

Corruption's Effect on Swedish Companies' FDI in India

A study of how Swedish companies perceive and handle corruption on the Indian market

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ABSTRACT

This study focuses on the effect of corruption on Swedish Foreign Direct Investment (FDI) in India. In the last years, India's economy has been booming; the country is in a phase where it has great opportunities to develop and enforce its' economy, and therewith change the faith of millions of people who are still suffering of poverty. As a way to develop a nation, FDI can be seen as a long term commitment from a country to another that drives a long-term change. But companies establishing businesses in India are facing bureaucracy, slow infrastructure developments and high levels of corruption. This report focuses on the latter, and is based on the research questions: is corruption an entry barrier for Swedish enterprises? How are Swedish companies handling the high levels of corruption on the Indian market? Is corruption on the Indian market hindering FDI from Swedish companies? The study has been performed using a qualitative method with an exploratory approach to address the complexity of the problems. Personal interviews have been conducted and supplemented by secondary data. The findings are not pointing at any particular effect of corruption on Swedish companies' establishment in India: it is not perceived as a major hinder. Furthermore, findings of this report indicate low levels of anti-corruption programs and a lacking knowledge of the OECD convention, although Swedish companies are handling the high levels of corruption in other ways, and that production companies in general are face a higher risk of corruption. The conclusions of this report further confirm previous research; bureaucracy is the major obstacle on the Indian market. It was also found that it is possible that corruption on political level in India affects Swedish FDI since it can preserve the high level of bureaucracy.

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1. INTRODUCTION

1.1 Background

India is a country in development. The country has been independent since 1947, and in 1991 a major reformation of its economic system was performed; India went from a combination of planned and mixed economy to an open economy that has gradually been more and more liberated (UD, 2012). The Indian economy is growing fast; in the latest years the growth rate has been 7-9% (UD, 2012), which is one of the highest growth rates in the world at the moment (Sida, 2012). India has now become one of the largest economies in the world; only China, Japan and the US are larger in terms of spending power (UD, 2012). As a consequence of the recent economic development, millions of Indian citizens have been lifted from poverty (Ershammar, 2011).

Despite the positive development, India is still regarded as a developing country with huge social contrasts. Extreme poverty and extreme wealth coexist, side-by-side, and more than 260 million people live below the poverty line (UD, 2012). India needs to address a number of factors to continue the positive development. The situation implies a substantial need of further development and India is consequently facing big challenges. According to UD (2012), India needs more efficient resource utilization, continued reforms, increased investments and economic growth to continue in the same direction.

Promisingly, India is in a situation that offers great opportunities to tackle the need of increased investments and economic growth. The fast growth of India's economy has captured a lot of interest on the global market. Export companies find the Indian market very attractive since other large economies, e.g. Europe and the US, are slowing down (Ershammar, 2011). In the South Asian region, India is the country that receives the largest amount of foreign direct investments, so called FDI; the country receives four fifth of the total FDIs in the region. During 2011 India's inflow reached 32 billion dollars compared to Iran and Pakistan, which received 4.2 billion and 1.3 billion dollars respectively (UNCTAD, 2012).

Sweden is a good example of a country with a high interest in India. Many enterprises are interested in India and the investments are increasing. Today, there are 156 Swedish enterprises

present on the Indian market, for example: Volvo Trucks, SKF, Sandvik, Ericsson, ABB, Astra Zeneca and Atlas Copco (Svd, 2012). In 2011 the Swedish export to India was worth 13.5 billion SEK (Svd, 2012). However, only a small part of India's total import comes from Sweden. In 2007, Sweden was the 21st largest exporter to India, and answered for about 1% of India's total import (Swedish Trade Council, 2012) Furthermore, about 3.5% of the total number of foreign companies present on the Indian market was Swedish (Swedish Trade Council, 2012). Nevertheless, two new Swedish enterprises are establishing their businesses in India every month (Svd, 2012). SCA and IKEA are examples of enterprises that are about to enter the Indian market at the moment. IKEA is on its way to make an investment of 1.5 billion Euros, which would be the largest foreign investment in India's retail sectors that has ever been made (The Economic Times, 2012a).

The Indian market is however not easy to enter, and the hottest topic on the Government's financial agenda at the moment, fall 2012, is FDI in retail. Foreign retailers in single brands are welcome to 100% whilst only 51% of the multi-brand retail sector, since small traders would be outcompeted otherwise (Economic India Times, 2012). India also has regulations about company size of suppliers to FDI. They have to be small and medium enterprises (ADB, 2012), which do not suit IKEA's business model. IKEA is therefore planning to make its investment in two steps to lower the risk (The Economic Times, 2012b).

Due to problems like this the Indian economic growth has slowed down and future FDI inflows could be in jeopardy (UNCTAD, 2012). According to the World Investment Report, the future economic development depends a lot on whether the South Asian region's countries can open up their economies or not and therewith deepen their regional economic integration (UNCTAD, 2012). This is reflected in that India was only ranked as the 31st easiest country to make business with compared to 127 countries all over the world; the US was on 1st place, Sweden on 4th, and Chad on 127th (Swedish Trade Council, 2012). The reason to the relatively low ranking for India could be found in that it is a country with problems in the political system as well as in the social system.

A major political and social problem in India is corruption. India was ranked on the 95th position of the 176 countries in the *Corruption Perceptions Index* (CPI) by Transparency International (2012a), which implies high levels of corruption in the country. In India public procurements are

especially corrupt and bribes are frequently occurring in IT, health care and the arms industry (SvD, 2012). Corruption can briefly be described as paying bribes to someone in order to gain personal benefits. Government bureaucrats can for example be bribed to give permits or investment licenses. India has during recent years faced many corruption scandals, as for example army bribery (BBC, 2012) and mining rights that have been sold for a fraction of its market value (SvD, 2012). What is more, in March 2010, PJ Thomas, head of India's anti-corruption organization, had to leave his position since he himself faced charges of corruption (BBC, 2012).

Bribery is illegal in many countries in the world. OECD (the Organization for Economic Co-Operation and Development) has an Anti-Bribery Convention, which was adopted in 1997 and puts pressure on countries that have signed it to criminalize bribery committed outside of the home country. The 39 countries that have signed this paper, including Sweden but not India, are responsible for three quarters of foreign investment and two-thirds of global exports (Transparency International, 2012b).

Sweden was ranked on the 4th position of the 176 countries in the *Corruption Perceptions Index* (CPI) by Transparency International (2012a), which implies that Sweden is one of the least corrupt countries in the world. According to the secretary general on the Sweden-India Business Council, Robin Sukhia, it is doable to make business in India without bribes if you say no, but you have to be prepared to lose business (Svd, 2012). Today 36% of Swedish enterprises in India believe that they have lost business due to competitors using bribes (Svd, 2012).

But there are examples of Swedish companies that have acted questionably in international business situations. During the fall 2012, it was brought to daylight that the Swedish company Telia Sonera has paid several million SEK to a company with connections to the daughter of the dictator in Uzbekistan, in the purpose to get access to mobile licenses in Uzbekistan (svt, 2012). Consequently, the Swedish government against corruption initiated a preliminary investigation of bribe crime. Furthermore, in the 80s Sweden was involved in a very well-known affair between Sweden and India, "Boforsaffären". The affair involved accusations that the Swedish company AB Bofors was smuggling weapons to India and used bribery to get India to buy weapons. The investigation was however dropped.

Regarding Swedish bribery behavior and its anti-bribery legislation, the OECD, during the summer of 2012, stated that Sweden needs to make a “much greater effort” to enforce it internationally. Even though several allegations have been made towards Swedish companies, only one case has been prosecuted (Transparency International, 2012b). Sweden has handled two cases and one investigation (Transparency International, 2012b). This is a small number compared to other OECD countries, and in Table 1 Sweden is compared to the US. Sweden is about one eighth of the US’ size regarding world exports, yet only working on 0,7% as many cases and 0,9% investigations. If Sweden would have the same level of cases as the US, that would, for the sake of comparison, be 34 cases and 14 investigations.

Table 1: Corruption cases and investigations in Sweden and the US.(Transparency International, 2012b)

	United States 9.6% share of world exports	Sweden 1.2% share of world exports
Cases	275	2
Investigations	113	1

1.2 Problem Discussion

Investors might consider the level of corruption when making an investment decisions and India’s level of corruption can be a crucial obstacle. But it might also not have a great impact depending on the investor’s objective. Nevertheless, a company from a country that has signed the OECD anti-bribery convention risks committing a crime if getting involved in some form of corruptive behavior when establishing their organization in a country with high levels of corruption. Consequently, corruption might constitute an obstacle due to extra costs as well as league risk for a foreign company. In this study it will be further investigated how Swedish companies on the Indian market perceive corruption and if it is considered to be an obstacle for them.

The general view on corruption is that it hinders economic growth and investments. Enterprises theoretically view corruption as an extra cost when doing business, or as a tax on profits; the expected profitability of investment projects in a country with a high level of corruption will therefore be regarded as lower than in a country with less corruption (Al-Sadig, 2009). Earlier research on corruption shows that corruption can discourage FDI from foreign investors, but the findings are ambiguous. It has empirically been confirmed that corruption has an adverse effect

on domestic investment and growth (Mauro, 1995). It has also been found that corruption has a negative impact on FDI (Smarzynska & Wei, 2000), but other studies have not found any substantial correlation between investment expenditures and perception of corruption (Wheeler & Mody, 1992). It has even been shown that corruption may increase the probability for FDI (Henisz, 2000). Hakkala et al. (2012), states that the effect can differ depending on the foreign companies objectives with the investment.

Even though earlier research show inconclusive results corruption has become an increasingly important factor when trading with the developing world and the risk for corruptive behavior is large. In a global fraud survey by Ernst & Young (2012), it was showed that more companies are claiming to act proactively and that they are implementing policies against corruption. There is more and more training and awareness building to reduce the risks, and almost half of all companies in the survey perform due-diligence aiming at anti-corrupt acquisitions (Ernst & Young, 2012). But, the global fraud survey also showed that companies are lacking in knowledge about how to act in order to avoid corruption, and could do more to diminish the risk of corruption and bribery. Many companies do not have procedures to deal with government officials, and companies are lacking of practices to identify parties related to government officials (Ernst & Young, 2012).

Despite Sweden's low level of corruption, corruption occurs in Sweden and Swedish companies. As presented in the Background, there are examples of questionable behavior from Swedish companies in international business, and the OECD has recommended Sweden to strengthen the anti-corrupt unit. According to Bauhr and Oscarsson (2011), norms and apprehensions of what is acceptable behavior risk to slowly change if the amount of citizens that think corruption is a common practice increases, and this in turn risks the increasing of corruption, since the individual can perceive a non-participation in corruption as costly for the personal benefit. Swedish citizens are more tolerant to corruption when it is done in a way of consensus politics than in situations where a citizen is badly treated by officials and has to pay "extra charges". (Bauhr et al, 2010). So, it remains unclear how Sweden and Swedish companies handle bribery in international businesses.

Corruption is however not the only obstacle to the Indian market, there are a number of factors that make the Indian market unavailable to foreign investments. High competition, bureaucracy,

high tariffs, and difficulties when buying land, are some examples of reasons that make Swedish companies find the Indian market difficult to enter (Swedish Trade Council, 2012). These factors can be divided into *business aspects* and *political aspects*. The factor high competition can be considered as a business aspect, and consequently a task for the interested companies to handle if they want to be competitive on the Indian market. Difficulties with buying land and high tariffs can be seen as politic aspects, which the Indian government is responsible for. Bureaucracy and corruption can also be seen as political aspects and a part of the political system in India.

The relations between business aspects and political aspects are however not clear, they interact with each other and create a complex situation. A foreign company that has to pay high tariffs can, for example, have a hard time to compete with domestic companies, which do not have to pay the extra cost. Another example is when corruption can make a market competitive and hard to enter due to the fact that competitors participate in corruptive behavior and another is not being part of that activity. Furthermore, bureaucracy and difficulties with buying land can form bases for corruption. To speed up political processes, such as clearance for example, bribery can be used (de Vaal & Ebben, 2011). This study will further investigate how Swedish investors perceive these obstacles.

So far, corruption has been presented as bad for a country and a society. But that is not always the case; depending on what policies or regulations a company uses bribes to get around it can have both good and bad consequences for the society (ADB), see Table 2. Therefore, corruption might not always be unethical. If the companies are using bribes to get around a bad regulation, it can be positive for society and not regarded as unethical. An example of this is avoiding pollution by bribing to get around a regulation or policy of trash dumping; in that case the regulation is the problem and not corruption. However, if the regulation is good and bribes are used for personal gain on someone else's cost it can be regarded as bad for society and therefore unethical.

Table 2: Corruption can be both ethical and unethical depending on if the regulation is good or bad (ADB).

Regulations	Good	Bad
Policy	Good or bad for society; depends on what the company does to avoid it. Bad because of corruption	Good or bad for society; depends on what the company does to avoid it. Bad because of corruption
Law	Good or bad for society; brings enterprise to court Good for society	Good or bad for society; brings enterprise to court Bad for society

1.3 Research Question

As presented in the background India is in a very interesting situation at the moment; the country has a strong chance to continue its positive development and to pursue economic growth by increasing foreign investments. Although, the Indian market has political and social problems both on the political aspects and on the business aspects that constitute obstacles for Swedish investments at the moment, and corruption seems to be an important factor. But it is not known how potential investors rate the problem with corruption.

Officially, companies claim they are proactive against corruption, but actually they lack important knowledge in many cases. The fact that Sweden is one of the countries in the world with the lowest level of corruption, and has illegalized bribery, should imply that Swedish companies do not use bribery as a part of their business practices and would experience corruption as an obstacle. But there are examples of Swedish companies that have shown questionable behavior with relation to corruption, and it is not clear how corruption affects FDI. According to earlier research corruption can increase as well as decrease the FDI inflows.

It is thereby motivated to study how Swedish companies are handling the high level of corruption when investing in India, and if corruption is a critical obstacle that inhibits FDI from Swedish companies. This study will therefore study:

- Do Swedish companies perceive corruption as a critical obstacle to the Indian market?
- How are Swedish companies handling the high levels of corruption on the Indian market?
- Is the level of corruption in India hindering Swedish FDI in India?

1.4 Objectives

The objective of this study is to contribute to a better understanding of how corruption may affect Swedish FDI to India and how Swedish companies perceive and handle corruption on the Indian market. By doing so the aim is also to investigate whether a reduction of corruption could contribute in further economic growth for India.

2. METHOD

2.1 Research Design

There are two main types of scientific studies: qualitative and quantitative. These can be used separately or in combination (Patel & Davidson, 2011). By combining a qualitative and quantitative method the advantages of each method may respectively be strengthened and the disadvantages may be avoided (Bryman & Bell, 2005).

This study has been performed using a qualitative method. The research questions of the study are to investigate *how* corruption may affect Swedish FDI's to India and *how* Swedish companies perceive and handle corruption in international business, which is a complex problem that involves personal opinions and personal actions from the people working in the companies. In doing so, an explorative research is applied. The qualitative method has therefore been chosen, in order is to create a better *understanding* of the problem, which can be obtained by studying a smaller set of data in its context. The qualitative data has been collected by interviewing private organizations, political organizations and a non-governmental organization. The private organizations are in first hand answering for their own behavior and actions, but the political organizations and the non-governmental organization answer for a how they experience that companies act in general. Thereby, some of the qualitative data may be regarded as representative for a larger context.

The qualitative study has been performed with an exploratory approach. According to Stebbins (2001) exploratory research is used to clarify problems, gather information and generate hypothesis about a subject. It is used when little is known initially and when it is unclear if previous ideas can be applied (Stebbins, 2001). As presented in chapter 1, there are some factors that are known to be complicated when Swedish companies are entering the Indian market. But whether corruption is a critical obstacle or not is not known, and the answer cannot be found in previous research either. To complicate the problem further, there are a number of other factors that can be linked to corruption. An explorative approach has therefore been chosen in order to gather information about the problem and clarify the situation. An initial hypothesis has not been set.

The objective of the study includes concepts that are wide in their definitions; corruption can occur in numerous different forms and are not always clearly identifiable, and FDI is a way to denote diverse types of investments and there can be large differences between different investments. In addition to this, India is one of the world's largest countries and it has many districts with cultural, religious, political and infrastructural differences. The study is performed with a qualitative analysis and the collected primary data is limited and does not cover all of these differences. The method has, however, been designed to address the complexity of the problems presented above. The primary data has been collected through personal interviews, which, according to Jacobsen (2000), is a good way to make the respondent leave information about sensitive subjects. The primary data has also been supplemented by secondary data and knowledge from earlier studies, which complement the result.

2.2 Data Collection

A combination of primary and secondary data has been used in this study. Primary data is collected and compiled directly from the main source, as for example by personal observations or interviews. Secondary data has, on the other hand, already been collected by an external source, as for example by researchers or institutions. According to Bryman & Bell (2005), a conclusion gets as high quality and validity as possible if primary and secondary data are combined.

In this study, primary data has been collected through interviews with private organizations, political organizations and a non-governmental organization in India. Secondary data has been gathered by searching information within the subject of the report and a literature review has been performed. The secondary data has mostly been used in order to understand the characteristics of the Indian market, and gather information about corruption and FDI. The secondary data has also been used for interpretation of the primary data to create an understanding of the problem. The literature review has created a theoretical base for the study, where previous research has been reviewed, and is presented as theoretical framework in the third chapter.

The literature search was performed through databases with scientific articles. Studies related to Sweden and India were chosen if available, and in other cases international studies were prioritized. Keywords that were used in the search included: corruption, institutions, FDI, India,

Sweden, and economic growth. The databases that were used were: Business Source Premier, EDGAR, Oxford Scholarship Online, S-WoBA Scandinavian Working Papers in Business, and Social Science Research Network SSRN. Books including the subject corruption and strategic decisions have also been studied, as well as popular science and news articles.

The organizations that have been interviewed were chosen based on their presence and/or knowledge about the Indian market and culture. The companies were selected through a review of what Swedish companies that had established some operation in India in recent years or are in the process of doing it. One list of the largest companies in Sweden that was present on the Indian market was created and another list of Swedish companies with the largest operations in India was also created. These companies were contacted and it resulted in interviews with four companies and one bank. The political and non-governmental organizations were chosen based on their operations in India. The purpose was to get information about the situation in India and how Swedish companies are handling establishment in India, and a spread of different organizations was prioritized. In India a contact with a private consultant with long experience from business relationships between India and Sweden was established, he was also interviewed in the purpose of getting the perspective from an Indian businessman. The interviewed companies, organizations are listed in Table 3. The interviewed persons' position in the company/organization and earlier experience are also listed in the Table 2, as well as the circumstances for the interviews.

Table 3: Interviewed companies and organizations, interviewed persons' position and earlier experience, as well as the circumstances for the interviews.

	Position in the company	Experience	Circumstances of the interview
Bombay works	Managing director, Swedish	Has former experience of business in India, managed BW for a couple of years.	Lunch at Leela hotel
Nepa	CEO and partner, Swedish	Has former experience of studies in India. Established the company in India. Develops the business in Asia.	Brunch at the Yoga House
Marketing company	Regional manager, Indian	Experience from American companies, Used to the Indian market.	The manager's office
SCA	Business development director, Swedish	New to the Indian market, has worked for the company for many years.	Tea at the Hyatt hotel
Scandinavian bank	Chief representative, Indian	International banking experience,. Used to the Indian market.	The office's group activity room
Private consultant	Consultant, Indian	A lot of experience in the Indian and Swedish market.	The consultant's home
Swedish Trade Council, Indian	Project manager	Experience of the Indian market.	Group activity room
Asia Development Bank, Indian	Development economist	Experience of the Indian market.	Group activity room
Swedish Embassy in Delhi, Swedish	Embassy counsellor	Experience of different markets. International experience.	The counsellor's office
Swedish Consulate in Mumbai, Swedish	Consulate general	Experience of different markets. International experience. New to India.	Tea at the Hyatt hotel
Transparency International, Indian	Executive director	Experience of the Indian market.	Tchai in the sun, outside the office

11 interviews have been performed in this study. Six interviews have been performed with private organizations; four Swedish companies in India, one Scandinavian bank in India, and one former consultant from India. One company and the bank are anonymous. Four political organizations have been interviewed; the Swedish Trade Council in Mumbai, Sweden's Embassy in Mumbai, Sweden's Consulate General in New Delhi, and the Asian Development Bank. One non-governmental organization has been interviewed; Transparency International in New Delhi. All interviews with organizations refer to the organizations and the persons who are interviewed are anonymous.

In the initial phase of the study it received the scholarship SIDA MFS - Minor Field Studies, which gave financial support for traveling and living expenses in India, and through consultation with SIDA; authority under the Swedish Foreign Department, the approach of the corruption

concept was derived. Corruption can be a sensitive subject and the interviews had to be adapted in line with that.

The interview questions were derived in consultation with Åke Magnusson, Project Leader at Global Forum; an organization that through conferences creates discussions about globalization, including world trade. The interviews were constructed to approach corruption in a non-threatening way. The interviews focused on business practice, organization culture and business methods, in the purpose of finding potential platforms for corruption. This approach gave a framing for the interviews and conversations, and at the end a direct question about corruption was asked. Identical interview questions were used to all Swedish companies and the Scandinavian bank in India, to enabling comparison between their answers. The questions targeted their experiences from entering the Indian market. The questions for the political and non-governmental organizations were similarly formulated, but adapted to suit each organization. These questions were also wider, in order for the organizations to answer how they perceive the situations for Swedish companies and in general. The questions can be seen in Appendix 1.

2.3 Data Analysis

The primary data from the interviews was reviewed and based on the theoretical framework and the objective of this study relevant data was filtered out and is presented in chapter 4. The answers from the companies and the bank were also summarized in a table, which is schematically shown in Table 4. This was made with the purpose to enable a comparison between the answers and potentially identify similar behavior and opinions. Answers from the political and non-governmental organizations were then used in order to either confirm or question the answers from the companies and the bank. They could not be compared with the companies and the bank since the questions they were asked had to be adapted. Different questions were used in the interviews in order to be able to extract as useful and relevant information as possible to fit the particular purposes of each organization. The information gathered through the personal interviews was then compared to the information from the secondary data and the theoretical framework.

Table 4: The primary data will schematically be summarized in this table.

	Private Organizations					
	How were your business and establishment opportunities on the Indian market assessed?	What is your experience of differences in business culture and business practices between India and Sweden?	How, and on what bases, was the decision for establishment in India made?	How were your entry barriers to the Indian market assessed?	Did you experience any obstacles during the establishment?	It is often said, corruption is a major business pattern in India, and how have you encountered that in your business practices?
Bombay Works						
Nepa						
Marketing Company						
SCA						
Bank						

2.4 Validity and Reliability

A study's validity and reliability reflects how well the study actually is studying what it is intended to and if the measures are consistent (Jacobsen, 2000). Reliability is mostly used to describe quantitative studies, since it reflects to what extent repeated trails gives the same result (Jacobsen, 2000). Validity is on the other hand used to describe qualitative studies, and refers to how accurately the study assesses the researchers chosen concept (Jacobsen, 2000).

Validity can be divided into internal validity and External validity. Internal validity is about the validity of the results, and reflects intersubjectivity rather than truth; the closer you may come to the truth is when several people have a common viewpoint on a certain notion or description (Jacobsen, 2000). Internal validity is examined by controlling the result to other results and by critically analyzing the results oneself (Jacobsen, 2000). External validity reflects to what extent findings from a study can be generalized and constitutes a base for further discussion and research (Jacobsen, 2000).

The internal validity of this report can be considered to be relatively high, since the interview results from the different companies and organizations are in-line with each other and the primary data are consistent with the secondary data. The report also has external validity, since it includes a relatively large number of interviews with different companies and organizations, which makes

it possible to generalize the result. It can also be used as a platform for dialogue and as a start for further studies.

There has been no recording during the interviews, in order to make the interviewed more comfortable and not risking direct quotations; this can have affected the validity of the study. Some interviews were written, using pen and paper, and afterwards transferred to a computer. This method has some positive aspects for the type of data collection we have been performing: it is a way to make people comfortable. It is however not 100% reliable in terms of specific answers and quotations, since personal interpretation has had to be used when converting the information from spoken word to main points, and finally written text. It took between one-five hours after the interviews before the answers were documented in digital form, and remembrance of details is said to decrease in the first hours after a conversation. This might have affected the validity and the interview result. For some interviews, a computer was used to directly write down what was said during the interviews. That enabled faster writing and no additional transformation after the interview was required, which may give a high validity.

3. THEORY

3.1 Definitions of Corruption and FDI

3.1.1 Corruption

The general view of corruption is that it counteracts democracy and democratic institutions; it hinders economic development and affects the governmental stability of countries. It distorts electoral processes, hinders the stabilization of the rule of law, and creates a bureaucracy that functions through bribery (United Nations, 2012). The World Bank (2012) states that a reduction of corruption is highly related to economic development, and combating corruption is a very important part of the Bank's general objective and mission to reduce poverty.

In a broad perspective corruption can be viewed upon as when behavior is characterized by lawlessness to secure a benefit, examples of corruptive behavior are extortion, bribery, and abuse of inside information (Oxford Reference, 2012). Corruption is, however, a wide concept that occurs in many different forms. Many different acts of citizens can be used to exemplify the wide range of shapes corruption may occur in. Corruption occurs in the private sector as well as the public sector, and the definition can include corruption of the criminal justice system, by for example testimonials by ordinary citizens, which are not truthful (Standford, 2012).

A common way to describe corruption is misuse and abuse of public resources for private gains, as for example monetary, social or material gains. Corruption can be seen as an entire stretch of acts; with bribery at one end and nepotism at the other and nepotism is considered to be distinctively different from bribery since mutual exchange of favors does not need to occur (Standford, 2012).

It can be difficult to identify different types of corruption and distinguish it from other cultural phenomenon. Identifying bribery is for example more plausible than identifying legal or moral corruption (Standford, 2012). It may also be difficult to separate corruption from gift-giving, which is common in many cultures, and it can be hard to draw the line between acceptable and unacceptable gift-giving (Britannica, 2012).

As corruption is happening within such a wide range of different areas, defining the different kinds of corrupt acts can be done implicitly by notations given in much of the literature that

studies it. In the economic sphere a corrupt act is essentially when a legal offence is conducted (Standford, 2012). This includes many economic crimes, such as bribery, insider trading, and fraud, but as stated above many cultures have a tradition of gift-giving and therefore no law against exchanging services, which complicates the identification and notion for corruption.

Henceforth, acts that are legal can be corrupt and corruption can be seen as a moral phenomenon rather than a legal phenomenon. Sometimes the financial reward is not what concerns people who occupy positions of authority; rather, it can be the desire to exercise power itself. There are many different kinds of attractions that explain corruptive behavior: economic gain, status, sexual gratification, or power. (Standford, 2012)

The definition that has been used in this study is that in the economic sphere a corrupt act is essentially when a legal offence is conducted, such as bribery, insider trading, and fraud. The cultural aspect is however also of importance.

3.1.2 FDI

Investments in a country can be denoted *Foreign Direct Investments* and is often referred to as FDI. Both Initial and subsequent capital transactions between the two entities as well as associated enterprises are included, and the objective of FDI can be described as; obtaining a lasting interest of a direct investor in one economy by a direct investment enterprise in another economy and therewith building long-term relationships (OECD, 1996).

3.2 Corruption, FDI, and Economic Growth

3.2.1 Relation between Corruption and Economic Development

It has been shown that the institutional environment affects the relationship between economic growth and corruption (North, 1990). Corruption will only affect economic growth negatively if political stability is above some threshold value (de Vaal & Ebben, 2011). This implies that corruption can be good for economic growth if the political stability is low and bad for economic growth if the political stability is high.

3.2.2 Relation between FDI and Economic Development

Studies have shown that FDI can affect economic growth positively, and one important factor is job creation; the effect depends on both job creation in domestic firms as well as the amount of jobs in foreign firms (Karlsson et. al, 2009). Another important factor for FDI to affect economic growth positively is the level of political corruption in the receiving country; it has been shown that there is a causal link from FDI to financial development in countries with a high level of political corruption (Kholdy & Sohrabian, 2007). FDI in a country with a high level of political corruption will affect the financial development positively (Kholdy & Sohrabian, 2007). It has also been shown that FDI in India has been positive for the country, according to the report *Foreign Direct Investment in India: A Critical Analysis of FDI from 1991-2005*, written by Singh (2005), FDI in India have gradually increased and during the period 1991-2005 it became one of India's main success factors.

3.2.3 Relation between FDI and Corruption

Earlier studies have also shown that corruption can have detrimental effects on growth as they can lower investments (Mauro, 1995; Wei, 2000), and it is known that half of all foreign investments are eaten up by corruption in Bangladesh (Stevenson, 2003). The United Nations (2012) means that investors are discouraged from the high start-up costs that corruption puts on them.

The effect of corruption is, however, not only depending on the host country but also on the characteristics of the firms that are about to make an FDI. In a study on Swedish Multinational firms by (Hakkala et al. (2012) it was showed that firm size goes along with bribe-refusal power. Depending on a firm's bargaining power corruption will have different effects; the greater the bargaining strength, the lesser the corruption demands from public officials (Hakkala et al., 2012).

In the same study by Hakkala et al. (2012) it was shown that corruption's effects on Swedish Multinational firms differ depending on the type of investment. Corruption decreases *horizontal investments*; when firms entirely replicate their production facilities so that they are designed to fit the customers on the chosen foreign market. On the other hand, corruption increases *vertical FDI*; when firms exploit different production advantages and factor costs depending at different

locations for different stages in their production processes. The study did however also show that corruption appears to reduce the probability that a firm will start an investment in a country.

3.2.4 Other Obstacles Affecting FDI

There are many factors that affect FDI and in addition to corruption, for example: national institutions, level of financial integration, public infrastructure, start-up costs, and import/export quotas are examples of obstacle that can affect FDI (Global Forum; Mussa, 2000; Fidora et. al, 2006; Subramanian et. al, 2011; World Trade Organization, 2012; de Vaal & Ebben, 2011; Kholdy & Sohrabian, 2007). The following is a brief presentation of these obstacles and the complexity of how they interact and can affect FDI in a country.

The institutional environment in the host country is important for FDI inflows as well as for economic growth. National institutions can constitute an obstacle and have considerable influence on FDI, since national industrial policies and institutional settings may force foreign companies to adapt their products or services to the national market, which may constitute high costs and reorganization of the production process (Global Forum).

The level of financial integration can also affect FDI. There are three main factors that are determinant for financial integration: human migration, trade of goods and services, and integration of financial markets and capital movement (Mussa, 2000). A single currency amongst trading countries is for example deepening the financial integration and thereby simplifying the entry to a new market (Fidora et. al, 2006).

Furthermore, public infrastructure is critical to attract FDI, and the inflows form FDI remain unresponsive to changes in infrastructure until the level of infrastructure reaches a threshold value after which FDI inflows increase significantly with an increase in infrastructure (Subramanian et. al, 2011).

As mentioned earlier start-up costs can also affect FDI. Start-up costs are however dependent on many factors; if the obstacles presented above are high it could imply high start-up costs. A high level of corruption in a new market can also raise the start-up cost. According to the World Trade Organization (2012), some obstacles are more likely to increase the risk for corruption. The quota restricting trade quantities in export is one of them. Quotas limit the amount of products that can be traded; prices of these products become very high, which leaves companies with extremely

high profits. This in turn leaves more money for lobbying, and corruption can happen in relation to quotas as allocation between traders (World Trade Organization, 2012).

Furthermore, bureaucracy can constitute an obstacle for foreign investors, since it can be hard to handle and the start-up process can be long and difficult to predict. In addition, it has been shown that bureaucracy can be a base for corruption; to speed up political processes, such as clearance for example, bribery can be used (de Vaal & Ebben, 2011). Bureaucracy comes from regulations by politics, and as Kholdy & Sohrabian (2007) explain it; there is a lack of incentive for corrupt financial and political elite to welcome new investor since they are considered to be a threat to the elite. Therefore opportunities for new investors can be limited by regulations and bureaucracy.

3.2.5 Corruption as an Entry Barrier for FDI

Based on previous reasoning, there are many obstacles to enter a new market for a foreign investor. Corruption may be discouraging, but corruption is not a separate problem. There are other factors that are also very important and some of them even enable corruption. In industry analysis and strategic marketing planning the concept *Entry Barrier* is often used. This concept could be applied to explain the different obstacles for foreign investors that have been handled so far, including corruption.

Entry barriers can generally be described as restrictions or factors that make an expansion to a profitable market difficult for new entrants (Doyle, 2011). It can also be describe as obstacles such as high start-up costs that hinder new competition to enter an industry or area of business (Preston et al., 2004). There are also a number of definitions of entry barriers, below are two examples:

“A barrier to entry is an advantage of established sellers in an industry over potential entrant sellers, which is reflected in the extent to which established sellers can persistently raise their prices above competitive levels without attracting new firms to enter the industry” (Bain, 1956).

“A barrier to entry is a cost of producing (at some or every rate of output) that must be borne by firms seeking to enter an industry but is not borne by firms already in the industry” (Stigler, 1968).

According to Bain (1956), a barrier to entry is when established firms have an advantage to raise their prices without risking new firms to enter the market. In India regulations hinders foreign investors to form their organizations and business models freely, as the example with IKEA as was presented in chapter 1. India has also had quotas for foreign companies/products (Singh, 2005), which makes it possible for domestic firms to exploit the Indian market and set prices without consider new foreign competition.

Stigler (1968) defines an entry barrier as an extra production cost that has to be paid by new entrants but not by established firms. Corruption can be explained as an extra cost for foreign investors in different ways, as presented earlier investors can be discourage for high start-up costs that are caused by corruption, this get a higher the cost per produced unit compared with already established firms that do not have to pay, for example bribes, in order to speed up the starting process. A foreign company from a country with laws against corruptive behavior must also calculate with the legal risk to pay bribes, or the risk of losing business to competition that use bribes, which can both be considered to be costs that domestic firms do not have.

The concept entry barrier is also a part of the well-known model Porter's five forces. The model is used for Industry analysis and according to Porter (1979) the competitive environment within an industry should be studied in order to find the major competitive forces to derive a future competitive position in the industry. Porter (1979), further states that competition in an industry is a composite of five main competitive forces; the threat of new entrants, the threat of substitute products, the bargaining power of buyers, the bargaining power of suppliers, and current competitors. Entry barriers are a part of the force threat of new entrants, which includes economic of scale, government policy, capital requirements and proprietary products/services/technologies (Porter, 1979). The examples of entry barriers that Porter (1979) presents, are well in line with the factors that have been presented earlier, which enables corruption, and corruption constitutes the need of extra capital requirements.

3.3 The Importance of Institutions and the role of Indian and Swedish Governments

3.3.1 The Importance of Institutions

Swedish studies have shown that corruption can change moral and ethical norms in a society. If the apprehension that corruption is a common practice starts to spread amongst citizens, countries can find themselves in a negative spiral that could be very difficult to break off (Holmberg et. al, 2009; Bergh et. al 2010). If the amount of citizens that think corruption is a common practice increases it risks to slowly change norms and apprehensions of what is acceptable behavior. This in turn risks increasing corruption, since the individual can perceive a non-participation in corruption as costly for the personal benefit (Bauhr & Oscarsson, 2011).

A reformation of today's international institutions can change the processes of national institutional reforms and accelerate them (Moshirian, 2007). To discourage corruption, formal rules can be institutionalized to increase socially desired ways of exchange, and codes of conducts, conventions and norms of behavior can supplement the formal rules (de Vaal & Ebben). Effective international institutions can facilitate and increase capital flows to developing countries, since it enables mobility of capital in developing countries (Moshirian, 2007).

International institutions should be given more importance in order to create these national changes, in the last few decades international investment entry barriers have declined due to efforts from countries with emerging markets to attract foreign investments (Moshirian, 2007). And regional integration in a country is also of importance, since it can accelerates national changes such as national reforms, rules and laws and either reduce or increase the entry barrier of national institutions. National institutions tend to change faster in a country if it is in the process of a regional integration (De Santis & Gerard, 2006).

An example of intuitional setting having a great impact on a country's business world is a study performed by Blomström and Kokko (1997) that states that; Sweden has extraordinarily many large multinational companies as a result of industrial policies and institutional settings, which have facilitated investments abroad, by regulations and control and the Swedish labor unions have been particularly important feature.

3.3.2 The Role of Indian and Swedish Governments

The Indian government found interest for FDI when wanting to induce the economic growth and the introduction of FDI was one step in the liberalization of the economic system (Singh, 2005). Singh (2005), further states that the government's understanding of FDI was very shallow in the beginning and lacked important knowledge; no comprehensive policy has been developed for FDI in India, despite recommendations from the World Bank to create one general regulatory body instead of spread out decision making power India has today.

According to the ADB a lot of FDI in India comes from Mauritius, but the money is only via Mauritius. The phenomenon is called round tripping, and has some elements of corruption since it is taking advantage of a tax agreement; FDI from Mauritius is not taxed due to an agreement between the countries (ADB). In the interview with the Indian consultant, which is presented further in the next chapter, he stated that most, about 80%, of the FDI in India comes from Mauritius and 20% comes from foreign companies. He also states that these investments are not questioned by the state of India and that some of the FDI can be black money from Indian investors.

When Swedish companies are about to handle situations involving risk for corruption it is more common that the anti-corruption topic is taking place between industrial life and government in cases of fraud rather than corruption (Korsell, 2011). The interest for corruption differs depending on industry and enterprise, and the amount of experience and previous scandals have an impact (König, 2011). It is rare that Swedish corporations of important size and with international business seek support from the government in questions regarding corruption (Lindhe, 2011).

3.4 Summary of Theoretical Framework

The theories presented in this chapter have a certain degree of ambiguity and are to some extent contradictory. The theories and relations between corruption, FDI and economic growth are by nature complex, and corruption is even difficult to define. This subchapter does, however, present a summary of the theoretical framework that has been chosen to analyze the empirical result of the study.

Corruption

The definition chosen for this study is the act of a legal offence conducted in the economic sphere: bribery, insider trading, and fraud.

FDI

FDI in this study is to obtain a lasting interest through capital transactions from a direct investor in one economy to a direct investment enterprise in another economy, building long-term relationships (OECD, 1996).

Relation between Corruption, Economic Development and FDI

But it has been shown that corruption can be good for economic growth if the political stability is low and bad for economic growth is the political stability is high (de Vaal & Ebben, 2011), and that the institutional environment has an important affect (North, 1990).

FDI affect economic development positive in countries with high levels of political corruption (Kholdy & Sohrabian, 2007). There are examples from India and China, which economic growth was generated by job creation. Corruption reduces the probability that a firm will start a new investment in a country, and ongoing capital inflows from FDI depend on type of investment and firm size; corruption decreases *horizontal FDI* and increases *vertical FDI*, and a larger firm has ha higher bribe-refusal power and is therefore not a sensitive to corruption by (Hakkala et al. (2012).

Entry Barriers for FDI

National institutions, level of financial integration, public infrastructure, start-up costs, and import/export quotas are all obstacle that can affect FDI. Some enable the obstacle corruption; quota restriction, and bureaucracy are two examples. Obstacles to enter a new market for a foreign investor can be called entry barriers (Preston et al., 2004).

The Importance of Institutions

Corruptive behavior is a product of moral and ethical norms in a society, and if the apprehension that corruption is a common practice starts to spread the individual can perceive a non-participation in corruption as costly for the personal benefit (Bauhr & Oscarsson, 2011). A reformation of today's international institutions can change the processes of national institutional

reforms and lower levels of corruption (Moshirian, 2007); formal rules can be institutionalized as well as codes of conducts, conventions and norms of behavior (de Vaal & Ebben, 2011).

4. EMPIRICAL RESULTS

4.1 Interviewed Organizations

4.1.1 Private Organizations

Four of the private organizations are Swedish companies that have made investments in India. They have operations in India, or are about to start operations in India. It is also one bank and one private consultant from India is also included. Some of the organizations have requested to be anonyms, and are therefore not referred to by name. The interviewed persons have all been involved in establishing operations in India.

Bombay Works

Bombay works is a Swedish web-agency founded in 2007, with a business model relying on 24 Swedish and Indian programmers working together; they call this business model "hybrid outsourcing". This way technological programming innovations and qualitative solutions can be offered at cost effective prices. Bombay Work provides their clients with advanced programming in open source codes and mobile applications. They have offices in Mumbai, Stockholm, Gothenburg and Malmö. They have had mostly Swedish clients during the years but are starting to market themselves to Indian companies. They started entering the Indian market recently (Bombay Works, 2012)

Nepa

Nepa is a Swedish online market research company founded in 2006 with offices in Stockholm (HQ), Helsingfors, London, Düsseldorf, Oslo, Shanghai and Mumbai. They provide data and analyses to consults and brands on 30 markets all over the world. Some of their key services are marketing communication measurements and brand tracking. They entered the Indian market with branch experiences acquired in Sweden. (Nepa, 2012)

Marketing Company

The marketing Company is anonymous in this study. It a company group based in Sweden and it constitutes of several divisions. The interviewed company is amongst the leading producers of

their product segments. It is a global enterprise, present on the entire world market and entered the Indian market.

SCA

SCA is a company providing personal care products, tissue, publication papers, solid-wood products and forest products. They conduct sales in about 100 countries. Their net sales reached €11.7 billion and they are employing 37 000 people. They are in the process of entering the Indian market and establishing their business there at the moment. (SCA, 2012)

Scandinavian Bank

The bank is anonymous in this study. It has its home market in Europe but it also supports its Scandinavian clients in their international affairs with offices in almost 20 countries abroad, including India. The Bank's lending activity and full branch service takes place in Singapore, which is the regional head office. On location, the bank has partnerships with other banks. This Scandinavian bank is in India to provide guaranty and comfort for their clients; they help and facilitate for businesses, which are establishing and operating in India. The bank has services covering all aspects of banking and they help their clients with additional, non-financial obstacles.

Private Consultant

The Private Consultant has worked as a consultant between Sweden and India for over 30 years, mainly working with Swedish firms' establishment on the Indian market. He has also helped Indian companies to get in contact with the Swedish market. He himself is an Indian and has deep knowledge in the cultural differences.

4.1.2 Political Organizations

Four political organizations have been interviewed and three of them are Swedish, and one is Asian. The interviewed persons from the Swedish organizations have experience from facilitating business relationship between Sweden and India or political positions. The Asian organization has experience from the Indian business market and how to reduce poverty in Asian countries.

Swedish Trade Council in India

The Swedish Trade Council is an organization owned by the Swedish state and the Swedish industrial and commercial life. It has been set up to help companies with export possibilities by giving them consultancy and expertise advice on foreign establishments. The Swedish Trade Council helps enterprises develop their business models. Their main aim is to make it possible for Swedish enterprises to grow internationally. They are focusing their investments on small enterprises, strategic markets and certain trade sectors. In India, they have offices in Mumbai, Delhi (HQ), and Bangalore. These offices are also working towards markets such as Afghanistan, Bhutan, the Maldives, Bangladesh, Nepal, Sri Lanka and Pakistan. (Swedish Trade Council, 2012)

Asia Development Bank

The Asian Development Bank (ADB) is an organization that aims to make Asia free from poverty and improve people's lives. 67 countries are members within Asia and the Pacific. ADB supply loans and grants to create policy dialogues, as well as technical assistance and do equity investments. It implements its idea by investing in partnership with developing member countries and stakeholders. India was one of the founding members in 1966. In 1986, at the time when lending operations started, ADB has worked aligned with government goals and has in recent years focused on strengthening its bilateral and multilateral partnerships in India. They are working with Indian civil society organizations in India. (ADB, 2012)

Swedish Embassy in Delhi

The Swedish Embassy in Delhi helps to maintain and develop relations between Sweden and India with a knowledge base. They are facilitating contacts, and work as a long-term meeting place for partnerships. (Sweden-India Business Guide, 2011)

Swedish Consulate in Mumbai

Sweden has a representative office in Mumbai, working as a representative for the Swedish Embassy. The Consulate General of Sweden has close links with the Swedish business community in India. (Sweden-India Business Guide, 2011)

4.1.3 Non-governmental organizations

The non-governmental organization is not Swedish. It is present on the Indian market and worldwide and work to improve the market and reduce the level of corruption.

Transparency International

Transparency International is a non-governmental organization that promotes good governance and battles corruption, they work with partners in government, business and civil society to reduce corruption. They are present in over 100 countries. Amongst other things, they create international anti-corruption conventions; they work to get corrupt leaders prosecuted and they make sure companies that have used corruption are held accountable for their unjust acts. Transparency International India has a very good relationship with the Indian Government unlike many other Transparency International offices around the world (which on the other hand, can be in conflict with their governments). (Transparency International, 2012c)

4.2 Interview Results

Summarized interviews of the Swedish companies and bank can be seen in Table 5, where the answers can easily be compared. The interview questions can be seen in Appendix I.

4.2.1 Interview answers from Private Organizations

The organizations established in India due to different types of business opportunities and perceive the Indian market to have a lot of potential. SCA also performed a market research, because many of their products are not very well established in India, but they wanted to spread their global footprint.

During their establishment the companies have experienced differences in business culture and business practices compared to Sweden. Difference in hierarchy was one example; India is more hierarchic than Sweden and the organization culture in Sweden is more decentralized (Scandinavian bank, Bombay Works, SCA). A negative experience was that; what people say is not always what people do in India, even in business (Marketing Company). A positive experience was that Indians have another view and knowledge-perspective than other countries and solves problems in many creative ways, which Swedes and Swedish companies can learn from (Nepa). Relationships are also more important in India than in Sweden, and it is difficult to be managers because you have to give strict directions (Bombay Works, SCA).

The question about entry barriers and obstacles were answered quite similarly. But the companies did not really answer how they had assessed the entry barriers; they rather answered what entry barrier they experienced. The same goes for the question about “how the opportunities on the Indian market were assessed”, except for SCA. The entry barriers that were mentioned were; bureaucracy, financial risk, custom duty, tax and legal issues. Bureaucracy was mentioned by three companies and pointed out as a big barrier. Tax and legal issues were brought up by the bank and are related to bureaucracy. Custom duty could also be bureaucratic, and it costs money. Bureaucracy was also pointed out as an obstacle in the establishment process by the bank, which mentioned difficulties with buying land and that it is time consuming to start operations in India. Furthermore, slow incoming payments, since Indian corporations have strategies to delay payments, low respect for deadlines, and insufficient infrastructure were other obstacles that had been experienced. SCA, which is a production company, has had different operations compared to the other interviewed companies, and experienced the most entry barriers and obstacles in addition to the ones already mentioned. They had high starting-costs, infrastructure and transportation problem due to the size of the country, and many problems with legislation: labor, environment, emissions, suppliers, and facilities.

The organizations were asked if they had encountered corruption in their business practices, since it is a major business pattern in India, and in this matter the answers differed. Bombay works clearly stated that they are not bribing. They had experienced that controllers sometimes are looking for personal gain, but that bribes would end up showing in the company’s balance sheet if they had used it. They did however think that it would be easier for larger production companies to use bribes, since they have more intermediates. Nepa stated that they had not noticed any major corruption activities. They did know that things would have gone faster with paperwork in the start-up phase if bribes had been used. The anonymous marketing company shortly stated that they of course face corruption and that they “handle it”.

The bank explained that even though clients do not talk about corruption, everybody knows it is there. The bureaucracy and the rules leave a lot of space for interpretation, which puts pressure on the administrators. At the moment administrators can take out money within the space of interpretation of e.g. tax law. Rules differ from state to state, as confirmed by Transparency

International. This even exists in the routine matter. According to the bank the key to establish a business ethically in India is patience: it takes a lot of time and that makes you lose money.

SCA had not encountered any corruption yet, but expect to do so when they start their production facilities, but they are still waiting for confirmation that takes more time than needed. They stated that as a Swedish company, they have a no-bribery policy. They are carefully choosing who to work with. No one talks about bribes explicitly but one knows that it is the way things work. SCA thinks that their future supply chain is more unclear corruption wise, maybe there will be more of it at a lower level, which is too distant to impact and overlook in detail. On the other hand, lower down, as in boutiques, distribution channels, or at importation level; they state that they cannot know exactly what is going on.

Table 5: Summary of Answers from Private Organizations

	Private Organizations					
	How were your business and establishment opportunities on the Indian market assessed?	What is your experience of differences in business culture and business practices between India and Sweden?	How, and on what bases, was the decision for establishment in India made?	How were your entry barriers to the Indian market assessed?	Did you experience any obstacles during the establishment?	It is often said, corruption is a major business pattern in India, and how have you encountered that in your business practices?
Bombay Works	It was a process; first low labor cost, now also selling to Indian costumers. The market has great opportunities.	Hierarchy; India is more hierarchy than Sweden.	Salaries are lower in India and India has a good supply of developers.	Entry barriers were mainly bureaucracy, whatever one wants to do.	Bureaucracy slowed down the process. Then filtering who to hire, Language, Practical issues: electricity, water, papers...	We have not used bribery. Sometimes controllers are looking for personal gain. But, bribes would show in the balance sheet.
Nepa	The Indian market is good at offline research; in India only 1% are online. But it will increase and an early entry gets us a good position to grow.	The Indians have another view and knowledge perspective than other countries and solves problems in many creative ways.	To come to India was a personal and an opportunistic decision. Earlier experience of Asian and because they speak English.	The financial risk is everywhere; it is always there. The bureaucracy is a bigger barrier; it works out but it is messy.	Slow incoming payments, since Indian corporations have strategies to delay payments. Time respect from Indian companies. It is hard to adjust to the lifestyle here.	We have not noticed major corruption activities. In the start-up phase you knew that things could had gone faster with papers if you would had given some money to them.
Marketing Company	Four years ago, the market size was very small but the growth was very healthy; almost 4-5times the growth in Europe.	If you have a good customer relationship you get paid more, about 5%. In India: what people say is not always what people do.	Investors were looking for fast growing markets.	The custom duty is high and whatever you import has to be through custom duty. Not language	Regular business is the "relevant obstacle"; it's not an obstacle, it's just regular business. But I'm Indian. Then there is infrastructure.	Of course we face it and we handle it.
SCA	Market research, at the moment small market but huge potential	Relationships important, hierarchy, difficult to be managers bureaucracy and efficiency. It is a long-term job to get established.	Strategic decision to spread its global footprint.	Starting-costs, transportation problem -big country, permits for buying land with legislation: labor, environment, emissions, suppliers, and facilities.	Permit to buy land. long time to register the company, permission to start working	Not yet. We have not started with our production facilities yet s a Swedish company, we have a no bribery policy.
Bank	Established in India as they followed their costumers, who are exporting to India and establishing their enterprises in the country.	Organization culture, Sweden is more decentralized.	Followed their costumers	The bank's Swedish costumers have had tax and legal issues. .	Bureaucracy and buying land is difficult. To establish a business ethically in India, patience is the key, it takes a lot of time and a loss of money.	Even though clients do not talk about corruption, everybody knows it is there. The bureaucracy and the rules leave a lot of space for interpretation, which puts pressure on the administrators

Result from the interview with the business consultant

The interview with the consultant gave insight about the Indian market, its business culture, entry barriers, obstacles and corruption.

India is a big market; if you have an expensive product, which many European companies have, and market it to the upper class segment you will only be able to market it to 1% of the population, but that is at least 10 000 000 people. About 10 or 15% of the market is developed and has been reached; the rest is still in development and constitutes a potential market.

The biggest cultural difference is that in India business is not just business: it is a relationship with that person. The Indian wants to know if they can trust their business partner and families are very important. Asking a Swede about a family relationship is not seen as appropriate, whilst an Indian businessman can tell his whole life story. Swedish people also expect everything to be perfect; they want everything to work to 100%. They are framed by the Swedish culture.

There is no real obstacle to enter the Indian market, but a big obstacle is first and foremost fear. Then you have the infrastructure, the financial risk and cultural difference. The rest can be solved. Of course Indian bureaucracy is annoying, but it is not impossible, and it has become better. After a couple of years you can get dispense; rules in India are interpretable. What you need is patience. The middle-sized and small companies, as well as the family-owned companies, have some difficulties getting into the Indian market since it takes time and costs a lot of money. The way I've calculated it you need an annual turnover of at least 100 000 000 SEK to survive the first years in India. But, for IT-companies it is a different thing they commonly have established contacts before they start in India.

There is corruption everywhere in India. From the first day you open an enterprise in India it will start; the guy who fixes your telephone, the postman, the guy who arranges your energy. They expect you to give them gifts at special occasions and at festivities, since you are indirectly making money from them they are expecting something back from you. The postman can keep letters away from you, the guy who fixes your telephone can block calls, and the energy guy can stop the electricity from running in your office. This is if you want things in time and things to be done properly. These people have a lot of power on you. They will be happy with very little but they are still expecting things. When I act as a consultant I am not expecting others to act

ethically, and I want to make money. “What are ethics? Ethics can be something to someone and something totally different for someone else. Then again, another thing: the Swedish state is good at giving certificates to itself for being ethical. They are not always keeping the morals that they are showing.”

4.2.2 Interview answers from Political Organizations

When interviewing the Swedish Embassy in Delhi, they stated that there was nothing to be said about corruption in relation to FDI from Swedish companies to India. The Swedish Consulate in Mumbai answered in the same way. The Swedish Trade Council and the Asian Development Bank did however provide important information.

The Swedish Trade Council

The Swedish Trade Council means that the establish opportunities on the Indian market have increased in the latest years. There is an enabling environment; demand is rising and the government is supporting establishment processes better now. Before FDI was only allowed in a few sectors, but it is now open to 100% in most sectors. Regulations and tariffs are also changing to the better. The Indian market suits many Swedish companies since they are selling quality products that are well received and therefore profitable. In addition, the Indian market is still growing, companies can use English, and India has a good location in Asia; it is a hub for sourcing out.

There are, however, also some obstacles. The biggest challenge is bureaucracy. Companies need approvals to start their businesses. Establishing a company here takes a lot of time; one to one and a half years is required, it takes six to seven months only to register a company. In addition, sensitive sectors are still closed for FDI, in the retail sector only a 51% stake is allowed for foreign companies. The political and financial risks are very low.

The main difference in business culture between Indians and Swedes is that the Swedes are very direct and are always on time, while Indians can be up to two hours late for a meeting. Swedish products are also expensive and Indians are usually very price-sensitive: there are different priorities from both sides. India is a sensitive environment, the advices to its clients is to test the market; try it out, not to trust anyone. It is important to get a sales network, to know the right channels and the right persons.

The Swedish Trade Council's experience of corruption is that there is more corruption in the government than in business. How a company should handle corruption depends on the case, it is different for all companies. It is however important to evaluate all partners very well and choose companies that act ethically. Finding these companies takes time and that is also one of the reasons establishing a company in India *should* take time. The Swedish Trade Council states that Swedish companies never should give into corruption, and avoid companies that are using corruption in their business. Foreign companies have to be transparent and work with the laws. FDI is mostly affected by the law regulation and that certain sectors remain closed, and not corruption.

Asia Development Bank

ADB finds FDI in India very important and very good. It brings financing, technology, new management styles, brings new ideas. ADB strongly favors FDI for two reasons; it brings in a lot of good practices and India has a current account deficit. At the moment India's import levels are much higher than the export levels. The best way to solve this is through FDI, since it is a stable, form of foreign capital and a long-term commitment. Market based economies are very positive; they tie countries together despite the economic differences. They raise the bar for competition. They attract global technology. They set a best practice level at international standard.

The opposition wants to save India from multinational companies and safeguard the small businesses. India has not made a change in 20 years and has not progressed. India has tried to believe for too many years that small is beautiful, time has shown us that it isn't working. Adding to that, we have local multi-brand retailers, and these have not destroyed the small enterprises. India is a huge market; there is space for all types of enterprises. Multinational companies do not always act ethically but compared to whom?

ADB further states that the impact corruption has on FDI and the need for corruptive behavior can differ depending on what country it comes from and what type of enterprise. The case of Wal-Mart for example, frames the debate around whether the practices that they use in their business is lobbying or bribing, and the conversations circulate on the difference in between. In the US law the difference is clear. The US disclosure rules Wal-Mart has to declare how much they paid for lobbying, whilst the Indian opposition has said that it is corruption. So the country

where the FDI comes from matters. Corruption is speed money. If it is a factory, and the company is ought to buy land, the regulations are problematic. It encourages people to get around by bribing. IT companies do not need to; they are not bound by regulations and the need of corruption is much lower.

ADB do not know if improvement in corruption can get us more FDI. Corruption is misguided. Difficult regulations are the real problem. Companies will use corruption to try to get around regulations. Regardless if it is good or bad for FDI, the rules are ridiculous. They are just delaying. That's taking one step back. The corrupt practices are for what?

In line with the Swedish Trade Council, ADB states that it is important for Swedish companies to understand the local contacts, work with a partner and good corporate companies. They understand the local context and the laws of the country.

4.2.3 Interview answers from Non-governmental organizations

Transparency International

India is open to corruption: it is in the culture. Transparency International sees two kinds of corruption. There is Petty Corruption, which is small exchanges in everyday transactions. In a situation where one should pay a fine, one pays a bribe. Then there is the corruption at top level, which is not directly seen in day-to-day life. Still, it makes the poor poorer in the long run. Also, there is the middle class Indian who nurtures and reinforces the corruptive system by paying bribes in every-day life that gets them things faster. The right of the poor is abused and there is an inequality. The major corruption happens between private companies and politicians. E.g. the Telecom scam, and many times it happens with natural resources. But there is no information censorship and information is power, but people need to know how to seek information to be empowered.

Transparency International does not know so much about what shape FDI from other countries comes in. It is still a new area. We might need to understand it better. But we can see that improvement on corruption within FDI can definitely increase. The Indian Government can definitely improve. Swedish companies might find corruption difficult since it is not in their culture. The advice is that risk assessment should be done; "I would even say it is extremely important. Not only on central level, it is often forgotten that India has a huge variety of cultures

depending on the different states.” There are different corruption levels in different states. Consult local CSOs (Central Statistical Offices) and governments.

4.2.4 Summary

Market Attractiveness:

The Swedish Trade Council means that the Indian market is attractive for Swedish companies because: it is growing, companies can use English, India has a good location in Asia; it is a hub for sourcing out, and the market suit high quality products. The consultant agrees with the large potential on the Indian market, and compare its’ size to the Swedish market. All companies established in India since they experienced great business opportunities and a growing market.

Cultural Differences

The consultant states that the biggest cultural difference is that in India business is not just business, it is personal relationships. The companies have had different experience of cultural differences but they have all experienced that there are big cultural differences. According to the Swedish Trade Council the main difference in business culture is that the Swedes are very direct and are always on time, while Indians can be up to two hours late for a meeting.

Entry Barriers and Obstacles

Obstacles and barriers were perceived similarly by the all the interviewed, no one made any distinction between them. Bureaucracy was most mentioned by the companies. Financial risk, tariffs and infrastructure were also of importance. None of the companies could describe how they assessed the obstacles or entry barriers beforehand. SCA had the most entry barriers and obstacles, among the companies. The Swedish Trade Council also states that the biggest challenge is bureaucracy, and sensitive sectors that are still closed for FDI. But that the political and financial risks are very low. The consultant meant that there are no real obstacles for Swedish companies. However, he also pointed out infrastructure, the financial risk and cultural difference. The bank pointed out bureaucracy as the main obstacle. ADB conversed around regulations as a main obstacle, and questioned their utility: are regulations good or bad, are they helping the country or are they just making it difficult for investors to establish their businesses in India?

Corruption on the Indian Market

The consultant and Transparency International pointed out that corruption is a part of the business culture in India. Transparency International states that the major corruption happens between private companies and politicians. The consultant says gift giving is very common and also brings up the question “What are ethics?” and explains that the answer to that is different for different persons.

All four companies and the bank had noticed corruption at the Indian market. The experience from one company was that bureaucratic work could have gone faster with bribes. The bank had an interesting view of corruption; everybody knows about it but no one talks about it, and it is the bureaucracy and the rules that leave a lot of space for interpretation and enables corruption. The bank also stated that these interpretations are done as a routine matter; it is complicated by different rules in different states in India, which also Transparency International states. ADB agrees with that corruption is a consequence by difficult regulations in the country.

How companies handles or should handle Corruption

Three companies clearly stated that they did not use bribery, and one only said that they “handle it” and referred to corruption. Three of the companies never mentioned any type of policy against corruption or that they were aware of the OECD anti-bribery convention. SCA clearly stated that they have a no-bribery policy.

The Swedish Trade Council thinks that how a company should handle corruption depends on the case; it is different for all companies. But transparency and legislation are important, as well as evaluating all partners and those who act ethically. Finding these companies takes time and that is also one of the reasons establishing a company in India should take time, which is also ADB and the consultant agree with.

Corruption’s effect on FDI

ADB do not think corruption affects FDI negatively, they state that difficult regulations are the problem and that corruption is only a consequence of wanting to get around regulations. ADB further states that the impact corruption has on FDI can differ depending on country and type of enterprise. Different countries have different legislations and definitions of corruption, and different types of enterprise have more or less regulations to deal with; more regulations more

corruption. The Swedish Trade council also states that FDI is mostly affected by the law regulation and that certain sectors remain closed, and not corruption.

FDI and Economic growth

ADB is very positive to FDI to India and think it can contribute to the economic development in India. They value that FDI implies stable foreign capital inflows and long-term commitments.

5. ANALYSIS

What similarities in the answers from the companies and bank can be found?

The interviews with the companies and the bank gave comparable information, and similarities can be seen. Obstacles and entry barriers were perceived similarly by the companies and bureaucracy was most mentioned. SCA had experienced more barriers and obstacles, most likely because they are a production company. The bank also pointed out bureaucracy as the main obstacle. But, none of the companies could describe how they assessed the obstacles or entry barriers beforehand. But SCA said they had made an extensive market research before entering the market. Furthermore, all four companies, and the bank, had noticed corruption at the Indian market. Three companies clearly stated that they did not use bribery, and one only said that they “handle it”. Three of the companies never mentioned any type of specific policy against corruption or that they were aware of the OECD anti-bribery convention. But SCA has a no-bribery policy.

Based on the companies’ answers Swedish companies can be said to handle corruption by just saying no. One company did however only state that they “handle it” and finished the conversation, which can mean anything. The bank and SCA gave a good insight; no Swedish companies like to talk about explicitly corruption. No company stated that corruption was an obstacle or an entry barrier, which implies that it is not a critical obstacle. But, bureaucracy and legislation were perceived as very difficult. Nothing from these interviews implies that corruption is hindering Swedish FDI in Indian.

Do Swedish companies perceive corruption as a critical obstacle to the Indian market?

According to Hakkala et al. (2012) corruption reduces the probability that a firm will start a new investment in a country. But this did not show in the answers from the companies, they did not mention that they had had any initial concerns about the corruption level in India. But in this study it has not been investigate how many companies that were planning on establishing in India and withdrawal due to corruption. The study by Hakkala et al. (2012) did however also show that ongoing capital inflows from FDI do not have to be affected by corruption, and the answers from the companies show resemblance with that.

The result from the additional interviews does confirm these findings. Corruption does not seem to be perceived as an obstacle for Swedish companies. The Swedish Trade Council points at bureaucracy and closed sectors that is the problem, and ADB agrees about bureaucracy. The obstacles that the companies were experiencing are in line with the ones that were presented in chapter 3. Nevertheless, corruption is still not considered as unimportant of any of the organizations. It does however not seem like corruption is perceived as a critical obstacle.

How are Swedish companies handling the high levels of corruption on the Indian market?

Nothing in the interviews with the political and non-governmental organizations did question that Swedish companies do not use corruption in their businesses. But nothing about specific programs on how they handle the high level of corruption was brought up either, and the companies' answers about their way of handling corruption can also be subjective. In this study it has become clear that corruption is a part of the business culture in India, and that bribes are usually speeding up bureaucratic processes. This can also be confirmed by the previous study by de Vaal and Ebben (2011), that bribery can be used to speed up political processes. During the interviews it was also learnt that establishment in India takes time for Swedish companies. This could imply that Swedish companies in general do not use bribes. The average time for a foreign establishment in India has however not been investigated in this study.

Consequently, what we know about how corruption is handled is that Swedish companies usually do not explicitly talk about corruption, and do not refer to any corporate anti-corruption policy or to the OECD anti-corruption Convention. Furthermore, the Swedish Embassy in Delhi, and the Swedish Consulate in Mumbai did agree to interviews, but did not consider the questions relevant on the interviews. This could imply that corruption is not an important question for Swedish companies. But considering the high levels of corruption in the Indian market and culture it is questionable, and Transparency International (2012b) stated that the major corruption in India happens between private companies and politicians.

The low interest from the Swedish Embassy and the Swedish Consulate could be due to that they are not familiar with details of companies' procedures concerning corruption. According to Lindhe (2011) it is rare that Swedish corporations with international business seek support from the government in questions regarding corruption. This could also be a reason to that the companies did not mention the OECD anti-corruption Convention. There could be a lack of

knowledge about corruption since it is not a part of Swedish culture in the same way as in Indian culture. This would be in line with the global fraud survey by Ernst&Young (2011) that were presented in chapter 1. It presented that companies are lacking in knowledge of how to avoid corruption, and could do more to reduce the risk of corruption and bribery. The survey also showed that many companies do not have procedures to deal with government officials. If this is the case for Swedish companies in India, the risk for corruption can be high considering the Transparency International stated that the major corruption in India happens between private companies and politicians.

It could however be state that Swedish companies probably are handling the high levels of corruption in different ways. The interviewed companies are more like IT-companies than production companies with factories. As stated by ADB, the more regulations the more pressure to use bribe. If the company has more regulation a need for an anti-corruption policy or knowledge about the OECD convention might have been more referred to. As in the case with SCA, they have an anti-bribery policy.

Is the level of corruption in India hindering Swedish FDI in India?

In two interviews of this study, with ADB and the private consultant, it was pointed out that a lot of FDI in India comes in tax-free from Mauritius through round tripping. ADB said that it can be seen as a platform for corruption enabling activities and that the government does not seem keen on questioning these investments. Round tripping is a legal activity, but increases the market complexity: more than corruption, it creates market asymmetry. This could be seen as an entry barrier for Swedish companies, according to the definition by Stigler (1968) in chapter 3; the tax which new Swedish companies on the Indian market have to pay can be seen as an extra cost compared to establish FDI from Mauritius that do not have to pay the tax.

However, ADB do not think corruption affects FDI inflow capital negatively. They state that difficult regulations are the problem and that corruption is a consequence of that. The Swedish Trade Council also states that FDI is mostly affected by the law regulation, and not corruption. So, difficult regulation and bureaucracy are the big problems for Swedish companies in Indian and corruption is only a consequence.

But, this study has also showed that corruption is a part of the Indian culture, and it can be said to work as an institution to avoid regulations through corruption (ADB). India has formal rules against corruption, but then again the country has high levels of political corruption (Swedish Trade Council). The level of bureaucracy will therefore not change without effort. Because as long as the system is favorable for the ones with power it will not change, as said by Kholdy & Sohrabian (2007); there is a lack of incentive for corrupt financial and political elite to welcome new investor since they are considered to be a threat to the elite. Corruption, as a national institution, is thereby enabling a high level of bureaucracy and has an indirect negative effect on Swedish FDI in India.

Could a reduction of corruption contribute in further economic growth for India?

The fact that corruption is a national institution with a negative effect on FDI, can imply that a reduction of corruption, by a change of institution, can contribute to a positive economic growth. Because, by an institutionalization of formal rules, conventions and norms of the corruptive behavior can decrease (de Vaal & Ebben, 2011). The reduction in corruption can then increase the possibilities for new FDI (Hakkala et al. (2012), and lower the levels of bureaucracy and affect established FDI positively. This can according to Kholdy & Sohrabian (2007) affect economic development positively, since their study showed that FDI have positive effects an economic development if the levels of political corruption is high. It is thereby possible to state that the level of corruption can hinder Swedish FDI in India, and that a reduction of corruption could contribute in further economic growth for India.

But, for this to be possible the national institution to use corruption has to be changed. According to ADB a global market economy and FDI, can bring good practice to India and could maybe change business practice if it gets enough influence. But all FDI might not have “anti-corruption” institutions. For a positive improvement it is important that anti-corruption is an international institution, as the OECD anti-corruption Convention. The study by Moshirian, (2007) supports this; a reformation of today’s international institutions, can change the processes of national institutional reforms and lower levels of corruption (Moshirian, 2007). A regional integration is also of importance, since national institutions tend to change faster in a country if it is in the process of a regional integration (De Santis and Gerard, 2006). This is probably important for

India since the problem with different rules in different states in India was mentioned by the bank, Transparency International and ADB.

6. CONCLUSION

The objective of this study is to contribute to a better understanding of how corruption may affect Swedish FDIs to India and how Swedish companies perceive and handle corruption at the Indian market. And by doing so the aim is also to investigate whether a reduction of corruption could contribute in further economic growth for India.

Based on the empiric result and the analysis it can be said that political aspects are most difficult for Swedish companies on the Indian market. It does not seem like corruption is perceived as a critical obstacle by Swedish companies in India. Bureaucracy and legislation are the most critical obstacles, as they take a lot of time and effort in the establishment process. The study has also shown that corruption, probably, do not have a direct negative effect on Swedish FDI in India.

But it has been shown that corruption, as a national institution, can be enabling politicians to remain the high level of bureaucracy in India and thereby indirect effect Swedish FDI in India negatively. From that it can be possible to state that; there is a risk that the level of political corruption in India is hindering Swedish FDI.

If that is the case, a reduction of corruption could contribute in further economic growth for India, but, it demands that the national institution of corruption in Indian change. It could be done by a global market economy and FDI, if they bring anti-corruption an international institution. That is what the OECD anti-bribery Convention wants to achieve.

Sweden as agreed to the OECD anti-bribery Convention and Swedish FDI could bring anti-bribery institutions to India. This study did however leave a lot of gaps on how Swedish companies are handling corruption in business at the Indian market. The study showed a tendency that Swedish companies do not explicitly talk about corruption, and that they might be lacking corporate anti-corruption policy or knowledge about the OECD anti-corruption Convention.

The study did however show that Swedish companies probably are handling corruption in the Indian market in different ways, and that production companies has high levels of bureaucracy and legislations to follow and consequently risk to face more corruption.

It would be interesting to further investigate how India can change the national institution to use corruption, by following up formal regulations. It would also be interesting to study the fact that

corruption can be both ethical and unethical depending on good or bad regulations. Can corruption be “good” when it avoids bad regulations? It would also be interesting to investigate what Swedish companies can do to handle the high levels of bureaucracy and legislation e.g. IKEA’s problem with regulation of its suppliers on the Indian market.

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APPENDIX I - Interview Questions

Questions to the companies and the bank

- How were your business and establishment opportunities on the Indian market assessed?
- What is your experience of differences in business culture and business practices between India and Sweden?
- How, and on what bases, was the decision for establishment in India made?
- How were your entry barriers to the Indian market assessed?
- Did you experience any obstacles during the establishment?
- It is often said, corruption is a major business pattern in India, how have you encountered that in your business practices?

Questions to the private consultant who has worked between India and Sweden

- How are the establishment opportunities on the Indian market at the moment? What have they been for the last years and what do you think they will be in the future?
- What is your experience of differences in business culture and business practices between India and Sweden
- What makes India an attractive country for Swedish companies?
- What are the entry barriers to the Indian market for Swedish companies?
- What are the obstacles during Swedish establishments like?
- It is often said, corruption is a major business pattern in India, how have you and the companies you help encountered that in your business practices?
- How is FDI affected by corruption?
- When you help Swedish enterprises to establish their business in India, how do you help them

Questions to the Swedish Trade Council in India

- What makes India an attractive country for Swedish companies?
- How are the establishment opportunities on the Indian market at the moment? What have they been for the last years and what do you think they will be in the future?
- What is your experience of differences in business culture and business practices between?
- What are the entry barriers to the Indian market for Swedish companies?
- What are the obstacles during Swedish establishments like?
- It is often said, corruption is a major business pattern in India, how have you and the companies you help encountered that in Your business practices?
- How is FDI affected by corruption?

- When you help Swedish enterprises to establish their business in India, how do you help them to act ethically? How do you help them in cases of corruption?

Questions to the Asia Development Bank

- How does ADB perceive FDI?
- What can ADB do to help make FDI less corruptive?
- Are there differences in the impact corruption has on FDI depending on what
Country it comes from?
Type of enterprise it is?
In these cases, what do you know about corruption in Swedish FDI?
- What can ADB do to help make FDI less corruptive?
- What advice would you give to Swedish companies that establish their business in India or other countries to avoid corruption?

Questions to the Transparency International

- How does Transparency International perceive FDI?
- How do you study corruption in international relationships?
- Are there any special methods that you use when measuring how corruption affects FDI?
- How is corruption manifested in Swedish FDI to other countries?
- How is corruption manifested in Swedish FDI to other countries?
- Are there differences in the impact corruption has on FDI depending on what
Country it comes from?
Type of enterprise it is?
In these cases, what do you know about corruption in Swedish FDI?
- What can TI do to help make FDI less corruptive?
- In cases where Swedish enterprises establish their businesses in other countries, does less corruption encompass more possibilities to perform FDIs?
- What advice would you give to Swedish companies that establish their business in India or other countries to avoid corruption?