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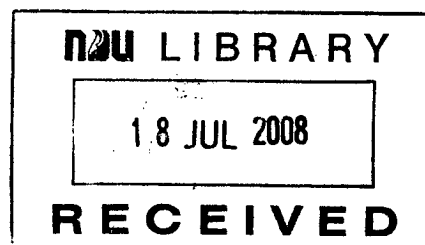
**Bordeaux Business School  
Institute of International Business**

Assessment and strategic planning in Engineering Consultancy in India-  
The case of a Lebanese Engineering Consulting Firm

**A Thesis Submitted in Partial Fulfillment of the  
Requirements for the Joint Degree of the Master of Business  
Administration (M.B.A.) and the Master of Science in  
International Business (M.I.B.)**

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**NDU-Lebanon  
2008**



# Approval Certificate

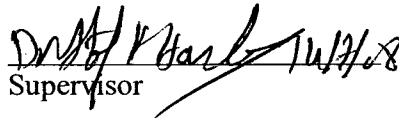
## Assessment and strategic planning in Engineering Consultancy in India-The case of a Lebanese Engineering Consulting Firm

BY

**Bassam Samir Samara**


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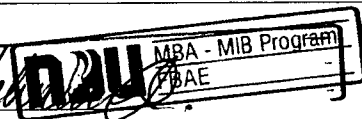
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## DECLARATION

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## ABSTRACT

The aim of this thesis is to increase understanding of the dynamics of foreign market expansion and as a result assess the opportunity and feasibility for a Lebanese engineering consulting firm to expand internationally. There are two major objectives for this expansion strategy. First, to increase geographical penetration and presence, in order to identify and grasp new opportunities worldwide, and as a result enlarge the customer database. Second, is to look for cheaper and more efficient workforce, and make use of economies of scale, which will result in a decrease in costs and increase in profits. India, with its huge economic growth and highly-skilled labor force, was chosen to be studied as a possible entry market for the Lebanese engineering consulting firm.

Trying to understand the core process involved in foreign-market entry and expansion to new markets requires a multi-factorial analysis. Hence, through strategic planning, three major factors were identified for research: country-specific factors, mainly encompassing issues such as the Indian economy, political situation, human capital, and legislation, and relevant opportunities and weaknesses. Market-specific factors, mainly dealing with market demand and potential for foreign direct investment, and finally, firm specific factors, including issues such as international experience, specialized assets and other elements. Intensive research was conducted and abundant data and statistics were collected concerning the above mentioned elements in order to be analyzed and studied in depth.

The study analyzed the data and statistics collected. There appeared to be several issues threatening the success of a global expansion into India. On the other hand, the huge economic growth and enormous market potential of India overweighed the risk and threats of any possible failure. The hypothesis "As an International Engineering Consulting firm, Entering India will be Profitable for the Company" was verified to be true and entrance into the India was proven to attain the goals set forth by this research.

**Keywords:** India, engineering consulting firm, international expansion, strategic planning, country-specific factors.

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## **Chapter 1. Introduction**

International business is not a new phenomenon, however, the volume of internationalization and international trade has increased dramatically and at a high pace over the last decade. Today every nation and an increasing number of companies buy and sell goods in the international marketplace. Companies around the world are increasingly looking for business opportunities outside the borders of their home country, in order to take advantage of low cost opportunities offered in other countries. A number of developments in regions around the world have helped to boost this trade.

These activities developed as a result of recent developments in both international trade and investment. Moreover, globalization and regional-geographic developments boosted these practices, facilitating and encouraging international trade and business. The WTO for instance which includes a mere 152 members, is stimulating increased world trade through the reduction of tariffs worldwide. The United States, Canada, and Mexico make up the North American Free Trade Agreement (NAFTA), which in essence has removed all barriers to trade between the selected countries creating a huge North American market. The European Union (EU), on the other hand, has created a unified trading market. The group now consists of 27 states, and once the East and the West join together, the resulting market will be huge. Recent economic progress is noted among less developed countries. A good example is India; an emerging economy. Over the last few years, there have been a dramatic turnover in government policy, and many investors have been attracted to India. Much of this reform is due to willingness from the Indian government to reduce bureaucratic red tape that accompanies the necessary approvals to move forward with investments.

### **1.2. Strategic Planning**

Strategic planning is the process of determining an organization's basic mission and long-term objectives, and then implementing a plan of action for accomplishing the mission and attaining the objectives. As companies go international, this process takes on added dimensions.

### **1.2.1. Need for Strategic Planning**

One of the primary reasons that multinational companies need strategic planning is to keep track of their increasingly diversified actions in a continuously changing international environment. This need is particularly clear when one considers the amount of foreign direct investment that has occurred in recent years. Recent statistics showed that foreign direct investment has grown three times faster than trade and four times faster than gross domestic product (*Hodgetts, 2000*). These developments are resulting in a need to coordinate and integrate diverse operations with a unified agreed-on-focus.

Multinational companies are convinced that international strategic planning is critical to their success, and these efforts are being implemented at both the home offices and the subsidiaries. Do these strategic planning efforts really pay off? To date, the evidence is mixed. For sure, the strategic plan aids the multinational companies to coordinate and monitor its long term operations. Moreover the plan helps the multinational company to deal with political risk problems and competition.

### **1.2.2. Benefits of Strategic Planning**

Despite some obvious benefits, there is no definitive evidence that strategic planning in the international arena always results in higher profitability. Most studies that report favorable results were conducted at least a decade ago. More recent studies temper these findings with contingency-based recommendations. A more recent study found that planning intensity is an important variable in determining performance. Drawing on results from 22 German multinational companies representing 7% of Germany's multinational enterprises, one study found that companies with only few foreign affiliates performed best with medium planning intensity. Those firms with high planning intensity tended to exaggerate the emphasis, and profitability suffered. Companies that earned a high percentage of total sales in overseas markets, however, did best with a high-intensity planning process. Therefore, although strategic planning usually seems to pay off, as with most other aspects of international management, the specifics of the situation will dictate the success of the process (*Hodgetts, 2000*).

### **1.2.3. Basic Steps in Formulating a Strategy**

The needs, benefits, approaches, and predispositions of strategic planning serve as a point for the basic steps in formulating strategy. In international management, strategic planning can be broken into the following steps: (1) scanning the external environment for opportunities and threats: (2) conducting an internal resource analysis of company strengths and weaknesses: and (3) formulating goals in light of the external scanning and internal analysis.

#### **Environmental Scanning**

Environmental Scanning attempts to provide management with accurate forecasts of trends that relate to external changes in geographic areas where the firm is currently doing business and/or considering setting up operations. These changes related to the economy, competition, political stability, technology and demographic consumer data.

Typically, the multinational company will begin by conducting a forecast of macroeconomic and industry performance dealing with factors such as markets for specific products, per-capita income of the population, and availability of labor and raw materials. A second common forecast will predict likely trends in monetary exchange rates, exchange controls, balance of payments, and inflation rates. A third is the forecast of the company's potential market share in a particular geographic area well as that of the competitors. Other considerations include political stability, government pressure, nationalism, and related areas of political risk. These assessments are extremely important in determining the risk profile and profit potential of the region, which always is a major consideration when deciding where to set up international operation.

#### **Internal Resource Analysis**

When formulating strategy, some firms wait until they have completed their environmental scanning before conducting an internal analysis. Others perform these two steps simultaneously. Internal recourse helps the firm to evaluate its current managerial, technical, material, financial strengths and weakness. This assessment is used by the multinational company to determine its ability to take advantage if international market opportunities. The primary thrust of this analysis is to match

external opportunities (gained through the environmental scan) with internal capabilities (gained through the internal resource analysis).

An internal analysis identifies the key factors for success that will dictate how well the firm is likely to do. A key factor for success is a factor that is necessary for a firm to complete effectively in a market niche. The key question for the management of a multinational company is: Do we have the people and resources that can help us develop and sustain the necessary key factors for success, or can we acquire them? If the answer is yes, the recommendation would be proceed. If the answer is no, management would begin looking for other markets where it has, or can develop, the necessary key factors for success.

#### **1.2.4. Goal Setting for Strategy Formulation**

In a sense, general goals concerning the philosophy of going international or growth actually precedes the first two steps of environmental scanning and internal resource analysis. As used here, however, specific goals for the strategic plan come out of external scanning and internal analysis. These goals typically serve as an umbrella beneath which the subsidiaries and other international groups operate.

Profitability and marketing goals almost always dominate the strategic plans of today's multinational companies. Profitability is so important, because multinational companies generally need higher profits from overseas operations, than they do from their domestic operations. The reason is quite simple: setting up overseas involves greater risk and effort. In addition, a firm has done well domestically with a product or service usually has done so because the competition is minimal or ineffective. Firms with this advantage often find additional lucrative opportunities outside their borders. Moreover, the more successful a firm is domestically, the more difficult it is to increase market share without strong competitive response. International markets, however, offer an ideal alternative to the desire for increased growth and profitability.

Another reason that profitability and marketing top the list is that these tend to be more externally environmentally responsive, whereas production, finance, and personnel functions tend to be more internally controlled. Thus, for strategic planning, profitability and marketing goals are given higher importance.

Once the strategic goals are set, the multinational company will develop specific operational goals and controls, usually through a two-way process at the subsidiary or affiliate level. Home office management will set certain parameters and the overseas group will operate within these guidelines.

### **1.3. Purpose and Goals**

The study as a whole serves two main purposes. The first purpose is to look for new opportunities worldwide and the second purpose is to try to take advantage of cheaper labor forces in order to minimize cost and maximize profit. As stated earlier, big and successful companies are now seeking international expansion to widen their marketplace and open the door to new bigger and more profitable customers. A possible and promising region is the south Asian region and in particular India. With its economic progress and its construction boom, engineering firms worldwide are being attracted to India for the vast opportunities it offers. Moreover, having major offices in India will not only open the doors to the Indian market, but also the neighboring growing countries as well, for engineering consulting firms in most cases complete their projects for a particular nation in major offices around the world and not in that nation specifically.

On the other hand, as companies grow, they start thinking of ways to maximize their profit and minimize their cost. This is done by the use of economies of scale which is the cost advantage the firm gains as it expands. For engineering consulting firms, major assets are employees, so nations with human capital characterized by relatively low wages and high technical skills are an attraction.

The study when complete will give a go or no go status according to many variables which will be studied in later chapters. It will define the mode of entry suitable for the firm's attaining of goals. And moreover it will be a guiding manual for further expansions to south Asia and Southeast Asia for, many factors are treated uniformly across same regions.

### **1.4. Brief Overview of all Chapters**

In chapter 1, the research focused on strategic planning and the need for strategic planning as multinational companies grow internationally. The study then discussed the

benefits of strategic planning. Steps to formulating a strategy were stated; these include: scanning of external environment, internal analysis of the firm, and formulating goals in relation to the external and internal analysis. The purpose and the goals of the whole study were then acknowledged.

In chapter 2, the study will go through previous studies that dealt with international expansion and international management. Moreover many theories will be studied. These theories will deal with the reasons behind the seeking of international growth of firms. On the other hand, some theories will discuss different entry modes and their characteristics. Major variables affecting a firm's decision for international growth will be stated in chapter 2 for further study and analysis in chapters 3 and 4.

In chapter 3, the hypothesis will be stated. Likewise, all the dependent and independent variables will be stated. Furthermore, main variables will be broken down more for more accurate and precise decision-making. Information will be gathered among these variables in order to be analyzed in later chapters.

In chapter 4, the obtained information about the variables will be analyzed and studied in depth to give a "Go" or "no Go" situation. Additionally best entry mode will be identified if the case is a "Go" solution. The hypothesis will be tested for validation.

In chapter 5, main findings will be restated with my conclusion and recommendations for the company and its project to expand internationally to India.



## Chapter 2: Review of Literature

Firms most often attempt to internationalize and go global to capture new business opportunities or to reduce costs of production. Because strategies offer specific benefits and risks, there are key issues that need to be studied before deciding to enter a certain region or nation. Of same importance, is the choice of the entry mode to be implemented when entering a market. The choice of entry mode defines the strategic flexibility with which the firm will be able to identify and adjust its resources in the long run as it attempts to generate a sustainable competitive advantage (*Domke-Damente, 2000*). Many theories stress on the reason why firms seek international expansion, the most important are the following.

### 2.1.1. Theory of Absolute Advantage

This is the basic and oldest theory in international business, which is rooted to classical economic thought. This theory states that the nation was the unit of analysis and the rationale for trade was simply to take maximum advantage of an absolute advantage. The theory of absolute advantage argued that an opportunity for trade arose if a country had an absolute advantage in the production of a particular set of goods and services that it needed (*Smith, 1776*).

### 2.1.2. Theory of Comparative Advantage

In economics, the principle of comparative advantage explains how trade can benefit all parties involved (countries, regions, individuals and so on), as long as they produce goods with different relative costs. The net benefits of such an outcome are called gains from trade. Adam Smith had used the principle of absolute advantage to show how a country can benefit from trade if the country has the lowest absolute cost of production in a good (i.e. it can produce more output per unit of input than any other country). The principle of comparative advantage shows that what matters is not the absolute cost, but the opportunity cost of production. The opportunity cost of production of a good can be measured as how much production of another good needs to be reduced to increase production by one more unit. The theory of comparative advantage premised on the idea that “if our country can produce some set of goods at lower cost

than a foreign country, and if the foreign country can produce other set of goods at a lower cost than we can produce them, then clearly it would be best for us to trade our relatively cheaper goods for their relatively cheaper goods. In this way, both countries may gain from trade” (*Suranovic, 2004*).

### **2.1.3. Hecksher-Ohlin Factor Proportion Theory**

The Hecksher-Ohlin theory states that the nation’s endowment of the factors of production; land, labor, and capital were varied to the extent that the abundance of each of these factors in the economy influenced the production cost structure in an economy. The more abundant the factor of production, the lower the cost of producing these products that make intensive use of that factor. Therefore trade occurs as countries specialize in the production of goods in which they have a price advantage and exchange them for goods in which they have a price disadvantage.

### **2.1.4. International Portfolio Theory**

The international portfolio theory is variously referred to as diversification theory and financial theory. According to this theory, international business investment decisions occur as a result of firms seeking to maximize their flow of profits while minimizing their risk exposure to the economic shocks arising from the domestic market. And to avoid these shocks, they invest in different foreign markets. However, several risks are associated with such practices. These risks may include changes in currency values and foreign market taxes on dividends.

### **2.1.5. The Internationalization Theory**

According to *Buckley and Casson (1976)*, the choice of international market entry mode is a function of the cost associated with each entry mode, given the volume of business that a firm plans to undertake in a market. A given mode may have fixed variable costs at the planned volumes of business so that the cost of using that mode may not be recoverable. Therefore a firm internationalizes via the most cost-effective mode at all times. Internationalization theory is derived from appropriability theory that views multinational enterprises as developers of sophisticated technologies and information from which they benefit from appropriating. Multinational enterprises profit from the monopolization of certain knowledge (*Calvet, 1981*). A second tributary of the

internationalization theory is the transaction cost theory which states that business activities conducted on behalf of the firm by external parties are costly and inefficient and thus a firm stands to benefit by internationalizing as many activities as possible.

Therefore, from the perspective of internationalization theory, a firm internationalizes because the transaction costs associated with international intermediate product markets (goods and services required within the production process) can be reduced by bringing these markets within the firm. Therefore, internationalization is a natural result of self-interest of the firm.

#### **2.1.6. The Eclectic Theory of International Production**

According to *Dunning's* (1977) eclectic theory, international production will occur if a firm has three kinds of advantages:

- Ownership-specific advantages: this refers to an organization's access to tangible and intangible assets that foreign competitors do not possess or do not have in the same manner.
- Internationalization advantages: these are advantages that accrue to the firm from the internal use of its ownership-specific advantages rather than renting them out to external parties in the form of licensing agreements or franchising or simply exporting their products from their home base
- Location specific advantages: this refers to advantages that a firm gains by locating its production or part thereof to foreign locations. Favorable government incentives or regulations in different locations and the desire to reduce transaction cost are a strong incentive for relocating production to particular offshore locations.

The rationale for the firm's internationalization in *Dunning's* words is that "the more a country's enterprises possess ownership-specific advantages, the greater the incentive to internalize them; and the more the enterprises find it profitable to exploit the advantages outside their national boundaries, the more likely they are to engage in foreign direct investment . . . . A country's involvement in international direct investment then becomes a function of the ownership and internationalization advantages of its enterprises relative to those of other nationalities and its location-specific endowments relative to those of other countries.

## 2.2. Entry Strategies and Entry Modes

### 2.2.1. Factors Affecting Entry Strategies

Before going into entry modes and their benefits, several factors need to be examined to assess and evaluate the entry. These factors can be categorized into three groups: firm-specific factors, country-specific factors, market-specific factors.

#### 2.2.1.1. Firm-Specific Factors

Firm specific factors include the firm's capabilities, organizational culture, specialized assets, size, reputation, nature of product, and international business experience (*Aaaker 1989; Amit and Shoemaker, 1993; Arogyaswamy and Byles, 1987; Barney, 1991; Grant, 1991; Hall, 1991; Werenerfelt, 1984; Williams, 1992*). Company executives cite these resources as the driver's of a firm's competitive advantage (*Wernerfelt, 1984*). The firm's capabilities make up the cognitive process by which the firm exploits its valuable tangible assets into action. These are the factors that give one firm's employees an advantage over another set of employees of another firm. These can be summarized in tacit know-how, propriety technology, and business experience (*Anderson and Gatignon, 1986; Erramilli and Rao, 1993*).

Organizational culture has been identified as an important source of sustainable competitive advantage for a firm (*Coyne, 1986; Hall, 1992*). There is evidence in management literature that successful firms are often associated with a strong and cohesive culture that is of the adaptive; entrepreneurial nature (*Batrol and Martin, 1998*).

Specialized assets are physical or human investments that are valuable only in a narrow range of uses or to one or a handful of users (*Anderson and Gatignon, 1986; Erramilli and Rao, 1993; Williamson, 1981*). Special assets can include a piece of equipment, special techniques, special working relationships between a firm and its partner to gain intimate knowledge of the firm's activities and idiosyncrasies (*Anderson and Gatignon, 1986; Erramilli and Rao, 1993*). For service firm, specialized assets could include high level of professional skills, specialized know how, or customization of the service offered.

The size of the firm is often an indicator of its competitive advantage in financial, physical, human, technological, or organizational resources. Firm size places a

constraint on what a firm can do (*Grant, 1991*). Large firm size reflects a firm's ability to absorb the high costs and risks involved in international expansion through sole ownership of foreign affiliates (*Buckley and Casson, 1976*). Of much importance to size is the reputation of the firm. A good reputation implies that the firm is highly regarded and has a good history. But a reputation is a fragile asset and can be damaged easily. A firm with a good reputation is an excellent candidate for alliances, but then the alliance can ruin the reputation or add value to it. The need to protect a good reputation is more likely to force a firm to undertake an entry mode that provides maximum security for its reputation.

The nature of the product varies from non-separable services versus manufacturing goods. The nature of a firm's product, which refers to both macro and micro characteristics of the product, including the firm's industrial sector, have enormous influence on the choice of nation and the mode of operation that the firm uses in a foreign market (*Ekeledo and Sivakumar, 1998*). The macro characteristics of a product such as perishability, tangibility, separability of production and consumption, heterogeneity, play a key role in determining the mode of entry.

Extensive experience in international business can be a potential source of competitive advantage for a firm. Some studies found that sole ownership of a foreign subsidiary is associated with high levels of international business experience (*Davidson, 1982; Anderson and Gatignon, 1986; Gomes-Casseres, 1989; Johnson and Vahlne, 1977*). An experienced firm that has accumulated local market knowledge is likely to avoid hazards by internationalizing market transactions. Firms with significant multinational experience would prefer high-control/high resource, investment type modes, such as wholly owned affiliates.

#### 2.2.1.2. *Country-Specific Factors*

Country factors are believed to be the most crucial factors to be studied upon an entry. Even with the right entry mode and right experience, country risks may have devastating losses on a firm, if they were misinterpreted. The country specific factors mainly include the country profile as a whole, the political risk, the economic policies implemented by the host country, and the human resources present at the host country, along with other minor factors to be discussed later.

The country profile would generally include general information about the targeted nation. These data are the climate, population's size with major city populations, growth rate, urban populations, ethnic composition, education levels, and healthcare. Moreover, a number of more specific factors could be added such as the political environment which imposes a country risk if not stable. Furthermore, the state of a country's physical and technological infrastructure is very important. They act as a significant determinant of transaction costs and of a country's suitability as an export base for competing in world markets. Improvements in infrastructure are also important for better business environment as well as for the insurance of the participating of the poor people in the markets. A good investment climate will benefit both domestic and foreign investors, but it needs to be complemented by effective systems to support business creation and growth, build entrepreneurial skills and facilitate business linkages. Moreover, there must be appropriate mechanisms to facilitate dialogue on private sector development between governments, the private sector, and civil society.

A sound economic policy adopted by the government encourages and promotes foreign investment. A stable macro-economic framework is essential to minimize the risks faced by investors. This relates to the quality, predictability and consistency of fiscal and monetary policies. It includes efforts to tackle unsustainable budget deficits, reduce inflation, ensure exchange rate stability and maintain sustainable levels of domestic debt. Micro-economic policies need to ensure that markets are dynamic, competitive and well regulated. Competition policy and sector-related regulations have a key role to play in preventing monopolies and restricting anticompetitive practices. Investments must also not be undermined by bureaucratic red tape or excessive tax burdens. Entrepreneurs and firms must also be able to rely on an efficient financial system to fund investments. The availability of credit is important, but so is the ability to store wealth or retained earnings for future investments.

The availability and the nature of the human capital or human resources in the host country is a primary issue for foreign investors. Both general education and specific skills are not only an important determinant whether an investment will take place or not, but are also crucial for ensuring that there will be technological spillover effects.

Human capital is more important to service companies where their major assets are their employees.

#### 2.2.1.3. *Market-Specific Factors*

Market specific factors determine the readiness and the level of acceptance of the market for foreign investors in specific industries. Many aspects need to be studied; these might include present competition, market potential, demand uncertainty.

When studying entry to a new market in a new country, competition plays an important role. Competition intensity is measured by the degree to which a firm's entry into a foreign country is pursued by its competitors (*Taylor et al., 2002*) Competition includes number of competitors and their size, the market share and the target of these competitors present.

Market potential refers to the size and growth potential of the foreign market. Previous research has shown that the greater market potential, the more firms increasingly commit their investments abroad and increase the relative proportion of full ownership ventures (*Deng, 2003*).

Demand uncertainty is defined as the extent to which the demand for future sales of a firm's products or services in the host country is uncertain and difficult to predict (*Tsai and Cheng, 2002*). When demand uncertainty is high; firms must be concerned with the potential cost of shrinking on a local partner. If demand falls below expectations, a partner may have limited incentive to carry out the functions it is supposed to perform. The impact of demand uncertainty on entry mode is rooted in the concepts of bounded rationality and shrinking.

#### 2.2.2. **Modes of Entry**

There are a number of common forms of ownership in international operations. Many factors play a role in deciding which entry mode is most suitable. The most widely recognized modes for multinational companies are the wholly owned subsidiaries, joint ventures, licensing agreements, franchising. Depending on the situation any of these can be effective for the implementation of the multinational company's strategy.

Wholly owned subsidiary is an overseas operation that is totally owned and controlled by a multinational company. This could be implemented by the acquisition of

subsidiaries by the multinational company through alliances or mergers. The primary reason for the realization of fully owned subsidiary is the desire by the multinational company for absolute control and for the belief that management efficiency will be better without outside partners. Host countries on the other hand sense that multinational companies are trying to gain economic control by setting up local operations while refusing to partner with local players. Moreover, some countries believe that the multinational companies will drive out local enterprises, and thus prohibit fully owned subsidiaries. On the other hand, home countries oppose the creation of foreign subsidiaries for their belief that this will lead to the exporting of jobs from their country into the host country.

A joint venture is an agreement in which two or more partners own and control an overseas business. This business is normally located in the home country of one of these partners. There are two types of joint ventures. The least common is the non equity venture, which is based on one group's merely providing a service for another. The group providing the service is normally more active than the other. An example might be a consulting firm that is hired to provide analysis and evaluation and then make its recommendations to the other party, an engineering construction firm that is hired to design and build a project in the partner's country. The more common form of joint venture is the equity venture; which involves a financial investment from the multinational company in a business enterprise with a local partner. Many variations play a role in the determination of each partner's level of control, amount of money, technological expertise, and managerial expertise that each will contribute. Joint ventures have become very popular in the last few years among multinational companies searching for internationalization. Joint ventures offer a number of advantages, these include:

- Improvement of efficiency: the creation of a joint venture can help the partners achieve greater economies of scale and scope, something which can be difficult to accomplish by one firm operating alone. Additionally the partners can spread risks among themselves and profit from the synergies which arise from their complementarities of their resources.



- Access to knowledge: in joint ventures, the partners have access to the skills and the knowledge of each other resources.
- Political factors: a local partner can ease the way for entry of the multinational companies in company of restrictive legislation or political risks.
- Collusion or restriction in competition: joint ventures can help partners overcome the effects of local collusion or limits that are being put on foreign competition by becoming part of the of an “insider” group.

A franchise is a business arrangement under which one party (the franchisor) allows another (the franchisee) to operate an enterprise using its trademark, logo, product line, and methods of operation in return for a fee. Franchising is widely used in the fast-food and lodging industries. The concept is very adaptable in the international arena, and with some minor adjustments for the local market, it can result in high profits for both parties. Franchise agreements usually require a startup fee and a percentage of profits paid by the franchisee. In return, the franchisor provides assistance and in some cases, may require the purchase of goods and supplies to ensure quality standards and norms for products worldwide. Franchising can be profitable by providing the franchisee products and services for his market and the franchisor with a new stream of income.

### **2.3. The Construction and Engineering Industry**

In recent years the international construction and engineering industry has experienced great prosperity and opportunities around the world (*Reina, Tuclaz and Schexnayder, 2006*). For many firms, it has led to increasing industry consolidation. The construction and engineering industry is a unique industry shaped up by many characteristics, these characteristics include:

- Standard customer needs worldwide
- Standardized purchasing
- Competitors exist in key markets
- Domestic competition is intense
- Concentrated channels exist worldwide

- Firms are susceptible to scale of economies
- Product awareness is worldwide
- International government constraints exist
- Product technologies exist worldwide
- Transportation is a major cost factor
- Local customer service is important
- Products are tailor made for customers
- Factor costs differ from country to country

#### **2.4. The Indian Construction Engineering Industry**

There are significant opportunities for companies in the Indian construction and engineering sector. Construction is the second largest economic activity after agriculture, and accounts for 11% of India's GDP (*Reserve Bank of India, 2007*). The investments made in this sector are projected to cross Rs 8 trillion (*Reserve Bank of India, 2007*) in fiscal year 2008, thus reflecting the significant opportunity ahead for such companies. The construction and engineering sector can be broadly classified into 3 sub-segments:

- Real estate construction (Residential and commercial)
- Infrastructure (roads, power)
- Industrial construction (Steel, textiles, fertilizers, oil and gas refineries and pipelines)

There is significant demand for quality housing in India. With trends such as younger people wanting to own a house earlier in life, plus greater affordability due to reasonable interest rates on home loans and favorable tax treatment, the demand for residential housing is expected to continue to grow in the near future. Moreover, a huge number of retailers and other commercial companies are on a race to expanding and building bigger and better showrooms and headquarters.

##### **Infrastructure**

With the government's focus on infrastructure development, a lot of promise is in store for the infrastructure segment. Road construction projects, railways, urban infrastructure, power and irrigation projects, which are the major focus areas, are

expected to witness investments of Rs 2.2 trillion (app. 52.2 billion \$ US) in fiscal year 2008. Around 50% (*Reserve Bank of India, 2007*) of the cost of infrastructure projects is accounted for by construction activity, thus reflecting the potential that is there in this segment.

#### Industrial construction

After a slowdown in industrial investments between fiscal year 1999 and fiscal year 2003, these have started picking up. With higher demand and capacity utilization, the need for incremental investments is quite strong. With higher imports of capital goods, a strong indicator of increased capital spending by firms, significant investments are expected over the next few years. The total investment in this segment is expected to hit Rs 973 billion (app. 23 billion \$ US) in fiscal year 2008 (*Indian Economy, 2007*). This is expected to be led by the oil and gas, steel, auto, petrochemicals, cement, paper and fertilizer sectors. Thus, clearly, this is the fastest growing segment, and companies operating here are expected to see stronger traction in terms of order book accretion and sales growth going forward.

### **2.5. The Lebanese Engineering Consulting firm**

The Lebanese Engineering Consulting firm was established in 1956 by four professors of American University of Beirut Engineering School. The firm was funded by \$3,500 and by the end of 1957, firm fees exceeded \$300,000.

By the end of the 1950s, the firm had completed 161 projects in Kuwait, Jordan, Lebanon, Saudi Arabia, Iraq, South Yemen and Egypt. While the majority of the its portfolio remains in industrial and power sector, the firm decided to expand its expertise to transportation, built environment, planning, agriculture & irrigation, water & sewage, and power/telephone projects.

International expansion began and offices opened throughout the Arab Peninsula in Amman 1960, Jeddah 1965, and Aden 1967.

The 1970's witnessed the oil boom, and the firm was there to help governments of Saudi Arabia, Nigeria, and Algeria in developing their industrial infrastructure roads, airports, seaports, hospitals, schools, water and sewage systems, housing and telecom facilities.

During the 1980s, the firm took a huge step towards global growth. The firm acquired 2 international firms expanding to North America and the Far East. Offices were opened in Turkey and more offices were opened in the Middle East and Africa.

In the 1990s, the firm undertook a major task of rebuilding the Beirut's Central District. Moreover, the firm entered the list of top ten engineering firms in the world.

Today the firm is one of the largest global, multidisciplinary firms with 4300 employees including 2560 professionals in 44 offices across the Middle East, Africa, Asia, and Europe.

The engineering consulting firm now owns a group of global consulting firms that are well renowned in their fields of work. For about 60 years, the group has provided professional services and expertise in the areas of architecture, engineering, planning, environment, economics and project management for civil, industrial, and building works. The group's main objective is to specify detailed business needs for clients and provide added value through technical fineness, delivery through efficient organization, and flexibility through personal service and commitment.

The group contains approximately 8500 men and women who provide professional services that satisfy the local and international requirements. Large and small, complex and simple, the group brings the right kind of experience and knowledge of local traditions for diverse types of projects on different continents on the globe. The group's professional services include:

- Appraisal and feasibility studies
- Site surveys and investigations
- Planning and detailed design
- Specifications
- Contract documentation
- Tender assessment
- Construction supervision
- Project and construction management
- Operation and maintenance
- Training and technical assistance

in the fields of:

- Urban and regional development
- Housing, social and commercial development
- Public water, health and agriculture
- Highways and transport facilities
- Economic development and industry
- Energy, power and telecommunications

The affiliates of the group includes besides the main firm, two firms located in the United States of America, two firms in the United Kingdom, one firm in France, and one firm in South Africa. The expertise of these firms varies from architecture, structures, and interior design to project management and operating methods.

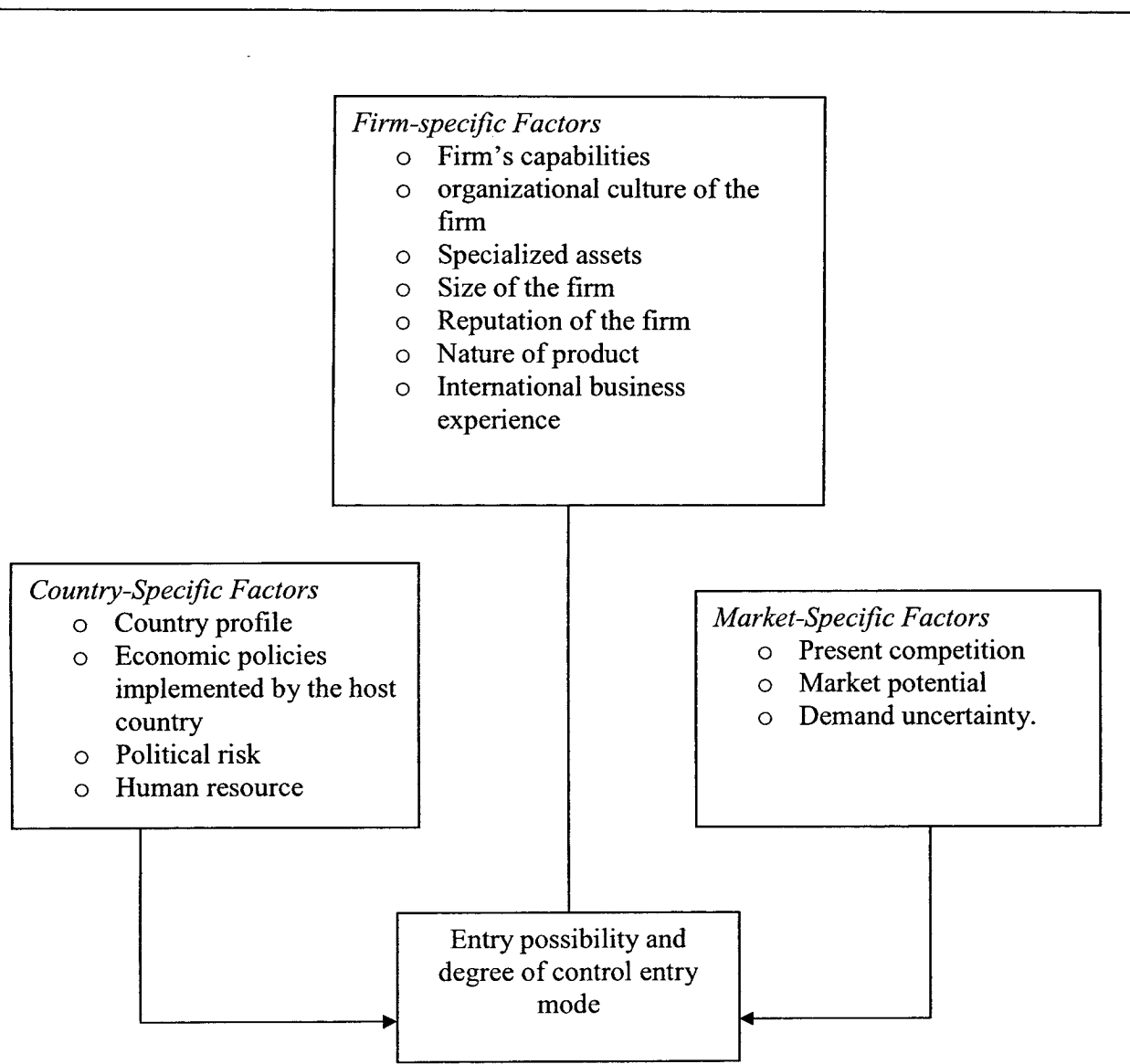
## **2.6. Conclusion and Research Questions**

With all these information at hand, we deduce that there are a number of factors affecting a companies' decision to enter an international market. These factors include country overall situation, market situation and the investing firm's situation. If these factors combined together give a "go" status, then the entry mode should be studied in correlation to the previous assessment and the right choice should be implemented.

In conclusion, the following things should be researched:

- The country's profile and status
- The firm's situation
- The market's situation

And upon the results, the research will clearly identify the right of choice of entry. Below find a figure that summarizes the factors affecting entry possibility and mode.



**Figure 1: Factors affecting entry possibility and degree of control of entry mode**

## Chapter 3: Procedures and Methodology

In chapter 2, a number of theories related to why companies seek international expansion were studied. Moreover, different country entry modes were discussed and analyzed in terms of advantages and disadvantages. Three main factors affect a company's decision to enter a new market and its decision of entry mode. These factors include country specific factor, market specific factors, and firm specific factors. These factors will be studied in this chapter. Moreover, these factors sum up the research questions and are the basis of the hypothesis, which is "As an International Engineering consulting firm, Entering India will be Profitable for the Company."

### 3.2. Assessment of India

#### 3.2.1. Country Profile

<b>Land area</b>	3,287,263 sq km (including Indian-administered Kashmir); 57% is agricultural land and 16% forest area												
<b>Population</b>	1.12 billion (2007 estimate)												
<b>Main Towns</b>	Population in millions, 2001 census <table style="margin-left: 40px;"> <tr> <td>Mumbai (Bombay)</td> <td>16.4</td> </tr> <tr> <td>Kolkata (Calcutta)</td> <td>13.2</td> </tr> <tr> <td>Delhi</td> <td>12.8</td> </tr> <tr> <td>Chennai (Madras)</td> <td>6.4</td> </tr> <tr> <td>Bangalore</td> <td>5.7</td> </tr> <tr> <td>Hyderabad</td> <td>5.5</td> </tr> </table>	Mumbai (Bombay)	16.4	Kolkata (Calcutta)	13.2	Delhi	12.8	Chennai (Madras)	6.4	Bangalore	5.7	Hyderabad	5.5
Mumbai (Bombay)	16.4												
Kolkata (Calcutta)	13.2												
Delhi	12.8												
Chennai (Madras)	6.4												
Bangalore	5.7												
Hyderabad	5.5												
<b>Climate</b>	Varied; humid subtropical in Ganges basin, semi-arid in the north-west, tropical humid in north-east and most of the peninsula, tundra in the Himalayas; all areas receive rain from the south-west monsoon in June-September; the south is also served by the north-east monsoon in January-March												
<b>Languages</b>	Hindi is the national language and primary tongue of 30% of the population. There are 14 other official languages: Bengali, Telugu,												

	Marathi, Tamil, Urdu, Gujarati, Malayalam, Kannada, Oriya, Punjabi, Assamese, Kashmiri, Sindhi and Sanskrit. English is widespread in business circles and as a second language
<b>Religion</b>	Hindu (80.5% in 2001 census); Muslim (13.4%); Christian (2.3%); Sikh (1.9%);
<b>Measures</b>	Metric system. Numbers are often written in lakhs (100,000) and crores (10m)
<b>Currency</b>	Rupee (Rs) =100 paise. Average exchange rate in 2005: Rs44.10: US\$1. Exchange rate on April 27th 2008: Rs40.180: US\$1
<b>Fiscal Year</b>	April 1st-March 31st
<b>Time</b>	5 hours 30 minutes ahead of GMT
<b>Public Holidays</b>	January 26th; August 15th; October 2nd; also major Hindu, Muslim, Christian and other religious holidays

**Table 1: India's profile**  
(Source: CIA fact book, 2007).

### 3.2.2. Political Environment

India is a parliamentary federal democracy with an indirectly elected president, currently Pratibha Patil. The Prime Minister, Manmohan Singh, leads the United Progressive Alliance (UPA), a coalition dominated by the Congress party, which fell short of a majority in the May 2004 general election. The minority UPA government is currently being supported by the Left Front, a group of left-wing parties dominated by the Communist Party of India (Marxist).

The Republic of India is a constitutional federal democracy made up of 29 states and six union territories. The Indian constitution defines the division of most powers between the centre and the states, although the centre takes precedence in relation to residual powers. Representation in parliament has been frozen on the basis of the results of the 1971 census. Given that population growth is much higher in the northern states, the relative value of votes cast in the north in terms of political representation has fallen. The National Population Council has recommended an extension of the "freeze" on representation until 2026. This is likely to become a source of major tension between the country's northern and southern states. India's federal structure often leads to demands



for further devolution of powers to the states, as well as demands for new states to be created. In 2000 three new states—Chhattisgarh, Jharkhand and Uttarakhand (all three northern states with strong tribal representations)—were formed from Madhya Pradesh, Bihar and Uttar Pradesh respectively.

The Indian constitution provides for an independent judiciary, with high courts in every state and a Supreme Court in New Delhi. There are two houses of parliament. The lower house, or Lok Sabha (house of the people), is elected every five years by universal adult suffrage. The prime minister is elected by the Lok Sabha. Members of the upper house, or Rajya Sabha (house of the states), are elected by their respective state legislatures, according to state quotas based on population. The president is elected every five years by both houses of parliament and the state legislatures. He is confined to acting on the advice of the Council of Ministers, which is chosen by the prime minister.

India is the world's most populous democracy and has held regular and largely free elections since 1947. For members of parliament, the chances of re-election to the Lok Sabha are low (as anti-incumbency is a key trend in Indian politics), tending to increase the incentives for politicians to maximize their personal gains rather than working for the welfare of their electorate. The Election Commission of India (ECI) has wide powers to requisition the government machinery for elections and has ensured fairly orderly elections; in 2003 it won the right to make candidates disclose criminal records. However, there are occasional cases of poll rigging and intimidation; spending limits on candidates are poorly enforced and candidates with criminal records are sometimes elected, particularly to the state assemblies. Generally, a high level of political awareness and the sheer size of the electorate nevertheless ensure that the final results reflect the wishes of the people, and the ousting of incumbent administrations has become increasingly frequent.

### **3.2.3. Security Risk in India**

India has fought three wars with Pakistan—two over the disputed territory of Kashmir and one during Bangladesh's war of independence—as well as a major skirmish in Kargil in 1999 between Pakistan-backed militants and the Indian army. Shelling along the Line of Control (LoC), the de facto border that divides Indian and

Pakistani Kashmir, is commonplace. India accuses Pakistan of giving military backing to Kashmiri separatists and Islamic militants fighting against India in Kashmir, but Pakistan claims to give only moral support to the insurgents and accuses India of repressing Muslims in Kashmir. Tensions between the two nuclear powers have been high since an attack on India's parliament building in December 2001, which India blamed on Pakistani-based militant groups. Both countries mobilized troops and stood on the brink of war. Hostility between the two countries has remained intractable, owing to the underlying Kashmir dispute: each country faces considerable domestic pressure not to make concessions to the other in relation to Kashmir. However, in April 2003 relations began to improve significantly, largely as a result of a US-backed international initiative to diffuse the crisis. India began a partial troop withdrawal from Kashmir in November 2004. The rapprochement with Pakistan has continued under the new Congress-led government. In April 2005, in the most important peace-building measure between the nuclear neighbors in four decades, a bus service between Srinagar in Indian-controlled Kashmir and Muzaffarabad in Pakistani-controlled Kashmir came into operation—the first bus route across the LoC in over 50 years. In the past, peace talks have floundered over the question of the relative importance of Kashmir. India has argued that the Kashmir dispute is one of several issues that need to be resolved, and has attempted to improve bilateral relations through the establishment of commercial links. Relations between the two countries are nevertheless generally neighborly, although part of their common border in northeast India remains disputed. India's relationship with Bangladesh is also reasonable, despite occasional clashes between border guards.

India suffers from many bomb attacks, which often occur on buses or trains or at bus stations. Such low-level attacks are generally blamed on Pakistan's intelligence agency and Pakistani-backed Kashmiri militants. Numerous sub-nationalist groups operate within India, and although their activities are generally confined to specific areas, Kashmiri militants have conducted attacks in Delhi. The most daring of these occurred in December 2001, when a group of militants entered India's parliament building, killing at least seven people. Kashmiri militants have also taken foreign hostages, notably in 1995, when four foreigners were kidnapped in Kashmir—the four are presumed dead. More recently, in October 2005 several bombs killed 62 people and

injured over 200 in market places in Delhi. A little-known Kashmiri group has claimed responsibility for the attack. Bomb blasts in the Hindu pilgrimage city of Varanasi killed 14 people in March 2006. Apart from Kashmiri militants, several other groups operate in north-east India, campaigning for state status or independence for their regions. Maoist rebels operate in the tribal-dominated areas of central India and are thought to be linked to the Communist Party of Nepal (Maoist). The Indian government believes there may be 10,000 Maoists in the country. In the worst terrorist incident since 1993, in July 2006 over 200 people were killed in a series of rush-hour commuter train bombings across Mumbai.

Religious clashes between Hindus and Muslims are not infrequent, and as events in Gujarat showed in 2002, can escalate rapidly. In February 2002 a gang of Muslims attacked a train carrying Hindus from Ajodhya, killing 57 people. Hindus responded by attacking Muslims throughout Gujarat, and up to 1,000 are thought to have died. Communal clashes are often sparked or exacerbated by property or commercial disputes, rather than simply by religious intolerance. Such riots usually take place in inner districts of cities in northern India.

### Crime

Organized crime is a concern in India, particularly in Mumbai. Protection and extortion rackets have flourished, particularly in the film industry and the media generally, including cable companies. Some gangs are believed to have moved into trade unionism. This problem is likely to have been exacerbated by the number of politicians—particularly in state assemblies—with criminal records. The worst incident connected to India's underworld took place in Mumbai in 1993, when a number of bombs exploded, resulting in 257 deaths. The stock exchange, several hotels and other offices were hit, and hand-grenades were thrown at the international airport. The incidents were blamed on a combination of the underworld and the Pakistani intelligence agency.

Petty crime is common in India. According to the National Crime Records Bureau (NCRB), in 2004 there were over 270,000 incidents of theft and over 90,000 of burglary. Such statistics are likely to understate the prevalence of crime. Many crimes go unreported, owing to a lack of confidence in the police. Bag-snatching and pick-

pocketing are fairly common, particularly in crowded tourist areas. According to the NCRB, there were over 33,000 murders in 2004.

### **3.2.4. Economic Environment**

#### *3.2.4.1. Economic Structure*

India is a two-level economy, with a cutting-edge and globally competitive knowledge-driven service sector that employs the brightest of the middle classes, on the one hand, and a sprawling, largely rain-fed agricultural sector that employs the majority of the vast and poorly educated labor force, on the other. India's manufacturing sector has traditionally been poor (with a reputation for low-quality goods) although there are signs that this is beginning to change. The agricultural sector, with fishing and forestry, accounts for around 20% of GDP, services for 54%, and manufacturing for 26% (*Indian Economy*, 2007). Although the economy's dependence on agriculture has declined in recent years, fluctuations in overall GDP growth are still largely a function of the outcome of the annual monsoon. The majority of landholdings are farmed at subsistence level, and many farming families live below the poverty line. India has some of the poorest human development indicators in the world, particularly in rural areas. At the other end of the scale, India also has a large number of highly qualified professionals, as well as several internationally established industrial groups. Economic development has been spread unevenly across states. Economic growth and progress in human development indicators has been much faster in the southern and western states than in the north. Without a rapid and sustained increase in economic growth and higher investment in primary education and healthcare, reducing poverty will remain a considerable challenge for the authorities.

Real GDP growth (%)	8.5
Consumer price inflation (av; %)	4.2
Current-account balance (US\$ m)	-12,948.0
Exchange rate (av; Rs:US\$)	44.1
Population (m)	1,095.4
External debt (year-end; US\$ m)	127,803.1

**Table 2: Main Economic Indicators**

(Source: Economic Intelligence Unit, 2006).

Agricultural production, mainly of food grains, is an important determinant of overall economic growth and a huge employer of the rural population. Major crops grown include oilseeds, cotton, pulses, sugar, tea, coffee, rubber, jute and potatoes. Some economists argue that for annual GDP growth to sustain rates of 7-8%, the agricultural economy will have to grow much faster than the rates of 2.6% recorded in recent years. However, in spite of normal monsoon rains and efforts to stimulate the sector, agricultural growth has remained low. The sector grew by 0.7% and 3.9% year on year in 2004/05 and 2005/06 respectively (*Indian Economy*, 2007).

The size of India's industrial sector compares unfavorably with other countries in Asia. At about 26% of GDP, the sector is about half as large as China's. India's rigid labor laws are the main obstacle to an increased role for manufacturing, which nevertheless has seen unprecedented growth, as an anti-export bias in economic policy has been reduced and more resources have been moved into labor-intensive industries (*Indian Economy*, 2007). Historically, a policy of import substitution in the decades after independence encouraged the development of a broad industrial base, but a lack of competition contributed to poor product quality and inefficiencies in production. Several sectors have now been opened up to foreign participation under India's liberalizing reform program, contributing to a significant expansion in the production of durable consumer goods including cars, scooters, consumer electronics, computer systems and white goods. However, a large proportion of heavy industry is still publicly owned.

The services sector has proved to be the most dynamic in recent years, with telecoms and information technology (IT) registering particularly rapid growth. Services, including airlines, banks, construction and small-scale private traders, as well

as the public sector, accounted for 54% of GDP in 2005/06 (*Indian Economy*, 2007). It is one of the anomalies of India's rapid economic growth since the 1990s that, as in other sectors, growth in the services sector has largely been "jobless". Most of India's 10m people who are entering the labor force every year will nevertheless require jobs. In 2004 aviation was liberalized, and a number of low-cost airlines started services. However, privatization of the domestic telecoms company, Bharat Sanchar Nigam Limited (BSNL), and of the national and international carriers, Indian (formerly Indian Airlines) and Air India, has stalled. Government plans to open the retail sector to foreign direct investment (FDI) have also stalled. The predominance of inefficient state-owned enterprises, particularly in the banking sector, remains a brake on growth.

#### 3.2.4.2. *Economic Performance*

Between 1981 and 2005 the Indian economy grew by an annual average of 5.8% (*Indian Economy*, 2007) (real GDP at factor cost). This performance followed three decades of growth of just 3.5% per year (equivalent to GDP growth per head of only 1.5%)—a pace that became known as the "Hindu rate of growth". GDP growth has been even faster in the last three years (2003/04-2005/06), averaging 8.4% (*Indian Economy*, 2007), fuelled by an unprecedented expansion in manufacturing and solid growth in the services sector. Economic performance still varies dramatically between individual states and industrial sectors. However, global investors increasingly sense that India's growth prospects have changed fundamentally in recent years. Even a volatile financial market—the stock market fell by 30% in mid-2006—has not altered perceptions about the prospects of the real economy. India's booming software industry is pushing up the price of skilled labor. The IMF calls this trend the "Bangalore bug", and the consequences of this emerging shortage in skilled labor could be serious. Over time, the growth of labor intensive manufacturing could suffer, which could stall the transition of surplus labor from agriculture to industry. Nevertheless, the opening up of the economy has led to an influx of foreign capital, technology and management skills, making India increasingly attractive as a base for medium and high value added manufacturing. The low level of productivity in the large state sector is a major constraint on higher GDP growth. The state employs 70% of the 28 million (*Indian Economy*, 2007) workers in organized employment in India. Most public-sector enterprises are hugely overstaffed,

debt-ridden and inefficient. A high level of unionization and political expediency has restricted labor reforms and technological advances that could threaten jobs, and have thus deterred potential investors. In 2004, in an effort to woo the middle class just ahead of the election, the previous Bharatiya Janata Party (BJP)-led government had sold substantial blocks of stocks in major public-sector corporations. However, its successor, the Congress-led coalition government, has back-tracked on this strategy, because the Left Front, on which it government relies for support in Parliament, is opposed to the privatization of state-owned enterprises. India's private companies have responded better to the reform process, with mergers in several sectors helping to improve efficiency. Although borrowing costs are still high, the cost of finance has fallen steadily in recent years, with interest rates hitting a 32-year low at the beginning of 2005. As a result, financial constraints on companies' expansion plans have eased, and their overall financial position has improved. However, overall economic growth has been hampered by a weak infrastructure, including poor transport networks and insufficient and erratic power supplies, which have also limited investment. In addition, the central bank has begun a process of tightening monetary policy in 2006, bringing to an end the era of easy money. India's rigid labor laws are perhaps the biggest hindrance to employment creation and the development of a competitive manufacturing sector. The existing labor legislation prevents the transition of the vast majority of the labor force—90% of workers are employed in the informal economy—from subsistence agriculture or low-productivity informal (without employment contracts) employment to high-productivity employment in the formal sector. Companies with more than 100 employees still require the go-ahead from their respective state government to make workers redundant and permission is almost never granted. Given the political constraints to labor market reforms, the government has tried to use special economic zones (SEZs) to foster competition among states and promote the growth of manufacturing. Apart from creating the conditions for a more competitive manufacturing sector, the SEZs have become an important vehicle for pioneering policy and institutional reforms that are difficult to introduce within the normal parliamentary process.

Between 2001 and 2005 the annual rate of consumer price inflation averaged around 4% per year (*Indian Economy*, 2007), largely owing to improved productivity,

an appreciating currency and improved monetary management by the central bank. Furthermore, globally lower inflation and low commodity prices (until 2003) contributed to a reduction in the inflation rate. In addition, the government has moderated the annual increases in support prices (thus lowering overall inflation), and has tried to reduce food stocks through public works programs, poor relief and exports. More recently, rising prices of oil and other commodities have led to an increase in inflation. However, the pass-through into core inflation has remained limited, and the main macroeconomic impact of higher oil prices has been deterioration in the country's current account. While consumer price inflation has remained contained, asset price inflation has surged. Both house and stock prices have been rising at phenomenal rates, with the SENSEX stock market index rising by over 150% between August 2004 and May 2006. Prices for housing and stocks shed more than 30% (*Indian Economy, 2007*) of their value in the second half of May 2006 after a long bull run, but the housing market has continued to boom.

The latest national accounts data paint a macroeconomic picture that would have been unthinkable until a few years ago: one of India's main economic weaknesses—stubbornly low investment and savings rates—seem to belong to the past. Gross domestic investment shot up to 30% of GDP in 2004/05, from 26% in 1999/2000 (*Indian Economy, 2007*). The trend is in line with data from companies and business surveys that have long indicated an investment boom. Similarly, gross domestic savings rose from 25% of GDP in 1999/00 to 29% in 2004/05. An even higher savings rate is needed, perhaps 40% finance India's rapid growth, but the prospects for this are good. With further rises in GDP per person likely, and with a rapidly expanding labor force, the share of the population with rising discretionary incomes is set to rise over the next two decades (*Indian Economy, 2007*).

India's recent economic growth has been impressive, but the same cannot be said of its record of creating employment for its vast and rapidly expanding workforce. The task ahead is daunting, with over 70m people set to enter the labor force in the next five years. Moreover, in order to reach full employment, 150 million jobs—more than the combined population of Germany and France—will have to be created over the next five years, according to some estimates. The number of people counted as



unemployed rose from 20 million in 1993/94 to 27 million in 2000/01 (*Census of India*, 2001). In 2005/06 the figure rose to 36 million, according to data released by the Planning Commission. During the same period the rate of unemployment rose from 6% to 9.1% (*Census of India*, 2001). However, this measure excludes underemployed persons, who earn very little and are not very productive. This is why some estimates put the actual number of unemployed closer to 80m people—more than twice the official estimate.

A significant worsening of India's employment situation seems inevitable. The challenge of creating about 10 million jobs per year is increasingly having impact on India's economic and social policies. The role of the state in providing employment is central and heavy subsidization of employment by the public sector will continue to be the norm. Out of the 50 million new job opportunities that the Tenth Plan (2002-07) envisages, 20 million are likely to be created through state-sponsored employment schemes. In 2006 the Congress-led government approved the National Employment Guarantee Scheme, which aims to provide 100 days of employment on rural public works projects at a minimum wage. Future coalition governments are likely to be formed by parties that deliver (or are perceived to deliver) on this front. Given the importance of employment creation for political survival and the resources required to perform the task, fiscal consolidation might suffer as a consequence.

Increasing trade integration with the rest of the world, the dynamism of India's information technology (IT) and other services sectors, and the emergence of India as an important destination for FDI have all contributed to the country's improved external position in the early 2000s. However, high oil prices have brought about a reversal and in 2004/05 India's current account recorded a deficit equivalent to 0.9% of GDP (*Indian Economy*, 2007). In 2005/06 the deficit is estimated to have risen sharply. The fact that it has largely been funded by volatile capital inflows will be a concern for the central bank, but rising domestic interest rates and high levels of foreign reserves are reducing the threat posed by the deterioration in the external balance, especially to the exchange rate. While the strong growth in merchandise exports of the predominantly export oriented economies of South-east Asia has been the main driver behind their current-account surpluses, India has traditionally maintained a deficit on the merchandise trade

account. However, buoyant invisible inflows, particularly remittances from non-resident Indians, along with software services exports, have been instrumental in reducing India's current-account deficits.

#### 3.2.4.3. *Economic Policy*

Economic growth remains severely constrained by an unsustainably large fiscal deficit. A concerted effort will be required to bring about a substantial reduction in the overall fiscal deficit, which peaked at 9.6% of GDP in 2002/03 (5.9% federal government; 3.7% state governments) (*Indian Economy*, 2007). Strong economic growth in the past few years pushed the federal deficit down to 4.3% in 2005/06, but the underlying fiscal position remains weak. Including off-budget items such as oil subsidies and losses of the state electricity boards totaling about 1.9% of GDP, the total fiscal deficit is estimated to have reached 7.5% of GDP in 2005/06 (*Indian Economy*, 2007). While private savings and public investment in India are comparable with those of East Asia, public savings and private investment are markedly lower. Private investment continues to be crowded out by unproductive public consumption, resulting in a reduced rate of GDP growth. The magnitude of the required fiscal adjustment is huge—a radical departure from current policy is needed to address India's single most important risk to macroeconomic stability. The policies required to reduce the fiscal deficit are easy to list but politically difficult to implement. Reducing subsidies, raising the tax take (only about 2 million people pay income tax), cutting government employment and closing or privatizing loss-making public-sector enterprises are all measures opposed by powerful interest groups. The Fiscal Responsibility and Budget Management Act, designed to place a statutory limit on government borrowing, became effective in July 2004. The bill gives the central government the mandate to eliminate the revenue deficit (the gap between government current spending and revenue) by March 2009 and to reduce the fiscal deficit incrementally each year to reach 3% of GDP by March 2008. However, critics say that the government will find it difficult to meet the fiscal targets, given that expenditure requirements continue to be high. The government's target for the federal fiscal deficit in 2006/07 is 3.8% of GDP (*Indian Economy*, 2007). The objective of the Reserve Bank of India (RBI, the Central Bank) is to maintain price stability and ensure an adequate flow of credit to the economy.

Important changes to the institutional set-up of the RBI have resulted in improved monetary control. In recent years inflation has fallen to levels of around 4-5%, down from double-digit inflation in the first half of the 1990s. The objective of price stability has gained further importance following the opening up of the economy and far-reaching reform in the financial sector. Furthermore, the authorities are aware that inflation hits the poor hardest since they possess no hedges. The RBI targets broad money, interest rates, credit availability to the productive sectors, and the exchange rate when formulating policy. In recent years large capital inflows have exerted upward pressure on the exchange rate, which the RBI has sought to limit by actively selling rupees/buying US dollars in the foreign-exchange market. The by-product of this policy has been the accumulation of foreign reserves, which stood at around US\$155 billion in June 2006 (*Indian Economy*, 2007). The rationale of this policy is apparently to protect Indian export competitiveness, particularly vis-à-vis China. The imposition of economic sanctions in 1998, in the aftermath of India's nuclear tests, was the latest catalyst for reform, although initial reform proposals were subsequently often diluted. Significant steps have been taken to reduce bureaucratic restrictions on industry and encourage FDI. In particular, the financial and insurance sectors have been opened up to private and foreign participation, as have the telecoms sector and many sectors of manufacturing industry. The government has also removed the remaining quantitative restrictions on imports, in line with its obligations to the World Trade Organization (WTO), although it has raised agricultural tariffs and imposed many anti-dumping duties to mollify domestic lobbies. However, government plans to extend its privatization program and open the economy further to foreign investment took a sharp knock during various state elections in the first half of 2006, which strengthened the position of the Left Front. This will make it very difficult for the Congress-led minority government to push ahead with further economic reforms.

### **3.2.5. Human Resources and Legislation**

According to the 2001 census, India's population stood at 1.027 billion on March 1st of that year. Even under fairly optimistic assumptions about the pace of future fertility decline, India's population is likely to reach 1.4bn by 2025. Around half of the 400m increase in population is likely to occur in the northern states of Bihar, Madhya

Pradesh, Rajasthan and Uttar Pradesh. The future fertility declines in these states will determine the country's demographics. In 2005 India's total fertility rate stood at 2.7 births per woman. However, regional differences are vast. Uttar Pradesh's total fertility rate stands at 4.7, whereas that for Kerala is 1.8—below the replacement level of 2.1 births per woman. The ratio of females per 1,000 males was 933; the difference is due to female infanticide, the neglect of female children and, lately, the abortion of female fetuses, although sex determination of the fetus is banned. The labor participation rate was 39% (52% for males and 26% for females). "Main" (that is, more or less fully employed) workers accounted for 78% of all workers (87% of males and 57% of females). The rest were "marginal" workers. Population growth averaged 1.7% per year in 2001-04, down from an average of 1.9% in the 1990s, 2.1% in the 1980s, and 2.3% in the 1960s. Life expectancy at birth increased to 63 years for men and 64 years for women in 2004, from 32 years for both men and women in 1951. This compares unfavorably with figures for China (70 years for men and 73 years for women) or Sri Lanka (72 years for men and 77 years for women). Mortality rates for the under-fives have fallen significantly, from 242 per 1,000 in 1960 to 87 per 1,000 in 2003. However, the life expectancy rate is significantly lower for males than for females. (2001 census)

	2001	2002	2003	2004	2005	2006
Population	531	496	1,027	51.7	48.3	100
	381	361	742	37.1	35.1	27.8
	150	135	285	14.6	13.2	27.8
	82	76	158	8	7.4	15.4
	340	227	567	33.1	22.1	55.2
	276	127	567	33.1	22.1	55.2
	241	73	313	23.4	7.1	30.5
	35	54	89	3.4	5.3	8.7

**Table 3: Population Breakdown**  
(Source: (2001 census))

India has a relatively low level of urbanization compared with most other developing countries in Asia: almost 60% of Indians live in villages with a population of less than 5,000. However, the rate of migration from rural to urban areas is increasing. The urban population constituted 28% of the total in 2001, up from just over 25% in the mid-1990s, and is likely to reach 36% around 2025. In 2001 there were 35 cities with a population above 1m; the number of such cities is likely to rise to 70 by 2025, when they will contain about one-half of the country's urban inhabitants. The urban population is growing fastest in states such as Bihar and Uttar Pradesh, which have comparatively low levels of urbanization. More developed states such as Maharashtra and Tamil Nadu, whose populations are growing less rapidly, experience lower urban growth. The largest urban agglomerations are Mumbai (16.4 million in 2001), Kolkata (13.2 million), Delhi (12.8 million), Chennai (6.4 million), Bangalore (5.7 million) and Hyderabad (5.5 million). India's population is extremely diverse, differentiated by language, religion, caste and class. A significant political divide exists between Hindus (81% of the population) and other religious groups, including Muslims (13%), Sikhs and Christians. However, Hinduism is itself a highly stratified religion, and a large number of Hindus, particularly among the lower castes, do not have a political affinity with Hindu-nationalist movements. Another important distinction exists between the primarily Hindi-speaking north and the south, where a number of vernacular languages are in use, together with English. English is a lingua franca throughout the country, however, and competence in the language is more a function of class than region (*2001 census*).

Income and consumption differentials are significant, but not high by developing-country standards: the top one-fifth of India's population accounts for around 46% of income or consumption, whereas the bottom one-fifth accounts for around 8%. About 25% of the population, or 260 million people, were below the poverty line in 2000, as measured by an income level of less than one US dollar a day (*2001 census*).

Literacy rates among the population aged seven years and over have risen considerably during the 1990s. The 2001 census recorded literacy rates of 65.2%, up from 52.2% in 1991—the highest rise ever in a single decade. The male literacy rate was 75.6% in 2001 (up from 56% in 1981 and 27% in 1951), compared with 54% for

women (30% in 1981 and 9% in 1951). The 2001 census indicated a decline in the total number of illiterate people for the first time since independence, with 21.5 million fewer illiterate males and 10.5m fewer illiterate females in 2001 than in 1991. In spite of recent progress, India still lags behind in educational standards, both absolutely and compared with other developing countries: it has 17% of the world's population, but some 40% of the world's illiterates. India also possesses a large pool of highly educated and vocationally qualified people, although they make up a small fraction of the population. There are considerable regional variations in literacy rates: Kerala has a rate of 91%, whereas Bihar has a rate of only 49%.

Literacy and school attendance have improved markedly since the early 1990s, as poverty has declined and educational aspirations have surged. In fiscal year 2002/03 (April-March), an estimated 82% of children in the 6-14 age group were enrolled in schools. Attendance in primary schools has risen notably, but the rates for girls are significantly lower than for boys. Overall attendance in secondary schools rose from 20% in 1960 to 44% in 1991 (with the female rate rising from 13% to 32%). In higher education (science, math and engineering) the rate was 20% for both males and females in 1998-2003, the highest rate by far for a low-income developing country, and up from single digits in 1960 (*2001 census*).

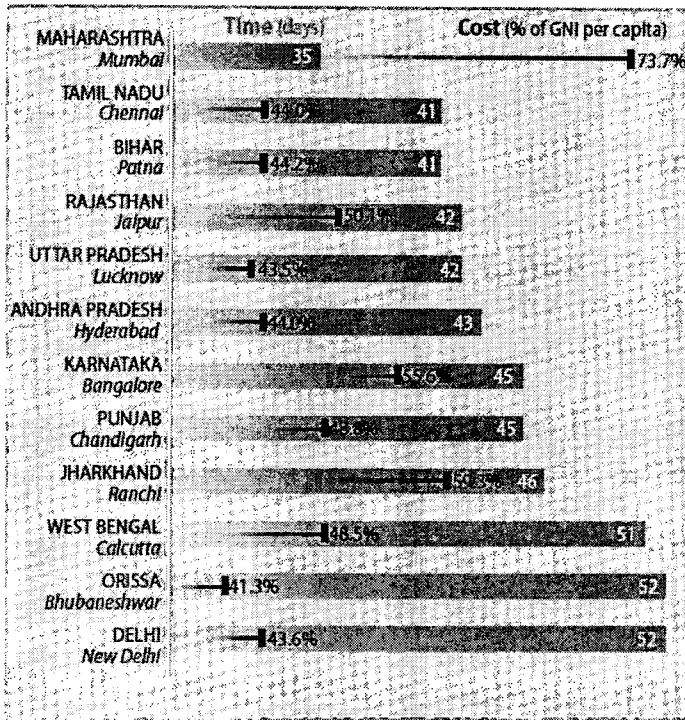
India has more than 225 universities, 6,800 affiliated colleges and 1,128 polytechnics. Higher education is very competitive, increasingly so as the economy has opened up and has created more well-paid jobs in the private sector as a result. However, subsidies for higher education and a system of positive discrimination have resulted in a skewed education system. A great number of students are accepted on the basis of caste or religion rather than ability, and cheating is a serious problem. India has also become a major international centre for the recruitment of high-quality information technology (IT) staff. The renowned Indian Institute of Technology (IIT) has distinguished and international alumni including the CEO of the UK's largest firm, Vodafone (*Indian Economy*, 2007).

Starting a business in India has become considerably easier over the last few years. It now takes 35 days to register a new business in Mumbai compared to 71 days a year ago and 89 days in 2004. These improvements came up as the processes were

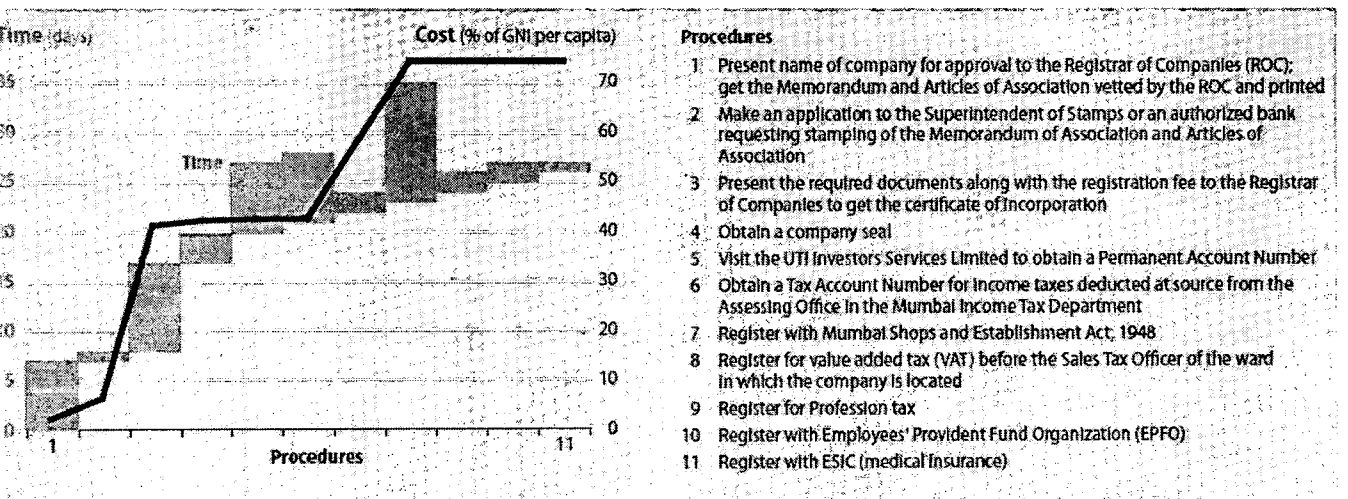
computerized for obtaining tax registration numbers. Moreover, the stamp duty can now be paid through authorized dealers (banks) as well as through the stamp office (*World investment prospects to 2011, 2007*).

Internationally, India still lags behind when compared with other countries. For example in Australia it takes 2 days to startup a new business. The number of procedures to start a business in India (11 procedures) is also high compared with the South Asia average of 8. Although India does not impose a minimum capital requirement, the official costs to start a business are high, at 74% of income per capita. This has risen from 62% last year following increases in VAT registration fees. Costs are far above global benchmarks—such as 0% of income per capita in Denmark and 9% of income per capita in China—and are even high in comparison to the South (*World investment prospects to 2011, 2007*).

Asia average (47%) and the East Asia average (43%). Although all Indian cities have sped business startup, large sub-national variations remain. Within India the shortest time to start a business is 35 days in Mumbai. It takes the longest in New Delhi and Bhubaneswar (52 days). It costs the least to start a business in Bhubaneswar (41% of income per capita) and the most in Mumbai (74%) (*World investment prospects to 2011, 2007*). Below are two figures identifying the number of days and cost to start a new business in India in a number of cities. Furthermore, another figure identifies the required procedures and time needed for each procedure to open a new business in India.



**Figure 2: Time and Cost to start a business in India**  
(Source: Economic Intelligence Unit, 2007).



**Procedures**

- 1 Present name of company for approval to the Registrar of Companies (ROC); get the Memorandum and Articles of Association vetted by the ROC and printed
- 2 Make an application to the Superintendent of Stamps or an authorized bank requesting stamping of the Memorandum of Association and Articles of Association
- 3 Present the required documents along with the registration fee to the Registrar of Companies to get the certificate of Incorporation
- 4 Obtain a company seal
- 5 Visit the UTI Investors Services Limited to obtain a Permanent Account Number
- 6 Obtain a Tax Account Number for Income taxes deducted at source from the Assessing Office in the Mumbai Income Tax Department
- 7 Register with Mumbai Shops and Establishment Act, 1948
- 8 Register for value added tax (VAT) before the Sales Tax Officer of the ward in which the company is located
- 9 Register for Profession tax
- 10 Register with Employees' Provident Fund Organization (EPFO)
- 11 Register with ESIC (medical Insurance)

**Figure 3: Starting a Business in India**  
(Source: Economic Intelligence Unit, 2007)



### 3.3. Indian Construction Market

Construction as stated earlier is the second largest economic activity after agriculture in India. The investments made in this sector are expected to cross 8 trillion Rs in 2008, which acts as a huge opportunity for companies.

According to the Federation of Indian Chambers of Commerce and Industry, India's spending on infrastructure is expected to go up from US \$ 24 billion in 2005 to US \$ 47 billion in 2009. The government of India has indicated that India has the potential to absorb US \$ 150 billion of FDI in infrastructure sector over the next five years. For bringing in greater efficiency in the process and mobilizing this huge resource requirement, the government has provided a large number of incentives to attract private sector investment. This includes creation of Special Purpose Vehicles and a Viability Gap Funding scheme for financing infrastructure projects. All infrastructure sectors have also been opened up for 100 per cent FDI. There is a growing trend of Public-Private Partnership (PPP) in implementation of infrastructure projects in India (*Investing in India*, 2006).

Huge investment opportunities are seen with respect to the roads and highways sectors. In airport infrastructure, companies would be interested in construction, upgrading and operation of new and existing airports including cargo related infrastructure; outsourcing of some of the operation and maintenance functions such as cargo handling services and commercial development; consulting opportunities for airport management, airport design and architecture, traffic studies and project supervision; setting up of non-aeronautical activities like shopping complex, golf course, entertainment park and aero-sports near airports; upgrading of smaller airports through private sector participation and opportunities for airport and avionics equipment manufacturers and service providers.

Under the National Maritime Development Program (NMDP) of the government, 219 projects have been identified involving an estimated investment of US \$ 13.5 billion in ports and related infrastructure. These projects would be executed with private sector participation in two phases over a period of 10 years. The various investment opportunities are in terms of construction of jetties and berths, procurement, replacement and upgrading of equipment at ports; deepening of channels and

improvement of port connectivity; leasing out assets of existing ports, construction and operation of terminals, berths and storage facilities along with captive facilities for port-based industries; construction and operation of Greenfield ports; construction and operation of ; container terminals, multipurpose and specialized cargo berths, warehousing, container freight stations, storage facilities, and Handling equipment, setting up captive power plants, dry-docking and ship repair facilities; leasing of equipment and floating craft from the private sector; and port-based Special Economic Zones will lead to significant investment opportunities for heavy engineering industries, steel units and fertilizer and cement companies (*Investing in India*, 2006).

### **3.4. The Lebanese Engineering Consulting Firm**

The engineering consulting firm as stated in chapter 2 is a multidisciplinary firm with a total of 4300 employees including 2560 in 44 offices in different countries. It is considered one of the biggest engineering consulting firms in the world. The company pioneered in many fields of specialization thus ranking among the top in the world and in some cases in the top place. Moreover the Lebanese consulting firm owns a group of international companies that are well known in their fields of expertise. These American and European companies along with the Lebanese consulting firm make up a group of companies headed by the Lebanese consulting firm.

Engineering consulting firms seek one and only main asset, and that is employees. All their work is dependent on engineers and professionals. Their products are designed and executed by engineers and professionals. Engineering consulting firms are service firms offering services. These services vary from studies to plans to supervision in many fields. These fields include urban and regional development, housing, social and commercial development, public water, health and agriculture, highways and transport facilities, economic development and industry, and many other fields.

The Lebanese engineering consulting firm has a very profound international experience. Throughout a period of 25 years, the consulting firm managed to open offices in 43 other countries in the Middle East, Asia, Africa, and Europe. And if we are to take into account the companies in the group as a whole, the group covers almost all continents of the world.

### **3.5. Conclusion**

In this chapter, the hypothesis was stated. Issues that will better determine the validity of the hypothesis were studied thoroughly. These issues as stated in chapter 2, were country specific factors, market specific factors, and firm specific factors. The country-specific factors took much analysis for they accounted for a large percentage of the decision. Moreover the firm's international experience and state were identified. Information and descriptive statistics about these factors will be analyzed in chapter 4 to test the validity of the hypothesis.

## **Chapter 4: Findings**

In chapter 3, the research went through the factors affecting the firm's decision to enter India. The major section was the country specific factors related to India. In this section, the study went through the political system in India, the economic performance of India, the major economic indicators in India, economic performance, human capital and legislation, and many other factors related to India as a country. On the other hand, the research studied deeply the construction market in India as well as the firm's international experience and position. In this chapter, the main indicators thought to affect the decision to entering India are going to be analyzed. The hypothesis will be tested in relation to the prior analysis.

### **4.2. Descriptive Statistics and Analysis**

To start with the political situation, India's political environment is somehow stable with major reforms taking place for a better environment. Relations between India and its historic enemy Pakistan are improving significantly due to internationally backed initiatives to resolve the crisis between the two countries. These improvements are very important, for they promote civil rest and diminish terrorist attacks and crimes in India which were mostly linked to Pakistani-backed militias. The congress-led coalition government has made huge growth through opening the economy to foreign investment. But further progress before the next election (due May 2009 at the latest) will be constrained by opposition from the government's political allies in the Left front. The main opposition party, the Bharatiya Janata Party, is in some ways more free-market than Congress, but its Hindu nationalist language, coupled with its reliance on groups such as small traders for support, would make it wary of moving too quickly were it to reform the next government.

Economically speaking, India's globally competitive knowledge-driven service sector is a strong magnet for service firms looking to maximize their profits and minimize their costs. With services accounting for around 54% of the GDP, this sector has proved to be the most active in recent years due to India's English-speaking highly skilled labor force. India's economy grew from the 1950s to the 1980s at an average

annual rate of 3.5% GDP growth. From the 1980s to the early 2000s, the GDP grew at an average annual rate of 5.8%, followed by an average annual rate of 8.4% in the few last years. In the last few years, the central bank's improved monetary management along with improved productivity decreased the average inflation rate to 4%. India's gross domestic investment shot up to 30% of GDP in 2005, from 26% in 2000. Thus signaling an increase in investment and savings rates. An even higher savings rate is needed to finance India's rapid growth, but the indications are good.

India's recent economic growth has been notable, but India still faces a major problem for creating employment for its vastly increasing workforce. 70 million employees are expected to enter the workforce in the next five years. If the company is to reach full employment a total of about 150 million jobs are to be created.

India's external position was greatly improved in the 2000s due to its increased international trade and the emergence of its IT and service sector placing India in the top countries for FDI. FDI into India is rising rapidly. FDI inflows totaled US 17.0 billion \$ in 2007 and is expected to grow steadily in coming years. India's skilled English-speaking workforce has been the major attraction for FDI. Moreover caps on FDI in protected industries have been removed and more such reforms are on the way.

	2000	2001	2002	2003	2004	2005	2006	2007
Population (m)	1,065.1	1,080.3	1,095.4	1,110.4	1,125.4	1,140.2	1,155.0	1,169.7
GDP (US \$ bn)	692.7	805.6	922.9	1,131.9	1,329.1	1,512.4	1,719.4	1,955.2
GDP (% real change)	8.3	9.2	9.4	8.5	8.0	7.5	7.5	7.5
Foreign direct investment inflows (US \$ bn)	5.8	6.7	17.5	17.0	18.0	20.0	22.0	25.0
% of GDP	0.8	0.8	1.9	1.5	1.4	1.3	1.3	1.3
% of gross fixed investment	3.2	2.9	6.4	4.8	4.2	4.0	3.8	3.7

**Table 4: Market Summary and Projections**

(Source: *World investment prospects to 2011*, 2007).

Economic growth remains hindered by an unsustainable large fiscal deficit which peaked to 9.6 % of GDP in 2002/03 due to huge inflows of capital. Public savings

and private investments are low resulting in large fiscal deficits and reduced GDP growth rate.

According to India's 2001 census (latest official census), India's population reached 1.027 billion on March 1<sup>st</sup> 2001. With very optimistic projections, the population is expected to reach 1.4 billion by 2025. The workforce accounts for around 55.2 % of total population which is close to 570 million workers. Most of the population density is centered in the northern part of India and the rate of migration from rural to urban areas is growing making it more crowded in the north and major cities.

Literacy rates are increasing slowly but steadily reaching a mere of 65% in 2001. Literacy and school attendance has noticeably increased since the early 1990s due to the inclination of poverty. India has more than 225 universities, 6,800 affiliated colleges, and 1,128 polytechnics. Higher education is very competitive. Education in India generally follows an Anglo-Saxon system. Indian students are renowned for their brightness and their extraordinary skills in IT and engineering domains.

Starting a new business in India is improving and becoming easier due to the computerized processes for obtaining tax registration numbers. Today it takes 35 days to start a new business in Mumbai compared to 71 days a year ago and 90 days in 2004. There are 11 procedures in India.

Overall scores and ranks	5.27	6.37	62	54
Political environment	5.2	5.7	50	50
Political stability	5.5	6.3	55	49
Political effectiveness	4.9	5.2	45	46
Macroeconomic environment	7.5	7.5	39	44
Market opportunities	7.6	7.7	10	9
Policy towards private enterprise and competition	5.0	6.0	51	50
Policy towards foreign investment	5.1	6.9	66	49
Foreign trade and exchange controls	3.7	6.4	76	68
Taxes	5.1	6.3	60	42
Financing	4.8	6.6	59	48
Labor market	5.6	6.2	64	56

Infrastructure	3.3	4.5	76	72
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**Table 5: Business Environment Rankings**

(Source: *World investment prospects to 2011, 2007.*)

The Indian construction market today ranks among the highest worldwide. With construction as the second largest economic activity after agriculture in India, spending on infrastructure is expected to reach US 47 billion \$ in 2009 and a potential of US 150 billion \$ in the next five years (*Investing in India, 2006*). Opportunities in roads, highways, and airports are vast due to the infrastructure boom. Moreover, construction of ports and jetties are witnessing a great demand in India. But as stated earlier, targeting India, is not mainly for targeting the Indian construction market. Huge and profitable projects are contracted internationally and not nationally. On the other hand, accomplishing base offices in India might open the door to governmental projects related to construction and engineering such as town planning and mass house building.

The Lebanese engineering consulting firm as stated in earlier chapters has an extensive experience in international expansion. This might be the first time, the firm opens offices in South Asia, but things are easy for the international firm after opening 44 offices in the world. They have a vast knowledge of international human resource management, along with offices ready to train employees outside India, and highly trained experts to train employees in India. Moreover, the engineering consulting firm needs only to build offices. They do not need machinery or export/import relationships. Their primary and sole asset is their human workforce. Moreover, offices need not to be in primary locations, although primary locations give a prestigious sense for the company's image, but offices could be nearly anywhere in the cities.

### **4.3. Discussion of the Hypothesis**

In conclusion, the overall political, economic, and social situation is suitable for the Lebanese engineering consulting firm to enter India. Things are getting brighter in India, and the future promises an even brighter outcome. There are some hampering issues such as the political situation and the weak infrastructure, including poor transport networks. But these things could be taken as positive sign to attract new opportunities in infrastructure projects, which is the case with a large portion of FDI.

The skilled English-speaking and bright Indian workforce is the main engine behind the evolution of the services sector and is a major attraction for firms planning to expand to India.

Moreover, the engineering consulting firm should enter India with wholly owned offices. That is, building new offices and recruiting from scratch. Joint ventures will not work for this kind of business, for projects are more often executed with the help of more than one office and more than one country. So joint ventures will raise conflict related to profits and contracting. Buying an existing Indian company could be adopted to skip through paperwork and legislation. But with the systems computerized and the steps clear, it is better for the consulting firm to startup from scratch. The main key drivers to India and the challenges to be dealt with are summarized in the following points.

<b>Main drivers</b>	<b>Challenges</b>
<ul style="list-style-type: none"> <li>• Progressive movement towards de-licensing and deregulation.</li> </ul>	<ul style="list-style-type: none"> <li>• Highly complex and inelastic social structure.</li> </ul>
<ul style="list-style-type: none"> <li>• India is the world's largest democracy.</li> </ul>	<ul style="list-style-type: none"> <li>• Bureaucratic impediments.</li> </ul>
<ul style="list-style-type: none"> <li>• Fast growing economy.</li> </ul>	<ul style="list-style-type: none"> <li>• Infrastructural limitations.</li> </ul>
<ul style="list-style-type: none"> <li>• Large pool of young, English-speaking skilled labor force, cost effective production facilities, large domestic market.</li> </ul>	<ul style="list-style-type: none"> <li>• Political instability.</li> </ul>
<ul style="list-style-type: none"> <li>• Capacity upgrading in infrastructure, industrial base and intellectual capital.</li> </ul>	<ul style="list-style-type: none"> <li>• Rigid labor laws.</li> </ul>
<ul style="list-style-type: none"> <li>• Progressive tax reforms.</li> </ul>	<ul style="list-style-type: none"> <li>• Corruption and cultural differences.</li> </ul>
<ul style="list-style-type: none"> <li>• Acceleration of the privatization process and</li> </ul>	



restructuring of public enterprises.
<ul style="list-style-type: none"> <li>• Economic stability.</li> </ul>
<ul style="list-style-type: none"> <li>• India is the fifth largest economy in the world (ranked above France, Italy, the United Kingdom and Russia).</li> </ul>
<ul style="list-style-type: none"> <li>• The Gross Domestic Product (GDP) of India is the third largest in Asia.</li> </ul>
<ul style="list-style-type: none"> <li>• India ranks second among the emerging nations of the world.</li> </ul>
<ul style="list-style-type: none"> <li>• Anglo-Saxon teaching system in Universities.</li> </ul>
<ul style="list-style-type: none"> <li>• Skilled and relatively low paid labor force.</li> </ul>
<ul style="list-style-type: none"> <li>• Experience of the Lebanese firm's international practices.</li> </ul>
<ul style="list-style-type: none"> <li>• Experience of the Lebanese firm's building of the gulf.</li> </ul>

**Table 6: Key Drivers and Challenges to Entering India**

The hypothesis “As an International Engineering Consulting firm, Entering India will be Profitable for the Company” is proved to be valid in relation to the above key success factors. There are some challenges to be overcome but the success factors outweigh the challenges. With proper mindset from the multinational company and with the help of local expertise, nearly any multinational company can operate and generate profit in India. The company will benefit from the skills of the Indian workforce and the relatively low wages they work for. Moreover, the size of India's economy and the growth projected for the economy in the coming years, are two main factors that attract any multinational company seeking to make profit and take advantage of the opportunity cost India offers. Because of this service's nature, all

projects or part of them could be executed in India by Indian workforce despite the client's origin.

#### **4.4. Conclusion**

In this chapter, we analyzed the information obtained in chapter 3 and we came up with a "Go" situation based on positive signs in the country, the market, and the firm itself. An entering mode was suggested depending on the firm's nature of service and the country's characteristics. The hypothesis was tested and was approved.

The research contributed greatly to the Lebanese engineering consulting firm studying entering India. The study emphasized on the country-specific factors related to India. Furthermore the research went through different types of entry modes and identified the right choice of entry that best matches the situation of the company and the host country. So this research can also be used by other multinational companies planning to enter India with similar services to provide and even with other forms of industries.

In the following chapter, we will go through the conclusion and recommendations and through the basic research limitations.

## **Chapter 5: Conclusions and Recommendations**

In the previous chapters we comprehensively identified the reasons why multinational companies seek international expansion. The research recognized the internationalization process and some of its causes. On the other hand, we identified the major issues to be tackled by multinational companies when seeking internationalization. The research then discussed strategic planning and international strategic planning and their role in the success of multinational firms abroad. Moreover, the study stated major steps in formulating a strategy. These steps were identified as scanning the international environment for opportunities and threats, then conducting an internal resource analysis of the firms' strengths and weaknesses, and finally planning goals in light of the external scanning and internal analysis.

We then identified the purposes of the study, which were two. The first is to look for and grasp new opportunities worldwide and the second is to look for cheaper and more efficient workforce leading to a decrease in costs and increase in profits. India was chosen to be studied for possible entry for the Lebanese engineering consulting firm.

Different theories and studies were scanned to identify why multinational companies seek international growth. Furthermore, some theories dealt with entry modes and the advantages and disadvantages of each. The first theory was the absolute advantage theory which states that the opportunity of trade between nations arose, if a nation had an absolute advantage in the production of a certain set of goods and services. The next theory is the theory of states that what matters is not the absolute cost but the opportunity cost of a product or service. Another theory discussed is the hecksher-ohlin factor proportion theory which stated that the abundance of a factor of the production factors in a nation, and then this decreases the cost of products relying on this factor. The international portfolio theory link the internationalization process of firms to their need to minimize their risk exposure to the economic shocks produced by the domestic market. The internationalization theory analyzes different entry modes. Moreover it identifies major factors to be studied while expanding internationally. These factors are summarized in country-specific factors, market-specific factors, and firm-specific factors. These will be studied in detail in chapters 3 and 4. Moreover, different

entry modes and their characteristics were stated; from fully owned subsidiaries, to joint ventures and franchises.

Moreover, the Lebanese engineering consulting firm was introduced. The firm's offices worldwide were identified, and its experience and fields of expertise were stated. The Indian construction market was also overviewed tackling major issues.

The hypothesis which is "As an International Engineering Consulting Firm, Entering India will be Profitable" was stated and the dependent and independent factors that will help us in testing this hypothesis were studied, these were the factors stated earlier. Country-specific factors took the most part of the discussion. The political environment in India was discussed with its implications on security and the economy. Moreover, the economic environment and the economic structure and performance of India were studied emphasizing foreign direct investment. Furthermore, human capital and the Indian workforce were also detailed, for they were a crucial factor in the firm's decision to enter India. After finishing with the analysis of India, the Indian construction sector and its ability to absorb more and more investment in it were studied. The hypothesis was later stated

All the data obtained, were analyzed in form of advantages and disadvantages, thus making the decision easier. The pros were more than the cons which concluded a "Go" situation for the company and verified the hypothesis to be true. The entry mode was chosen to be Greenfield investment- that is building everything from scratch and hiring people from zero, although buying a local company was also possible.

## **5.2. Research limitations**

During the course of the research, many difficulties were faced causing a decrease in the precision of the findings. Major limitations were the lack of data from the company I work in. Although personnel at the firm were helpful in giving general information, management and strategy information were difficult to get. Moreover, recent information about India was a bit scarce, and if available, the data cost much money. Furthermore, players in the Indian construction market were hard to identify. Information varied greatly from one source to another, thus making it unreliable and useless.

### **5.3. Further Research**

This study dealt with the feasibility of entering India for an engineering consulting firm. The study gave a “Go” situation with Greenfield entry mode. Further researchers could study the detailed profitability from entering India. On the other hand, studies could be implemented to buy a local company rather than entering in Greenfield mode. Also, different similar studies as this study could be implemented on regional countries in order to compare with India.

### **5.4. Recommendations**

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

The liberalization process in India that begun in 1991, made it easier for foreign MNCs to enter the Indian market. This was a necessary development for the Indian economy and business environment in order to remain competitive and attract FDI. I believe that Indian government strategy will continue to play an important role for multinational companies in India but to a decreasing extent as the Indian government is becoming more “market-oriented”. Multinational companies considering establishing in India should not be discouraged due to complex government networks or bureaucracy. These obstacles can be overcome with the right type of mindset and by using local expertise. The liberalization process is one of the drivers of change in the Indian economy heavily affecting government strategy formulation. Thus, government strategies are constantly being developed and adjusted in order to be effective in an

environment characterized by institutional change, and more reforms are expected to take place in the coming years in a number of sectors. Moreover, matching strategies are becoming increasingly important as government control is gradually diminishing and being shifted to market forces. Liberalization and deregulation have made network strategies less influential in gaining competitive advantage e.g. there does not exist a limited number of licenses for the companies to attain. Furthermore, the Indian government is allowing 100 % FDI in some sectors, but the problem of high taxes along with the time and number of procedures to open a business is still a sizable obstacle to overcome.

Corruption and certain cultural differences are other major obstacles to overcome. There are several ways to overcome existing obstacles to trade through management practices. One way is to educate and inform the workers about the cultural differences and the specific business procedures in the countries. Managers should also try to make use of the local employees that possess valuable knowledge about the market.

The Lebanese engineering consulting firm should enter India in Greenfield investment as stated earlier but also with the help of local expertise to speed things up and get over some challenges and obstacles related to cultural differences and Indian labor laws. Entering India will give them reach to skilled and efficient Indian labor force. Training should be done for Indian employees to familiarize them with the firm's systems and norms. Training can be done either in India or abroad in any of the company's offices worldwide. The labor law should be studied thoroughly, for it still imposes some difficulties in terms of ending contracts with employees and other minor issues.

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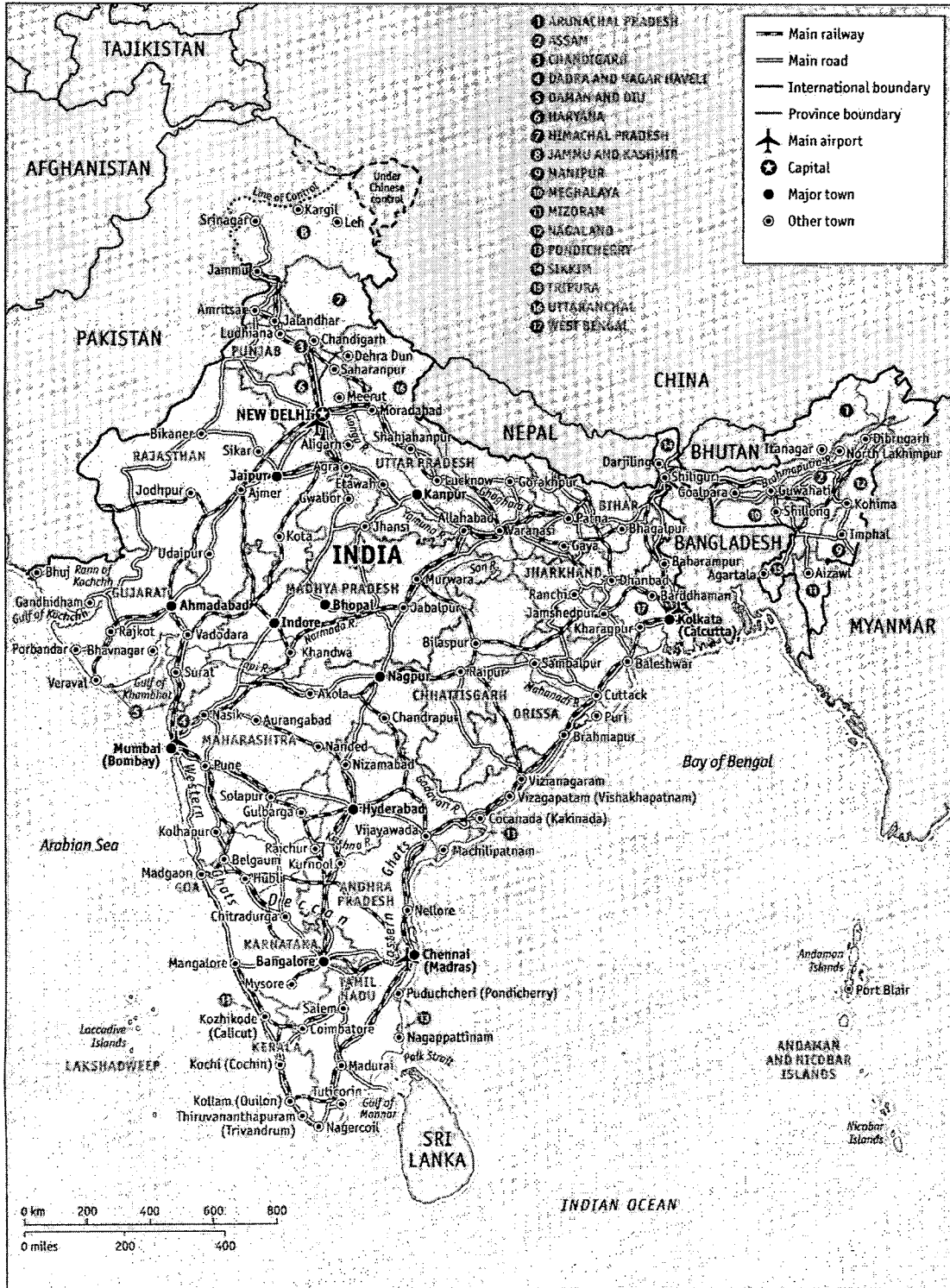
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## **APPENDICES**

# APPENDIX A. Map of India



## APPENDIX B. Reference Tables

### Gross domestic product

(fiscal years Apr-Mar; market prices)

	2000/01	2001/02	2002/03	2003/04	2004/05
<b>Total (US\$ bn)</b>					
At current prices	461.3	478.3	506.1	595.0	691.6
<b>Total (Rs bn)</b>					
At current prices	21,076.6	22,813.0	24,497.4	27,602.2	31,214.1
At constant (1999/2000) prices	20,369.7	21,444.8	22,223.2	24,063.2	26,115.1
% change, year on year	4.0	5.3	3.6	8.3	8.5
<b>Per head (Rs)</b>					
At current prices	20,694	22,059	23,338	25,916	28,895
At constant (1999/2000) prices	20,000	20,736	21,171	22,593	24,175
% change, year on year	2.4	3.7	2.1	6.7	7.0

Sources: Central Statistical Office, 2006

### Gross domestic product by sector, at constant prices

(fiscal years Apr-Mar; Rs bn; constant 1999/2000 prices)

	2000/01	2001/02	2002/03	2003/04	2004/05
Agriculture	4,539	4,819	4,487	4,936	4,973
Industry					
Mining	426	434	472	497	526
Construction	1,115	1,160	1,249	1,385	1,559
Electricity, gas & water supply	456	463	485	509	530
Manufacturing	2,846	2,918	3,117	3,338	3,608
Services <sup>a</sup>	9,321	9,986	10,716	11,595	12,741
<b>GDP</b>	<b>18,703</b>	<b>19,780</b>	<b>20,526</b>	<b>22,260</b>	<b>23,937</b>

<sup>a</sup> Including statistical discrepancy.

Sources: Central Statistical Office; Economist Intelligence Unit, 2005.

### Real gross domestic product by expenditure

(fiscal years Apr-Mar; Rs bn at constant 1999/2000 prices where series are indicated; otherwise % change, year on year)

	2000/01	2001/02	2002/03	2003/04	2004/05
Private consumption	12,883.4	13,676.8	13,894.0	14,976.7	15,954.9
	2.1	6.2	1.6	7.8	6.5
Government consumption	2,530.0	2,573.3	2,558.5	2,620.2	2,862.0
	0.3	1.7	-0.6	2.4	9.2
Gross fixed investment	4,571.0	4,801.1	5,275.9	5,873.7	6,253.6
	0.0	5.0	9.9	11.3	6.5
Stockbuilding	174.6	115.4	139.0	118.2	282.8
	-1.1 <sup>a</sup>	-0.3 <sup>a</sup>	0.1 <sup>a</sup>	-0.1 <sup>a</sup>	0.7 <sup>a</sup>
Exports of goods & services	2,692.4	2,845.0	3,465.5	3,667.3	5,108.5
	18.2	5.7	21.8	5.8	39.3
Imports of goods & services	2,749.8	2,843.2	3,137.8	3,364.5	5,198.9
	3.5	3.4	10.4	7.2	54.5
<b>GDP</b>	<b>20,369.7</b>	<b>21,444.8</b>	<b>22,223.2</b>	<b>24,063.2</b>	<b>26,115.1</b>
	4.0	5.3	3.6	8.3	8.5

<sup>a</sup> Change as a percentage of GDP in the previous year.

Source: Central Statistical Office, 2005

### Transport statistics

(fiscal years Apr-Mar)

	2000/01	2001/02	2002/03	2003/04	2004/05
<b>Railways</b>					
Total length ('000 km)	63.0	63.1	63.1	63.2	63.5
Electrified ('000 km)	14.9	15.8	16.3	17.5	17.5
Goods traffic (m tonnes)	473.5	492.5	518.7	557.4	602.1
Passengers (m)	4,833	5,093	4,971	5,112	5,416
<b>Road</b>					
Registered vehicles ('000)	54,991	58,863	67,033	n/a	n/a
Goods vehicles ('000)	2,948	3,045	3,488	n/a	n/a
Surfaced roads ('000 km)	1,415	1,421	1,421	n/a	n/a
<b>Air</b>					
Passengers handled at domestic airports (m)	42.03	40.00	43.72	48.78	59.28
Cargo ('000 tonnes)	842	854	979	1,069	1,280
<b>Ports</b>					
Goods traffic (m tonnes)	281.1	287.6	313.6	344.8	383.8

Source: Ministry of Finance, *Economic Survey*, 2005

## Interest rates

(%; period averages unless otherwise indicated)

	2001	2002	2003	2004	2005
Lending interest rate (%)	12.1	11.9	11.5	10.9	10.8
Deposit interest rate (%)	8.5	6.9	5.2	5.3	6.0
Money-market interest rate (%)	6.5	5.5	4.5	4.8	5.3

Sources: IMF, *International Financial Statistics*; Reserve Bank of India; Economist Intelligence Unit, 2005.

## Energy statistics

(fiscal years Apr-Mar; m tonnes production unless otherwise indicated)

	2000/01	2001/02	2002/03	2003/04	2004/05
Coal	309.6	327.8	341.3	361.2	382.6
Lignite	23.0	24.8	26.0	28.0	30.3
Electricity					
Installed capacity ('000 mw)	117.8	122.1	126.2	131.4	137.5
Generation (bn kwh)	554.5	579.1	596.5	633.3	680.0
Crude petroleum	32.4	32.0	33.0	33.4	33.9
Petroleum products	95.6	100.0	104.1	113.5	118.2
Natural gas	29.5	29.7	31.4	n/a	n/a

Source: Ministry of Finance, *Economic Survey*, 2005.

**Balance of payments, IMF series**  
(US\$ m)

	1999	2000	2001	2002	2003
Goods: exports fob	36,877	43,248	44,794	51,153	60,895
Goods: imports fob	-50,550	-59,818	-56,829	-60,723	-75,537
<b>Trade balance</b>	<b>-13,673</b>	<b>-16,570</b>	<b>-12,035</b>	<b>-9,570</b>	<b>-14,642</b>
Services: credit	14,508	16,685	17,336	19,483	23,903
Services: debit	-12,278	-13,259	-14,482	-15,036	-17,425
Income: credit	1,920.0	2,521.0	3,524.0	3,188.0	3,779.0
Income: debit	-5,631.0	-7,412.0	-7,666.0	-7,098.0	-8,674.0
Current transfers: credit	11,957.0	13,549.0	15,140.0	16,792.0	22,177.0
Current transfers: debit	-35.0	-113.0	-407.0	-698.0	-345.0
<b>Current-account balance</b>	<b>-3,232.0</b>	<b>-4,599.0</b>	<b>1,410.0</b>	<b>7,061.0</b>	<b>8,773.0</b>
Direct investment in India	2,168	3,585	5,472	5,627	4,323
Direct investment abroad	-79	-510	-1,398	-1,679	-1,879
Inward portfolio investment (incl bonds)	2,316	2,482.0	2,950	1,064	8,216
Outward portfolio investment	0	0	0	0	0
Other investment assets	-451	1,712	-2,834	3,699	-3,258
Other investment liabilities	5,623	2,492	3,160	3,213	6,574
<b>Financial balance</b>	<b>9,577</b>	<b>9,761</b>	<b>7,350</b>	<b>11,924</b>	<b>13,976</b>
Net errors & omissions	-418	340	-716	-190	470
<b>Overall balance</b>	<b>6,357</b>	<b>6,070</b>	<b>8,690</b>	<b>18,859</b>	<b>25,664</b>
<b>Financing (- indicates inflow)</b>					
Movement of reserves	-5,237	-5,084	-8,046	-22,178	-31,883
Use of IMF credit & loans	0	0	0	0	0

Source: IMF, *International Financial Statistics*, 2005.