to one of the respondents, India is the

most challenging market by far. Another respondent said that India is an enormously price sensitive country and that the customers look for the cheapest possible price. You have to be prepared to lower your own margins. For India you need own pricing where the local price level is considered. However, according to the experiences of one respondent, there are always customers that are prepared to pay higher prices, if they need the best product. One specific feature of the Indian market is the tender procedure, where the Government of India is the end customer and the lowest bidder wins the deal.

As a rule, the turnover of the companies' **personnel** in India has been high. Companies need to compete with salaries and other benefits in order to attract competent work force, which increases costs. In India it is important that the company takes care of its personnel. Some of the respondents said, however, that the turnover of personnel has slowed down. Training the staff is very important, related both to machines and equipment as well as quality and environment. It is essential to find key personnel that can be trusted and that look out for company interests.

Indian staff expects proper salary and benefits, training, clear instructions and management.

Attention must be paid to managing and instructing the personnel, e.g. the instructions and documents need to be more specific than in Finland. The personnel do not necessarily ask even if something is unclear. It was emphasized that local superiors know better how to manage when the personnel have different values and beliefs and belong to different castes. People from different castes do not necessarily communicate with each other. It was also mentioned that the operative co-operation with distant teams, for example how to make sure the information flows to all team members in both Finland and India, is to be taken into consideration. Some companies estimated that Finnish expatriates are so expensive that they cannot afford them, even though it would be beneficial. On the other hand, some respondents said that the target is that local people manage the local factory in the long run.

Bureaucracy is also often cited as one of the most demanding challenges. An extremely bureaucratic country, the paperwork related to starting a company is highly demanding, stated one respondent. Another respondent noted that one needs to know how to operate with the officials, and if the company lacks the knowledge itself, a competent partner is required. According to him, it is likely to go wrong or it will be extremely time-consuming if you try alone, as the procedures differ greatly

"The laborious bureaucracy is frustrating, but that's the way it goes"

from what we are used to in Finland or other Western countries. One respondent argued that the laborious bureaucracy is frustrating, but you need to accept and adapt to the Indian way of doing things, then it is not so difficult in the end.

Dealing with the customs and banks is often complicated. It takes a lot of time and numerous documents are required. One respondent said that they had products stuck in the customs for a long time as there was always some error in the documents. One respondent described the customs in India as a world of its own and it has required a lot of learning.

The customs require time and persistence.

Corruption and bribery is said to be very common in India, but something that the companies cannot take part in, according to the SMEs interviewed. Some respondents said that very often authorities are expecting a payment from the companies before participating in a tender or a project. One respondent said that as they cannot participate in bribing, they need to find other justifications why the customers should buy their product. Another stated that they are prepared for things proceeding more slowly when they do not take part in bribing.

Related to **laws**, one respondent stated that sudden changes in the way laws and regulations are interpreted have been challenging, as it has resulted in starting the process all over again. The **judiciary** was regarded as not operating properly all the times, but only one respondent had had troubles with the judiciary.

Lack in **infrastructure**, for example the frequent electricity cuts and the condition of roads are named as challenges that Finnish SMEs must be prepared for. One respondent also mentioned the challenges the climate poses for machines and equipment; they might

Products need to be tested in a different climate.

not work in the same way as they do in the Finnish climate. Thus, it could be taken into account that more testing is needed and it may take longer before the production is up and running.

Related to **partners**, finding reliable ones and creating relationships with them was seen as challenging, even though networking is considered to work well in India. One respondent said that they are now working with their third partner, as the co-operation did not work as anticipated and agreed with the two previous ones. Another respondent pointed out that they choose to focus on one single distributor with whom they develop the operations, instead of

expanding their business with the help of several distributors. The backgrounds of potential partners need to be verified.

Other challenges mentioned are related to financial issues. The costs rise fast and the inflation rate is high, and it may take time before a company receives any profit from the business.

5.2 Competitive Advantage of the Companies Interviewed

Finnish SMEs cannot compete with price, so they need to find other competitive factors, which is worth the additional price, as one of the interviewees mentioned. The respondents saw that their company offerings have many advantages, which makes it possible to do business successfully on the market based on something else than the lowest price. These are listed in Table 4.

Table 4. The competitive advantages of the interviewed Finnish SMEs.

The competitive advantages of the interviewed Finnish SMEs
Technical superiority/own innovations
Focus on a niche market
Quality and reliability
End customer support
Known brand, company image
End-to-end solution, complete system
Improve processes as a partner
Experience gained of the market
European know how and way of operating
Customs duty
Environmental standards

According to the respondents, they often have some technical advantage, or an innovation that the competitors are lacking. Finding a narrow segment where the competition is less intense and focusing on that segment has also proved to be a way to operating successfully in India.

Moreover, quality and reliability are seen as providing a competitive edge, as well as being able to offer a complete, end-to-end solution instead of a simple product. One respondent said that Chinese and Indian competitors have started to copy their product. According to this respondent, Indian and Chinese competitors are able to copy simple products, but only very few are able to offer a complete solution.

One respondent emphasized that they improve the customer's processes as a partner and not just simply sell a product, which they see is an asset in the competition. A known brand and experience gained due to early establishment on the market are also seen as

Success means that you need to be better than your competitors in a unique way.

advantages against competition. In addition, European know-how and way of operating are means to stand out from the competition. It was also highlighted that sales is personal, which requires that a company representative is on the spot if they want to make it in the competition. Avoiding customs duty when the company is present on the market as well as environmental standards that will be applied more and more in the future, were also mentioned as factors bringing competitive advantage for Finnish SMEs.

In connection to competition, also the question of adaptation of offerings emerged. Some respondents stated that the offering is explicitly the same in India as in other markets. The reasons for this are that large multinational companies require the same quality in all markets and that their competitors do not modify their products, either. Some companies do some modifications so that the offering is applicable to the Indian markets. Others use components that do not reach the same quality level as in Western markets in order to be on the required price level. In some cases the customers in India are not ready to pay for Western quality but a more downgraded version is more suitable for the Indian market.

5.3 Success Factors for Finnish SMEs on the Indian Market

In spite of the fiercely competitive market and many challenges, the SMEs interviewed find that Finnish SMEs can operate profitably in India. Based on the interviews, the following success factors can be identified (Table 5).

Table 5. Success factors for Finnish SMEs on the Indian market

Success factors
Patience and faith
Prepared to invest both financially and mentally
Committed key personnel (both in Finland and in India)
Training of personnel
Finding the right partners
Understanding the market and the customers
References
Paying customers from the beginning
A business plan at least for 5 years
Parent company's support and network

Quoting one respondent, "India is full of delays and obstacles. There will certainly be setbacks at some point". A company can try to anticipate and prepare, and learn from other companies' experiences. There still will be surprises and the company must act according to the circumstances. Patience is required as matters do not proceed in the way we are accustomed to in Finland and many other markets. If a company aims at the Indian market, it must be prepared to invest time, money and effort.

The role of the personnel was emphasized by most of the respondents. Recruiting local key personnel that can be fully relied on is crucial. A company needs both experienced seniors who can keep the demands from authorities in proportion as well as highly

Prepare, learn and be patient – in addition, be ready for surprises.

educated young people who are eager to learn and work hard for the company. One respondent stated that it is beneficial to have women in the teams as well, but it is more difficult to get women to work in shifts. Among the multitude of applicants, finding these people is a demanding task. One option is to use Finpro's networks in recruiting key personnel. Training is important for the employees and it is also expected. One respondent highlighted that the personnel both on

the Finnish and Indian side is the key to successful operations in India. Some of the interviewed companies also brought up the high expenses of Finnish expatriates in India. Even though it would be beneficial to have a company representative from Finland working in the Indian office, the cost of an expat is so high that it was not financially viable.

Finding the right partners is crucial for operating in India, as has been stated earlier. A company needs experts in many different matters to be able to do business in India. One respondent described that the logic of doing business in India differs from that in Europe and you need to understand the market and customers, and how business is done in India, and then adapt accordingly. The importance of references is underlined. References are required in order to be a credible business partner in India. One of the interviewees stated that paying customers, cash flow, are needed right from the beginning. In the case that the company does not have existing customers that operate in India, it could start with exporting before establishing a local branch. The Indian operations are long term investments; a business plan at least for 5 years is required, a shorter time span is not feasible for India.

According to one respondent, it is important to have the full support of the parent company and that the networks of the parent company can be utilized. In their case they have been able to benefit from their European subcontractor network efficiently and have gained trust on the Indian market that way. To conclude, quoting one respondent: “You got to have faith and believe in your business”.

“You got to have faith and believe in your business.”

6. Conclusions

This paper has discussed India as a target market for international operations of Finnish SMEs. It started by giving a brief introduction to the internationalization of SMEs towards emerging markets and to India as a target market, focusing especially on the point of view of Finnish and Swedish companies. Following, the contents of the interviews of nine Finnish SMEs operating in India were presented.

SMEs are increasingly involved in international operations also in developing countries, such as India. India, being remote both geographically and culturally, also challenges SMEs aiming at the market. In addition, there is a great deal of competition on the Indian market, with players

from both Europe and USA in addition to domestic companies. Nonetheless, there are many advantages to be tapped into also for resource-scarce SMEs.

According to the companies interviewed, there are many motives for establishing operations in India besides cost benefits, which has most often been emphasized as an advantage of doing business in India. The foremost advantage highlighted is in the huge market base and anticipated growth of the Indian economy. Additional motivating factors are related to the availability of competent and low cost work force and the possibility to grasp new business opportunities faster when they arise. Presence in India also enables the companies to provide better and faster service for existing customers on the market as well as better support for their distributors and to build a stronger company image.

For an SME planning to establish operations in India, a thorough preparation is of utmost importance; the homework needs to be done thoroughly. This covers both gathering background information about the market and discussions with organisations that support internationalization of Finnish SMEs as well as learning from the experiences of SMEs already present on the Indian market. Finding the right partners to do business with and investing in creating trusted relationships and networks of relevant actors are key questions. In order to succeed in the competition, the own offering and value proposition need to be in place and clearly defined. Finnish SMEs assess that they have many advantages that makes it possible to do viable business in India. These are often linked to technical superiority, quality and reliability of own offering. In addition, the companies highlighted the ability to provide support and offer complete systems, improving customer processes as well as choosing a niche market strategy. A known, reliable brand was also mentioned as an advantage.

Value propositions need to be in place when entering India.

The SMEs have encountered many challenges on their way to the Indian market. These are for example fierce price competition, work force issues, heavy bureaucracy and corruption. Also many challenges related to the judicial system, infrastructure, partners and financial issues were mentioned. Finally, the SMEs interviewed identified success factors for the Indian market. Long term planning and ability to invest both time and money is required. Also finding the right partners, networks and personnel, understanding of the local market and customers were mentioned as success factors. Moreover, it is important to acquire first references to gain credibility on the market, and to have the full support of the parent company. Lastly, the companies entering India need to have patience and faith in their own business.

This study provides background for further studies and raises some potential future research topics. For example, a larger quantitative study should be conducted among Finnish SMEs operating in India to verify the generalizability of the results among SMEs. Also expanding the target group to larger companies in order to find out, how the perceptions of SMEs and large companies differ, would generate more understanding of the international operations of Finnish companies in India.

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