Most studies in international business ignore the influence of within-country differences and focus mainly on between-country differences. The focus of this chapter is on within-country (India) differences in terms of modes of entry. I am interested in teasing out how regional/state level institutional credibility of India impacts mode of entry (Green field/Joint-Venture/Acquisition). I am focusing on one investor country (France) and one host country (India) as it will help control for cultural differences and business practices between the two countries. The paper ascertains the importance of ‘sub-national institutional credibility’, a concept quite significant when it comes to emerging markets especially in the Indian context. While the extant literature has modeled the entry mode owing to a unilateral decision only taken by the foreign investor, this chapter argues that it is the outcome of a joint decision between the foreign investor and the
owners of the local complementary assets. In this paper, I am able to explicitly consider the transactional characteristics of local complementary assets and to show case the importance of bundling model in the MNE footprint in emerging countries.
Abstract

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Key words: Modes of entry, Sub-national Institutions, CSA, OLI paradigm, Emerging markets, India, FDI.
INTRODUCTION

The strategic decision to set up operations in foreign countries, especially emerging ones involves institutional navigation within the host country (Wright et al., 2005). The formal and informal institutions within the host country are important for foreign investor's success. In this study, I examine the French FDI adaptations in India. I chose India as empirical setting in order to emphasize its sub-national institutional impact on entry mode choices. Sub-national institutions are crucial as they provide an additional unit of analysis for modes of entry studies. There are less inward FDI studies that are focused on emerging economies (Chung and Beamish, 2005; Brouthers et al., 2005). Specifically, Myer and Nguyen (2005) explored the role of sub-national institutions in ownership mode choices. Last but not the least, sub-national studies have been reported from China, Vietnam and Russia but not from India. The economic geography literature and the international business literature have always focused on countries as the unit of analysis. Locations within countries have been mostly ignored. There are very few papers in economic geography literature that empirically deals with intra-country location of FDI. The study offers an overview of how sub-national institutions influence the strategic decision of where to locate a FDI project in India and develop new propositions arising out of it. Institutions and local complementary assets are important when it comes to selecting an appropriate mode of entry (Brouthers, 2002). Sub-national institutions influence both location choices and mode of entry (Greenfield/ JV/Acquisitions) and is the central theme of this study.

RESEARCH QUESTION

The research question that I want to explore is: How institutional credibility at the sub-national level impact firm's mode of entry in an emerging setting like India? (wherein 'credibility' refers to a general assessment of the institutional system rather than specific details). How the local complementary inputs are accessed and bundled by the foreign investors in a particular region to decide an optimal mode of entry? Specifically, I examine how multinational enterprises (MNEs), when entering emerging economies like India, choose among three modes of entry: (1) greenfield, (2) acquisition and (3) joint-venture (JV) through the lens of local complementary assets. The focus is on one investor country (France) and one host country (India). India has a large number of regions (states/cities) and is one of the prominent emerging economies. The regional comparison therefore can be more comprehensive and systematic. France is one of the
world's largest advanced economies. These two representative nations with distinct types of economies could be an interesting research setting to connect sub-national differences with entry mode strategies.

The paper is structured as follows. The following sections present the theoretical underpinnings on institutional polycentrism, mode of entry and local complementary assets. Then follows the propositions, empirical methodology & conclusions.

**India-A Pluralistic Society**

The concept of "polycentricity" was first introduced by Michael Polanyi in his book" The Logic of Liberty" (1951). It is a theoretical concept suggesting institutions are multi-centered decision centers operating under set of rules which are overarching. The multiple power centers operate in a complex and mutually adjusting manner giving rise to a spontaneous order (Polanyi, 1951). India is a union of 29 states and 7 union territories. In a nation like India, states can be part of polyarchy emphasized by multi-level actors and institutions. Decisions are jointly doled out by the higher-level central actors and the lower-level regional actors, where the higher level actors have the ultimate veto power. It is a system where the horizontal i.e., within a sub-national region and vertical i.e., across levels of government (central-state government relationship) interactions play an important role in the determination of investment flows. Regional institutions are more closer to society and markets and hence are crucial for providing information to investors. We have chosen namely two corridors for the study: 'South' Corridor (Tamil Nadu) and 'West' Corridor (Gujarat) as these states attract maximum investment flows and are very distinct in their vertical and horizontal political dynamics (Sinha, 2005).

We focus on variations within India and suggest that both formal and informal institutional heterogeneity across the regions has its effect on the MNE's entry modes. Provinces, municipalities and SEZ (special-economic-zones with good infrastructure) can help foreign investors get acquainted with the regional institutions of the state they intend to locate. Fiscal incentives such as subsidies and tax holidays are important considerations when it comes to choice of an investment location (Oman, 2000) until the implementation of GST (one-tiered tax system) in 2017. Since local authorities at the regional level implement their own investment-related policies set at the central level due to administrative decentralization, foreign affiliates
negotiate over business licenses, real estate, public utilities like electricity, environmental clearance and tax-incentives and subsidies with the local/provincial authorities. This is one of the reasons why effectiveness of implementation of central rules and policies vary across regions in countries like India. Even if the central govt. has a favorable mandate towards FDI, still the local government has a lot of say when it comes to implementation. Most laws, rules and regulations that are issued at the central level are interpreted and implemented by the local authorities, thereby taking advantage of their ambiguity. Regional political actors do influence the legal interpretation of such rules and regulations in order to protect their own vested interests. Cooperative relationship with central government foster sales performance whereas with local government fosters both sales and financial performance and also helps obtain various approvals from the central authorities (Luo, 2001; Peng 2000).

We introduce the concept of “institutional credibility” (Sinha, 2005) in the domain of international business and its relationship with the entry mode strategies. The 'notion of credibility' draws from the macroeconomics literature especially with regard to time inconsistency problem, wherein the policy maker has the incentive to change it in a later date, especially when the policy is no longer working for the policy maker. It means, a state might promise something but a state actor or agency might renege on the promises at a later time. In this scenario, the govt. may announce a policy to look forward to a pro-investment action by investors. However, once investors have committed, the government has incentives to renege on its policy commitment. To summarize, there can be a significant gap between policies and outcomes thus calling for attention toward the role of sub-national institutions in attracting FDI. Thus, regional institutions has a lot of say in MNE's decisions.

For instance, according to automobile major Renault-Nissan India Business Development Head, the Tamil Nadu government at that time when Renault entered Chennai was favorable in terms of tax benefits. Incentives like Investment Promotion Subsidy (IPS) and benefit of VAT refund were available for the sale of cars in Tamil Nadu. The state government promised to provide Investment Promotion Subsidy (IPS) to the company in the form of refund of gross value-added tax (VAT) and central sales tax (CST) [dually mentioned in the website]. Now the firm and the government are locked in a tussle after the demand of a value added tax (VAT) refund of close to Rs 2,000 crore (INR). It is learned that the state government has refused to acknowledge the
VAT dues claims made by the company and the state government officials have expressed non-commitment on any timeframe. Hence, the automobile major has put a hold on its plan to further invest and expand in the said region, contingent on expedited resolution of the outstanding dues.

India's 29 state governments, in varying degrees try to woo foreign investors through a broad range of incentives which includes sales-tax exemption, tax-deferment schemes, direct financial support like capital grants or project-specific support such as reduction or exemption from property prices, reduced electricity tariff rates. Provincial authorities try to liberalize the provinces that are within their authority so that MNEs could establish their operations.

There are contradicting opinions when it comes to subsidies. According to one Schneider Electric senior manager, government subsidies varies with the electoral cycle. If the CM (head of the state) wants to develop an area (from where he actually belongs) he will try to establish a SEZ (special economic zone) in order to conduct business in the zone for 10 years and that too with tax exemption. DMK in Chennai made the auto industry, mobile industry tax free. Dominant State ruling party plays an important role and in coalition with the central government they try to bring in more investments. Another Saint-Gobain manager points out that political hegemony doesn't matter and in the case of Saint-Gobain it would not have made any difference. Those days for entering into India one had to go through FIPB (Foreign Investment Promotion Board) which was influenced by the central government. Afterwards, it's really the state government. One can have a state government which is not aligned to the central government. If the state govt. policies are friendly and they are able to support the industries and are able to follow the MoU (Mutual Understanding), then the negotiations can work out pretty well. It is useful to have the state and the central governments aligned. But that does not come into the equation at all. But it's the state government that has to attract the investment. It's role in attracting investment is quite high because land, power, people and any other benefits are in the hands of the state government. The central government has very little role in it. Huge investments were conducted in Chennai (South), in Gujarat (West) as well in Rajasthan (North) and all the three places had very similar prospects. It depends on the level of the interest state exhibits towards the investment. If the state is already industrialized, there would be processes in place and unless the investment ticket is very big then it's nothing special in Gujarat. There is no special incentives to go to Gujarat at all. For instance in one of Sant-Gobain's greenfield cases
the entire process took 2 years in Gujarat whereas it got faster in some other places. It would be very unwise to carve out generalized rules on subsidies and political hegemony present in the state.

One of the biggest incentives is land-use rights. The administration of land-use rights lies in the hands of regional authorities. Whether investors can obtain the land-use rights directly or not can lead to a regional variation when it comes to inward FDI. Availability of hassle-free land in time at a reasonable and competitive price dedicated toward industrial use is the main concern of every foreign affiliate. They want to ensure that the project moves seamlessly without any undue delay. The important steps involved in the land allotment are: (1) easy availability of private land/Government land, (2) clearing of Non-Agricultural (NA) permission, (3) land acquisition and evaluation of land. In order to promote industrialization in Gujarat, the Revenue Dept. has taken several steps to facilitate allocation of land to industries such as:(1.) Simplification of valuation procedures of Government land, (2.) Modifications in stamp duty, (3.) Geographical Information System (GIS) for upgradation of land records and for the identification of potential Government land etc. In case of Gujarat, Gujarat Industrial Development Corporation [GIDC] is the nodal agency. The conversion of lease-hold land to freehold land in GIDC estates is the masterpiece of all land related policy reforms. After the development of the estate, the price could be raised depending upon the demand. On the other hand, Govt. of Tamil Nadu has nominated SIPCOT(State Industries Promotion Corporation of Tamil Nadu Ltd.) as nodal agency or nodal institution for establishing new manufacturing facilities and expansion projects with large investments in Tamil Nadu. It also disburses the structured package of assistance which consists of the following tax related incentives/concessions: 1.) Investment Promotion Soft Loan [against the VAT(Value-added Tax) + CST(Central Sales Tax paid to Govt.)], 2.) Investment Promotion Subsidy (against the VAT + CST paid to Govt.), 3.) Back ended Capital subsidy, 4.) Critical Infrastructure Subsidy (Effluent Treatment Plant Subsidy), 5.) Any other incentives as directed in GOs. SIPCOT allots developed plots on 99 years lease basis only mainly for manufacturing industries. The allotment of land is conducted methodically. The applications received for the allotment of land in SIPCOT Industrial Complex / Parks are scrutinized by the Allotment Committee headed by MD, SIPCOT. The selection criteria is based on project viability, proposed investments, employment that can be generated, nature of the pollution, etc. The allotments are made according to the availability of land and the merits of the application.
Preference in allotments is rendered to less polluting industries, less water and power intensive projects.

**LITERATURE REVIEW AND THEORY**

**Host country Institutions**

Institutions comprise the economic, political and social relationships within a society. They are the rules of the game both formal (eg., laws and regulations) or informal (eg., codes of conduct and norms) (North, 1990; Scott, 1995). The economic, political and social institutions form the basis of transaction costs in a host country. Market intermediaries which are a part of economic institutions such as auditors, brokers, consultants etc. facilitate communication between the transacting parties. Economic institutions also involve the human and technological infrastructure that also determine the transaction costs and factors of production costs. Political actors and government set rules and are responsible for their enforcement and also in the determination of foreign direct investment policies. Regional elites matter in the way they respond to central incentives and regional pressures. The 'distinct' practices and behavior comprises the social institutions.

The levels of institutional development vary between nations and within nations. The host country and the sub-national institutions (economic, political and social institutions in different regions within the host country) are very important when it comes to the share of foreign direct investment inflows.

**Sub national Institutions**

Regional variations are very prominent in India because of the institutional changes that are incremental and discontinuous by nature, uneven economic development and culture and ethnic diversity. Having said incremental means a gradual move from a command economy to a market-based economy resulting in decentralization of authority, thus granting autonomy to regional governments responsible for economic development. There is frequent changes in the policies, rules and regulations that can impact the operations of foreign firms. Creation of a regional favorable investment environment is very crucial to firm's production efficiency. Differences in sub-national regional policies and practices influence economic development and
the development of the state. Economic transitions in countries like India are "spatially and structurally uneven". The regions that attract FDI early on faces the transitions faster than others. There is also a huge disparity between the urban/cities and the rural areas in institutional structure, language and culture. The government policies in India tend to favor rapid growth in the urban areas like mega cities and coastal cities compared to their rural counterparts. The unequal economic development is much pronounced in emerging countries compared to advanced economies. The economies are also disconnected across the markets owing to lacking of market intermediaries, infrastructure and markets. The unevenly developed infrastructure is quite prevalent in India like transport facilities and telecommunications. Such uneven economic and infrastructure development across sub national regions in India accounts for the difference in significant regional economic growth.

Compared to advanced economies, the sub national regions in emerging economies also tend to be more culturally and ethnically diverse. Like China has more than 50 officially recognized ethnic minorities, Russia has more than 80 federal subjects as in regions, republics and cities (Chan, Makino & Isobe, 2010). India has vast regional and cultural differences; at least 10 minor languages and numerous minor ones. Ethnic fractionalization and Cultural fractionalization degrees are lowest in Western countries (Western Europe, United States, Canada, Australia and New Zealand, followed by Eastern Europe and the former Soviet union, Asia (excluding Japan), Latin America/the Caribbean, North Africa/the Middle East and the Sub-Saharan African Countries (Fearon 2003).

It is imperative that foreign investors understand the cultural, ethnic and social diversity in order to successfully operate in emerging countries. Even the consumer base (in terms of size, income bracket and cultural background) in these countries are far more diversified than the advanced economies. When doing business in such economies, MNEs need to rethink every brick of their business models to create a competitive advantage based on a "deep understanding and integration of local environment". If the strategies of the MNE's are aligned properly with the distinct regional institutions, the firms are more likely to achieve superior performance in emerging economies.

Institutions render "locational" advantages, one of the three important aspects of OLI paradigm (Dunning, 1993). But 'location' is the most neglected factor of the OLI paradigm (Dunning
The international business literature have always emphasized on nations as the unit of analysis, and not so much on sub-national locations (Myer & Nguyen, 2005). The important aspects in the determination of location lies in the factors of production market like cost and quality of human capital, infrastructure, market attractiveness etc. (Narula and Dunning, 2000). Traditionally, resource-seeking investors would consider the costs and quality of factors of production, market attractiveness, labor and infrastructure. All these endowments be it natural or created like infrastructure and human capital are crucial for local operations. Distance to markets and infrastructure are very significant in attracting FDI. Institutions not only influence location choices when it comes to foreign investors but also entry mode choices (Gomes-Casseres, 1990; Meyer, 2001). In emerging economies, sub-national institutions can create particular constraints when it comes to entry mode choice.

MODES OF ENTRY

How foreign firms adapt their entry strategies when entering emerging economies given the difference in regional institutional frameworks? Based on this question, I argue that institutional credibility or (incredibility) in emerging economies affect entry strategies and foreign investors requirement for local resources impact entry strategies which is eventually shaped by sub national institutional contexts. India exhibit substantial variation in formal and informal institutions and it substantially liberalized its economy since the 1990s. Previous entry strategy scholarship either focuses on the institutional aspect (Brouthers & Brouthers, 2000; Meyer 2001; Hitt et al., 2004) or the resource-based aspect (Anand and Delios, 2002). Specifically, I examine how MNEs focus on local complementary assets while choosing among three modes of entry involving FDI into emerging economies: (1) greenfield (2) acquisition and (3) Joint-Venture. I develop my propositions by integrating unique interview data of TMT (Top Management Team) with secondary/archival data. Overall the chapter makes significant contributions by integration both sides in order to devise entry strategies. The primary propositions suggest that institutional credibility facilitates acquisition and greenfields. When the institutions are not credible, foreign firms prefer JVs to access resources embedded in another organization whereas when institutions are credible JVs become less significant.

FDIs can take three modes of establishment: (1) greenfield, (2) acquisition and (3) JV (Kogut & Singh, 1988; Anand & Delios, 2002; Meyer et al., 2009). Each of these three modes is distinct
and serve very different objectives. Both the entry modes—JV and acquisition facilitate access to local resources. On the contrary, a greenfield FDI enables the entrant to buy or contract for complementary assets such as real estate and labor on local markets. In most research, the ownership and entry mode are treated as sequential decisions: first the firms decide whether the ownership would be partial (JV) versus full (acquisition and greenfield). If full ownership is chosen then comes the decision of acquisition versus greenfield. In practice as evidenced in the case studies, the two-stage sequential decision is often blurred.

Both ownership and entry mode decisions are moderated by institutions. From the previous scholarship it is quite clear that JV creates substantial coordination challenges. The fundamental question is why foreign investors don't buy specific resources from the market and instead opt for JV and acquisitions, even though tremendous coordination challenges are posed by acquisitions and JV (Kogut, 1988; Buckley & Casson, 1998). If the local market for complementary assets or resources are efficient, foreign MNEs can buy them via market transactions and set up a greenfield operations based on it. Efficiency of local markets is not always the case in India. Hence, buying and selling of companies could be problematic especially in emerging economies because of the institutional environment governing the transaction. This applies mainly to markets for acquisitions. Weak financial institutions can result in volatile and less liquid stock markets, thus reducing acquisition potential. It also leads to lack of transparent financial data, financial information and specialized financial intermediaries (Khanna et al., 2005). In emerging economies firms are either controlled by individual or family who form the dominant stakeholder, business group or the state (Khanna & Palepu, 2000). The non-market transactions can make the acquisition due diligence and contract negotiations quite harder for the potential acquirers notably in the acquisition and post-acquisition restructuring thereby rendering the acquisition costly and risky. Overcoming of market inefficiencies caused due to weak institutions is crucial for foreign MNEs in emerging economies. However, weak institutional framework prevent greenfield entry as the access to local resources become difficult through market transactions. It also makes acquisitions challenging. According to CFO, Saint-Gobain it had lots of challenges when it wanted to acquire the pipe business as the entire market was managed merely by two or three players. It received enormous resistance as the players realized that MNE’s coming in their way will completely change their way of doing business. If the market is already matured and players are already there be it Indian local players or MNEs,
then there is no difficulty. If it is a concentrated market and there are few local players in a particular business then it is different. It depends on whether the market is staggered or concentrated. In 90's the local players used to control via MRTP, trade controls and create hardships for the business by getting into litigation and frustrating the MNE. Local players neither have technology nor have research orientation or newer generation products. Eventually, it all depends upon the industry in which the MNE is operating. When it comes to acquisition in emerging economies, typical MNE looks for a global footprint that is whether they want to be in the business globally or not. Experience or knowledge regarding the business they want to acquire is very crucial. They don't get into any business just like that. There should be some nexus with the global company and its products and offerings. In other words, the product/service the MNE want to acquire might be a related or complementary product specific to Indian market. The product could be an add on or ad hoc to the existing portfolio and should be connected to the core business. The quintessential question of any MNE acquisition is will the acquisition give any leverage in the market or not.

In greenfield projects, the establishment costs are high as land approvals are complex and time taking. The complex negotiations with the government authorities, management and councils/trade unions add to considerable bureaucratic procedures. JV and acquisitions call for resource pooling embedded in local firms where as greenfield projects does not. I can thus safely posit that in emerging economies the entry mode choices hinges on the fact that whether foreign MNEs want those context-specific resources or not. If yes then to what degree? Resource-based literature focuses mainly on the resources that can be transferred (Kogut & Zander, 1993). In contrast, context-specific resources are immensely significant when it comes to emerging countries and is worth discussing. Context-specific resources include legal institutions which are generally weak in emerging countries like India, making contract enforcement and property rights weaker. Agents in/managing the distribution channels or relationships with other firms and agents managing the interface with government authorities (Peng & Heath 1996) or managing large local labor forces are often conducted informally, relying on network-based strategies. These are all important assets in emerging economies. If local resources are considered competitive by foreign MNEs they might choose to enter via JV through a local partner or through acquisitions as opposed to greenfield.
According to the Country Commercial Director, Michelin, first and foremost is whether the firm wants to be risk averse or not. If the firm wants to test the waters then it will want to take less risky decisions and prefer JV by partnering with a local company and see how it goes; typical entry strategy for lot of MNEs. Tying up with a partner help sail through innumerable bureaucratic hurdles. And in the mean time the firm can decide whether to come out of JV and further evolve into an wholly-owned. Every company engages a consulting firm to conduct this sort of study and try to weigh out all pros and cons of decisions. The entry mode decision is never one clear answer rather it is always a combination of all factors and then carrying a weightage on them.

Local Complementary Assets

The theoretical foundation of entry mode is built on transaction cost which relies on host country institutions. JVs become preferred mode of entry only when (1) the transaction costs are high; (2) two or more partners are involved (Buckley & Casson, 1976). Moreover, for acquisitions to take place there should be enough targets on the markets. In emerging countries most local firms are not listed on stock exchange, as most firms are state owned or family owned or have concentrated ownership and hence not easy to acquire. Local authorities and business networks are important in the context of emerging countries. Networking capabilities are crucial for business (Peng & Heth, 1996). Local firms are of great value to foreign investors as they possess great capacity for network-based exchanges. Since these regional institutions vary within a country, some investors find it easier to access institutions in certain regions compared to others. Foreign investors are more prone to JV when the institutions are ambiguous. Previous scholarship confirms that larger firms tend to prefer wholly-owned entry modes (Agarwal & Ramaswami, 1992) and especially more so when dealing with high asset specificity (Erramilli & Rao, 1993). Finally, entry mode choice is also influenced by the multinational experience realized by the firm and firms with more experience tend to prefer wholly-owned modes (Agarwal & Ramaswami, 1992). Scarce local resources in emerging markets are not only limited to market or technology related intangibles or business networks but also tangibles like real estate, as it can also be a institutionally-induced supply constraint. Access to free-hold ownership with respect to real estate is the key in India. In Gujarat, it is easy to buy land as a corporate entity as the land acquisition process is quite simpler but as an individual(of foreign
origin) it is extremely difficult to purchase land even if there is an availability. The sole purpose should be to establish a factory. In Chennai if one buys a tract of land and a factory is not laid within one or two years, then there can be a steep penalty. In this paper, we test Hennart's(2009) model that a foreign investor's choice between a WOS and JV and between a greenfield and an acquisition depends on the costs regarding the assessment of local inputs that the firms needs to operate (land, labor, raw materials, parts, permits, distribution).

Foreign investors must decide on whether to contract with a local firm through licensing or to set up a foreign subsidiary. If the investor decides on a foreign subsidiary then should it keep the full equity of the subsidiary that is by entering through a WOS or share the equity with another firm through a JV. Another decision the foreign investors need to make regarding all the inputs bundling that goes in the making of a subsidiary that is whether to bundle themselves and set up a greenfield or buy an existing firm through an acquisition. In this paper, we follow the definitions of Brouthers and Hennart (2007). We define WOSs as both fully-owned greenfields and full acquisitions, JVs as greenfield JVs and partial acquisitions, Acquisitions as both full and partial acquisitions and Greenfields both greenfield JVs and greenfield WOSs.

The earlier Dunning's framework does not take into account that foreign investors while choosing a location for their production in a target country also need to efficiently obtain the local complementary assets in that country and need to recognize the owners. The OLI paradigm does take local complementary assets into account and Dunning calls them 'L' advantages. According to him in order for foreign production to take place "O" advantages should be poorly tradable and the profitable bundling should take place with the local complementary assets. In the latest theory of Dunning 'L' advantages are said to be specific to a particular location but freely available to all firms on perfectly competitive markets. In the real world, the local complementary assets ownership is subject to various types of imperfections and these imperfections of the markets can affect modes of entry. The characteristics of the local assets and the level of regional institutional development decide the degree of imperfection.

The extant theories regarding entry modes totally ignores the market for local complementary assets (Hennart 2009) in the host emerging countries (which varies within regions/provinces). The local complementary assets are not available in perfect competitive markets for foreign affiliates in countries like India as the markets are imperfect. Hence, the accessing of these
markets become difficult for the foreign investors. For eg., in order to purchase a tract of land, a foreign investor can purchase it either from the asset-market or can rent it or can purchase it from the firms (Hennart 2009). These local complementary assets are land, labor, raw materials, parts, permits, distribution etc. The efficiency of these markets depends a lot on the sub national institutional quality. It is important for the foreign firms to know about the source and the owner of the assets, so that they can resort to the most efficient regions for contract enforcement.

It is only through the optimal bundling arrangement that foreign affiliates can create a win-win strategy for both the transaction parties. The local government of emerging markets follow protectionist and self-sufficiency policies in order to benefit the local firms (state-owned). Strong incentives are provided to local firms so that they gain dominance in the domestic markets, maintaining monopoly position in the domestic market. Local firms also maintain strong relationship with regional political and bureaucratic actors and they use this relationship to amass investment related information. Foreign firms have difficulty forging these kind of relationships as they usually lack the nuances (know-how) of relationship building in a two-level institutional setting of India. Hennert's bundling model (2009) posits only two actors: the foreign firm, holding the knowledge assets and the local firms, holding the complementary local assets. How these two parties transact decide the actual mode of entry and whatever the mode of entry is, it should maximize the total profits, otherwise the transaction would be succumbed by competition in the long run.

Let's say if a foreign firm needs a distribution network and that is embedded within the firm, then the foreign firm would resort to buying that firm or create it (greenfield) but that would be too time consuming or difficult. It would be impossible for the foreign investor to just rely on market contracts if the market for distribution is inefficient. There is a high chance that they might be held up by a distributor which can be mitigated through an incentive say equity in the subsidiary. The foreign investor can partially acquire the local firm with the embedded distribution assets. According to Legrand's Vice President, Strategy, Legrand has 13 offices in 5 regions and the sales team manage the distributors all over India. The distribution is not organized as compared to the developed economies. The big organized distribution network in matured economies are a firm in itself. In India, the distribution is very fragmented and today Legrand has around thousand distributors. They are owner driven shops or retail which is specific to a particular region. In France, Legrand does not deal with not more than 20
distributors. In order to create a distribution network of 500 or 600 distributors on its own right from scratch is a big cost and calls for huge investment. One of the key thing that comes with the acquisition is distribution network which are already selling off products. They are small family owned and don't have the resources to appoint 600 distributors. For MNEs it will take a decade to do the same. The evolution of foreign MNE in a specific industry and in a specific country rests on the transaction costs for both MNE assets as well as local firm assets, rather on just MNE assets as proposed by the extant theories. MNE-centric theories are far from inevitable in reality. The case of Legrand also shows that hard-to-access complementary assets such as distribution networks especially in a fragmented industry can defend the local firms against MNE attacks. Local firms possess in depth knowledge of the emerging markets and changing customer needs. Owing to its tacit nature, MNEs can't access them through mere contract (Arora et al, 2001). The only way to access is to take over or buy the firm that holds it. And some times, local complementary assets can be difficult to replace than MNE knowledge. Market for firms in emerging countries are not very matured sometimes due to embryonic financial institutions.

In a similar vein, foreign firms looking for the best way to access customers would end up buying the firm with good customer rapport. How readily the purchase of the firm in which complementary local inputs are embedded will take place depends on the market efficiency for firms. If the complementary local inputs/assets are easily found in the asset market and the intangibles of foreign firms are difficult to transact in the market, the chosen mode of entry would be a WHO. On the other hand, if the market for local complementary inputs is inefficient then the foreign investor will choose JV/Acquisitions in order to bundle assets for the maximum gain of both parties (Hennert et al, 2015). The dynamics of MNE expansion in emerging economies are governed by two infamous internationalization models. They are Anderson and Gatignon's (1986) "Modes of foreign entry" and the Johanson & Vahlne's (1977,1990) Uppsala internationalization model. According to the Uppsala model, MNEs switch from licensing (low control modes) to wholly-owned affiliates (high control modes) once they accumulate experience in the host country, but there is lack of empirical evidence to support the above stated claims. The evolution of JV to WHO takes
place only when the market for the complementary assets held by local firms become efficient and easier to transact.

The framework for the analysis is:

**Fig 1. Initial theoretical framework for analysis**

Thus I predict that sub-national institutions play a dominant role in impacting the entry mode decisions of foreign investors. FDI locate where institutions are conducive to their operations and institutional constraints are less when it comes to access to local complementary assets.

**Institutions and Entry Strategies**

Institutions play an important role in market transactions without increasing undue costs or risks (North, 1990). Institutional arrangement include the property rights, legal framework and enforcement of the same etcetera. Strong and credible institutions support a robust market mechanism. Sometimes, market supporting institutions are not very clear in emerging economies
due to the ambiguity at the regional level. In other words, markets are undermined when the institutions are fickle, ambiguous and not credible. Institutional context in the emerging country can pose constraints in dealing with the relatively higher transaction costs. Not only formal rules but also informal rules affect entry decisions. Sometimes, equity of foreign investors can be withheld due to legal restrictions (Delios & Beamish, 1999). Institutions not only influence preferred locations but also the entry mode that the firm may choose at a given location (Gomes-Casseres 1990).

Institutions also reduce information asymmetry by producing information about their partner and their behavior. Partner-related risks can be higher when the institutions are fickle and incredible (Meyer, 2001) in emerging economies leading to higher magnitude of information asymmetry thus increasing the magnitude of search costs. Ease of doing business in India is totally dependent on the quality of institutions which in turn impact the costs associated with different entry modes. JVs help acquire resources especially the embedded ones like the distribution networks held up by the local firms thus mitigating institutional idiosyncrasies of emerging economies. As the institutional framework gets strengthened, the reliance on a local partner to act as an interface with local authorities decline. In other words, as the regulatory environment relaxes, foreign entrants now face lesser restrictions in India with respect to bureaucratic formalities, licenses and permits. On the other hand, entry by acquisitions is dependent on the efficiency of financial markets as contract enforcement is very crucial for acquisitions. Contract enforcement relies on the transparency and predictability aspects of institutional framework.

The agglomeration effect popularized by Krugman (1991) stipulates that firms (new FDI) from the same industry benefit by locating in the vicinity of other existing firms. This is especially so when it is from the same country of origin. Empirically this has been studied both in the case of USA and China.

The policy at the sub-national level especially favorable taxation policy and special economic zone or free trade zones or coastal provinces attract FDI. Higher taxes deter FDI. Special economic zone is a policy variable in most FDI studies on China. To my knowledge, institutional variables have not been much analyzed in emerging economy location studies apart from special economic zone dummies or count.
High tech firms mostly enter foreign markets to gain market share. The entry provides the MNEs with the opportunity of additional profits via transfer and sharing of their proprietary technologies and knowledge with the local counterparts (Tihanyi & Roath, 2002). For technologically intensive firms, the most common establishment mode is "greenfield" according to the establishment literature. The most efficient way of transferring highly embedded routine practices especially for the technological intensive firms in emerging countries is to build a subsidiary from the scratch through talent localization, (Hennart, 2000). The subsidiary mainly caters to the foreign production and/or sale. Previous literature also confirms the positive relationship between asset specificity and the likelihood of green field establishment (Erramilli & Rao 1993). The most important factor that goes in building a subsidiary is land or real estate which falls under markets for complementary resources. The efficiency of these markets are relatively higher in developed economies compared to emerging countries like India. Even within a country, the relative efficiencies vary within sub national regions. These sort of inefficiencies delay greenfield investments as the inefficient bureaucracies in the provinces/states add up to extra costs substantially (Estrin et al.1997). The land registries in the southern and western corridors of India are quite efficient. SIPCOT in Chennai and the Government of Gujarat is very favorable towards land procurement in India, easing up the bureaucratic hurdles. The biggest hurdle when it comes to land registration in India is the time and money that is required to complete a lot of procedures required at the Subregistrar's Office and Circle Revenue Office. Variations in time is due to different degrees of efficiency of the above mentioned offices. These procedures vary substantially across states. Offices that are staffed with adequately knowledgeable personnel and have computerized mechanisms in place carry out the procedures faster compared to the cities where the offices are not that advanced. It is thus very clear that the level of institutional advancement plays a very crucial role in the success of green field projects. If the labor-markets are well developed, then technologically intensive firms can benefit well from the easy access to local labor with engineering skills. This can facilitate MNE's to save on retraining related expenses that they incur due to localization of employees. There are past studies on institutional effects and entry modes involving political hazards. There are also studies which focused on ownership restrictions and host-country specific advantages. In this chapter, I borrowed the concept of institutional credibility (Sinha, 2005) from the domain of
political science wherein the policy maker has the incentive to change policies in a later date and renge on the promises, especially when the policy is no longer working for the policy maker.

Institutional credibility and advanced institutional framework matters when it comes to factory location. Let's consider the case of the automobile major, the Renault- Nissan alliance. Being in alliance, the negotiations with the government became easier since the consortium itself is represented as the top 4 manufacturers in the world. The Renault- Nissan consortium is not a JV. It is a crossholding where Renault own shares of Nissan and Nissan own shares of Renault. This helps create synergy. Auto Industry entails for very complex manufacturing process. In a big country like India one need a region approach as every region is very different in India. That is why initially Renault formed a JV with Mahindra to understand the nuances of Indian customers. Chennai is very advantageous for manufacturing especially in the auto sector because of its close proximity to modern ports, good export strategies, high class engineers, good local talent and good supplier base, last but not least really good support from the government. Not only Renault, all the global car manufacturers be it Hyundai, Diamler, Ford, BMW are all clustered in Chennai.

RESEARCH DESIGN AND METHODS

The author wanted to employ a comparative retrospective multiple case study design, given the explorative nature of the study. While looking for cross-case patterns, the most relevant tactic for this study would be to select pair of cases and then to look for similarities and differences between each pair (Eisenhardt, 1989).

The top-management-team TMT of the following firms were interviewed: Automotive (Renault, Michelin); Chemical-Pharmaceutical (Sanofi, L'Oreal); Electrical components (Legrand, Schneider Electric); Construction Mechanics (Lafarge, Saint-Gobain). India offers a unique opportunity in terms of context to test the author's theoretical arguments and hypotheses.
Data Collection

The author collected data during three visits to India in 2016 (two months), 2016 (two weeks) and 2017 (two months). From all the interviews the author derived knowledge specific to 5 cases, but also knowledge about other important sub-national institutions. Interviews averaged 40 mins, were open ended and followed a protocol that evolved with the project. Among the general questions included in the protocol are "What is the history of the firm and its mode of entry in India"? "What decision factors/local complementary assets shaped the location of the greenfields"? "What exactly are the resources that the firm has acquired from the local partner(s)"? and What kind of government support the firm has received from a particular state wherein the factories are located?”. The questionnaire was developed and revised in cooperation with the feedback provided in the pilot stage and the insights generated by the case studies. Also included were specific questions adjusted accordingly to the interviewee's background. The interviews targeted top management team (‘C’ category executives) of MNE subsidiaries-both local executives and expatriates-as they are the most appropriate informants on the crucial aspects of the local context and the local operations. The key informants composed of subsidiary heads, heads of local business units, and CFOs. All the interviews were conducted in office spaces and were taped/recorded and transcribed. From the interviewees, the author derived knowledge not only specific to "5" cases but also about other relevant local institutions and the national context, erstwhile policies and they compared to currently liberated markets. Preliminary conversations helped the author to identify subsequent interviewees through "snowball sampling".

The author who went into the field also visited French Embassy in Delhi, IFCCI (Indo-French Chamber of Commerce and Industry) in Mumbai and SIPCOT (land allocation in Chennai).

The 5 case-studies were primarily composed of first hand interviews, fortified by secondary data such as company documents, industry association studies, statistics, newspaper clippings and annual reports. In order to reduce potential biases, the author ensured to include diverse responses not only from the subsidiary or subunit managers but also from the external experts. Most interviews comprised of sub-national institutional conditions and responses coupled with wider subsidiary strategic considerations. The archival data comprised of mainly company histories, company internal documents and industry reports, press releases, etc.
Data Analysis

The author approached the analysis through an in-depth comparative analysis of differences and similarities in their approaches (Eisenhardt, 1989). The author identified the relevant question through an explorations of patterns in the data collected. The exploration involved four separate steps and the author has tried to avoid premature analytical biases. The author focused on a reduced number of interviews say 8 in number in the first step. The selection was based on the wealth of information and the potential for variance. The approach was qualitative and interpretative. The words and sentences were not counted rather the author tried to draw conclusions by addressing what, why, who, how and when from the available data in the second step. Using detailed coding, the data were summarized into several categories of local complementary assets per firm using qualitative research software Nvivo. The clustering enabled to detect important themes from the interviewees comments without involving premature analytical biases. In the third step, the author tried to bridge between the theory and the data. The observations after the analysis of the interviews and the archival data resonated with the findings of the emerging markets and FDI literature. In the last step, rigorous pattern analysis were done to confirm the findings from the large set of interviews and the field notes taken during site visits. The purpose was not to miss any conflicting or alternate views regarding sub-national institutions and modes of entry. The results would be divided into two categories: the first-order interpretations would involve interview data, archival data and field notes and the second-order interpretations would handle the research questions.

Insert Table 2: Overview of data sources about here

FINDINGS

MNE Entry mode responses to sub-national institutions and local complementary assets

Renault Entry Mode in India

In 2005 Renault entered India in partnership (JV) with the Mahindra & Mahindra group. Renault India was registered in Mumbai in October 2005. In February 2010, Renault then ended
its JV with Mahindra and consolidated its presence in the Indian market. The Renault-Nissan alliance manufacturing facility in Chennai (investment of Rs. 4500 crores with a capacity to produce 400,000 cars per year) started March 2010 onwards.

As a manager reported:

"Initially our mode of entry in India was a JV. In parallel we were exploring opportunities about expanding manufacturing options in India. In 2007 end we acquired the land in Chennai. We own the land and we went through complex negotiations with the government of Tamil Nadu and an authority in Chennai called SIPCOT. We had a MoU with them. We had the land acquisition, setting up of a plant with an initial investment of 4,000 crs (INR). Today we have 6000 crs investment. All the negotiations were joint negotiations of Renault-Nissan consortium. Chennai is very advantageous for manufacturing firms particularly the auto industry because it is the biggest auto hub India has. It has one of the best ports in India and the factory is in close proximity to the port. Renault-Nissan had a very huge export project when it started to establish its manufacturing footprint in India. So, the decision of entering India in Chennai in terms of manufacturing had a clear advantage that we were having in terms of negotiations with government. The government at that time when we entered Chennai was favorable in terms of tax benefits, incentives like investment promotion subsidy and benefit of VAT refund available for the sale of cars in Tamil Nadu. This kind of tax benefits, infrastructure and also the supplier base existing in Chennai because of the cluster of all the global manufacturers be it Hyundai, be it Ford, be it BMW, be it Diamler proved to be crucial factors for the location choice. The access to labor is good as Chennai is a manufacturing hub. We also have an alliance technical centre (Renault-Nissan Technological Centre of India), so that was also an added advantage as we could access high class engineers available in Chennai. So good local talent, good supply base and overall good support of the government was available. The technical centre is located in the special economic zone and so has access to lot of benefits. We never had any hassles with unions."

Analysis

The author is using the variables from Hennart's (2015) study in order to determine difficulty in accessing local complementary inputs. One is the (1) concentration of local industries in a given region and another is (2) the number of suppliers for key inputs. If the local industry is concentrated then it will be very difficult for foreign investors to assess local complementary inputs either through contracts or acquisition.

From the interview anecdote it can be concluded that the difficulty level in accessing local complementary inputs are comparatively low as land was easily available to Renault via SIPCOT and they had good supplier base and quality labor to rely on. The auto industry concentration is quite appreciable in Chennai with the presence of Hyundai, Ford, BMW and Diamler. Renault
quit JV and formed the Renault-Nissan Consortium. The regional institutions are well developed for the auto sector in Chennai (South). The bundling decisions with the owners of the local complementary assets were easy for Renault. Hence independent mode was inevitable for Renault and it witnessed an evolution from JV to WHO in India.

**Michelin Entry Mode in India**

Almost a decade ago, Michelin came to India, rapidly expanded distribution network, and established itself as a leading international tyre maker in the country. Initially it was a JV with Apollo which didn't work out. In 2009, Michelin Group and Tamil Nadu government signed a Memorandum of Understanding (MoU) for the tyre manufacturing plant. This 290 acres facility is currently focused on manufacturing a range of Radial Truck/Bus tyres.

As two senior managers reported:

"In India we came in 2009. We entered into Memorandum of Understanding with Tamil Nadu Government for green field manufacturing facility. We took about 4 years to construct the plant. We are one of the largest Michelin plants in the world. From Jan 2014, we started our commercial production. When you make a decision on the location of the plant you look at multiple factors especially in terms of the area we occupy and especially when you are getting a large plant. The ambition is to grow. We are here for long term not for a short term. Primary considerations are two or three. We need to be close to the market and customers. Tamil Nadu has got a large section of the market and customers. It has got a great ecosystem. It has got a very well developed replacement tyre market which puts an emphasis on value rather than just cost which the rest of the Indian market is. The second factor was also the availability of a large tract of land, which is also available in other states. Here, the Govt. of Tamil Nadu has set up the SIPCOT Industrial State. It is an industrial estate. It is government land and owned by SIPCOT. SIPCOT has leased it out to companies. We hold the lease on the land. The third was proximity to port. We import raw materials and export tyres. This area has got three ports. Chennai port is the prominent one and there is a new one as well. The fourth consideration was trained manpower whom we could train and retain. Tamil Nadu probably has the largest number of engineering colleges churning out maximum number of talent. These are actually the four major considerations. We do have a Tamil Nadu govt. industrial policy. Depending on the size of the investment they give certain benefits to industries. Ours project fits in ultra mega category which has its range of benefits. But subsidies were not a primary consideration. There was no special tax benefits that I could remember. All in all, proximity to port, agglomeration of auto industries, availability of talent, industry attractiveness of the state are the important drivers for choosing Chennai as the location"
"It is always a combination of factors and it depends on what is more important for the company at that point of time. Chennai was almost considered to be the Detroit of India. The port works pretty well there. Raw materials were procured easily internationally as well as locally. And there is a good educated talent. In today's scenario, everywhere the land rates are fixed. Its free hold and fixed. In Gujarat its free hold all along where as in Chennai it changed from lease to free hold. Govt. subsidies depend upon minister to minister. Now the govt. subsidy has reduced to average. Working class in Tamil Nadu, ports, electricity and roads are better off in Chennai. Auto sector is more concentrated in Chennai."

"Very long ago, I think back in 2006 we had JV along with Apollo and for some reasons it didn’t work out. I don't know frankly why. It's very difficult for me to comment on that. In 2009 we made decision to come alone, set up a factory, where we could strongly implement the Michelin systems, culture and values. We felt that it was easier for us to build that up over a period of time. Therefore the decision was taken that we will go alone. We felt the biggest value in the long term would be to go independent and make a success of it ourselves. Like any other business there is IP associated with product. That's one of the factors you have to take into consideration while going for a JV. In a JV you have to see what value both partners bring. We were in the country for 4-5 years already. In terms of the market intelligence, awareness etc. we knew. Typically, the local JV partner brings those local knowledge, the govt. rules and regulations. So, we found that we could do that ourselves.”

**Analysis**

The author is using the variables from Hennart 's (2015) study in order to determine difficulty in accessing local complementary inputs. One is the (1) concentration of local industries in a given region and another is (2) the number of suppliers for key inputs. If the local industry is concentrated then it will be very difficult for foreign investors to assess local complementary inputs either through contracts or acquisition.

From the anecdote it can be concluded that the difficulty level in accessing local complementary inputs are comparatively low as land was easily available to Michelin via SIPCOT and the region had a good educated talent base owing to good engineering colleges to rely on. The procurement of raw materials is easy be it local or international as the port is closer to the airport. The auto industry concentration is quite dense in Chennai with the presence of Hyundai, Ford, BMW etc. The regional institutions are well developed for the auto sector in Chennai (South). The concentration of local tyre manufacturing firms is quite low. The bundling decisions with the owners of the local complementary assets were easy for Michelin. Hence independent mode of entry as in 100% subsidiary was inevitable for Michelin and it witnessed an evolution from JV to WHO in India.
Saint-Gobain Entry Mode in India

There are three legal entities. In each legal entity there is a small legal entity. One is glass (float and automobiles), second one is gypsum, third one is refractory, fourth one is the mortar and the fifth one is crystals and detectors and then abrasives, ceramics, plastics etc. Then there is Securities. These are the businesses in India. There is a glass business, a gypsum business and refractory business. So we have GYPROC. And then we have SEPR. Mortars is called WEBER. It is a global business brand name. Abrasives, ceramics and plastics are more of high performance materials. Saint-Gobain Glass India is a 100% subsidiary of Saint Gobain France, one of the leading float glass manufacturer in the world. The factory is in World Glass Complex which is located in Chennai(South).

As two senior managers reported:

"Saint-Gobain did acquire a US company which had a JV in India. The company was Norton and it was acquired by SG in 1990 or 1991. Norton had a JV in India. SG acquired a majority control in 1995 or 1996. But the glass investment is greenfield and is a different company. It is a fairly large green field investment since then. The green field was independent of the JV. It's not part of the JV. The JV company has a small share holding. Greenfield is almost 100% directly Saint-Gobain. Chennai was chosen because of the market. There was no market competition at that time. Second is logistics and third is government and four is people or talent. There is no major manufacturer located here. so there was reasonable market. The government was very favorably disposed. Due to close proximity to port, export and import became much easier and people quality and availability is quite good in the region. Last but not the least raw materials. All these six factors made us choose Chennai to be the location."

"The location factors are: 1.) The right resources available at a reasonable cost, 2.) Talent availability, 3.) Government, 4.) Leadership of the province is crucial. You have the right Chief minister who is very industry friendly. He wants more players to come in and set up shops in that province, instead of taking short-term view regarding corruption. 5.) Availability of resources such as cash, infrastructure and electric power which is still an issue in India. Special concessions in power are crucial. More than concession constant availability in India is difficult. 6.) Consistent and reliable rules even corruption".

Analysis

The author is using the variables from Hennart 's (2015) study in order to determine difficulty in accessing local complementary inputs. One is the (1) concentration of local industries in a given region and another is (2) the number of suppliers for key inputs. If the
local industry is concentrated then it will be very difficult for foreign investors to assess local complementary inputs either through contracts or acquisition.

From the anecdote it can be concluded that the difficulty level in accessing local complementary inputs are comparatively low as land was easily available to Saint-Gobain and the region has a good educated human resource pool to rely on. The procurement of raw materials were easy be it local or international as the port is closer to the airport. The regional institutions are well developed for the construction sector in Chennai (South). The concentration of local players is very low. The bundling decisions with the owners of the local complementary assets were easy for Saint-Gobain. Hence independent mode of entry as in greenfield was inevitable for Saint-Gobain in India.

**Schneider Electric Entry Mode in India**

Schneider Electric is the global specialist in energy management and automation. It entered India in 1963 in a JV partnership with Tata Sons & Voltas and then it went 100% subsidiary in 1995, then followed by organic growth with a series of acquisitions.

As one senior manager reported:

"Factory locations are mostly concentrated in the South and West where there are very little land issues and where there are very little labor problems. In some states the unions are very strong and the labor background also differs. In those states, we don't have any factories. We have set up factories in states where govt. has given incentives on land and where there are excellent logistics. Road, connectivity to the railways, ports are all important. We have two (2) large factories in Baroda. The latest ones are in Baroda (Gujarat) and Chennai. We have maximum concentration in Chennai (South), Baroda (Gujarat) and Hyderabad (South). If you are aware of India's demographic and policies these states always rank in the Top 5. Gujarat has more political ease than Chennai. Red tape is very less in Gujarat. You can easily make an appointment with the Chief Minister and get going but in Chennai no. In Chennai, the meeting with CM is always via the third party. Third party could be the ruling party or lobbyist. "I was never comfortable in Chennai when I put a plant there. In Gujarat I was very happy to work." There is no issue in Gujarat either with the local public or the government. In Tamil Nadu bribe is very high."

**Analysis**

The author is using the variables from Hennart's (2015) study in order to determine difficulty in accessing local complementary inputs. One is the (1) concentration of local
industries in a given region and another is (2) the number of suppliers for key inputs. If the local industry is concentrated then it will be very difficult for foreign investors to assess local complementary inputs either through contracts or acquisition.

From the interview anecdote it can be concluded that the difficulty level in accessing local complementary inputs are comparatively low. Land and other infrastructures were easily available. The talent was easy to acquire. The regional institutions are well developed for the energy sector in Chennai (South) and Gujarat (West). The energy business also calls for dealing with public sector units like National Thermal Power Corporation. The bundling decisions with the owners of local inputs were easy for Schneider. Hence independent mode as in 100% subsidiary was inevitable for Schneider Electric and witnessed an evolution from JV to WHO in India.

**Legrand Entry Mode in India**

Legrand is a specialist in electrical and digital building infrastructure. It grew its footprint in India via numerous acquisitions. Legrand believes in organic growth and acquisition. There were 5 acquisitions in 20 years in India. It has three manufacturing facilities, extensive network of over 600 distribution partners and more than 7400 retailers thus consolidating its vast network and generating economies of scale.

As one senior manager reported:

"20 years back, Maharashtra was one of the better industrialized states in terms of business environment. That's how I think Legrand, 20 years back, started its journey in India. Through an acquisition of a small company, head quartered in Mumbai and plants in Maharashtra i.e., Nashik and Jalgaon (both are located in west corridor). The plants were already there before hand. During the due diligence process, the first was the matching of the domain(electric field). The second was the brand of the company in India, their distribution network and the quality of the products and ethics. The plants were important but it is a given factor, you buy the company and you get the plant. At that point of time having a plant in Maharashtra was of more value. It was an added advantage at that time. For Legrand, it's just not the business but also the cultural fit. Cultural fit would be even more important than the business fit. Legrand entered India in 1986 by acquiring a firm. A good financial and cultural study is very important for the due diligence required for acquiring a local player. Every organization has its own culture. It's important that a firm that is joining the Legrand group should have a similar/close culture to that of Legrand. The acquired firm, MDS, even though a family owned business was run
professionally in terms of its approach to markets, in terms of ethics and business practices. Suppliers for us is a part of the strategy. We do not treat them as suppliers. We regularly audit them and only then we decide to sign a contract with them. They are not part of the Legrand group but when it comes to practices we follow, we make sure they practice the same otherwise they don't remain as our supplier”.

"India is a big country with different languages. So the distribution is not as organized as compared to the matured countries with big organized distribution chains which are a company in itself. In India, the distribution is very fragmented. They are mainly owner driven shop/retail which are specific to a particular locality and don't have the resources to appoint 600 distributors. In France, Legrand must be dealing with not more than 20 distributors. To create a distribution network of 500/600 distributors on its own right from the scratch is a big cost and calls for big investment. One of the key input that comes with the acquisition is the distribution network which are already selling off products. It will take a decade to do that.”

**Analysis**

The author is using the variables from Hennart 's (2015) study in order to determine difficulty in accessing local complementary inputs. One is the (1) concentration of local industries in a given region and another is (2) the number of suppliers for key inputs. If the local industry is concentrated then it will be very difficult for foreign investors to assess local complementary inputs either through contracts or acquisition.

From the interview anecdote it can be concluded that the difficulty level in accessing local complementary inputs are comparatively high. The market for distribution is very inefficient in India. Thus the foreign investor can find it very risky to rely on the market contracts to access it. One of the efficient way to reduce the likelihood of being held up by a distributor is to give that local firm a share of the equity in the subsidiary. It can either make an acquisition of a local firm with distribution assets or set up a green field JV. Another big issue in this industry type is the concentration of many local players. Thus due to inefficiencies present in the distribution market, Legrand opted for acquisition as an entry mode in India.

Based on the findings I can present four propositions with regard to the sub-national institutions:

**Proposition 1a: Entrants are more likely to establish greenfield or WOS acquisitions as opposed to JV in sub-national regions that have strong market-supporting institutions.**
Proposition 1b: Entrants that are technologically intensive are more likely to establish greenfields or WOS in sub-national regions that have progressed furthest in institutional credibility.

Proposition 1c: Entrants are more likely to establish greenfields or WOS in sub-national regions that facilities local capabilities build up and access to scarce local complementary assets.

Proposition 2: Entrants are more likely to establish greenfields or WOS in sub-national regions where the perceived external uncertainty and governmental regulations are lower and the fickle institutions can be easily circumvented.

CONCLUSION
This study highlights the micro level variables responsible for modes of entry where the micro levels are the markets where the complementary local inputs are assessed. Measurement of complementary local inputs are challenging as they are very much sector specific and province specific. MNEs entering emerging economies should not only consider exploiting FSAs but also bundle them with local complementary assets. The 'institutional' or 'context' perspective is immensely important from a theorizing perspective as it influences FDI count as well as entry strategy. The study highlights the importance of sub-national institutions in emerging markets and its influence on entry modes. It is definitely not a first pass at a complex topic, but replication studies are enormously vital when it comes to entry-mode studies. Brouthers (2013) acknowledged the significance of entry-mode replication studies "to see whether prior findings still hold". The sub-national institutional perspective suggests that it's difficult to understand strategies without understanding the context and hence a fine-grained understanding of how sub-institutions affect international strategies of foreign investors is absolutely crucial.
Moreover, the study ascertains the relative importance of 'sub-national institutional credibility' in Indian context, a relatively newer concept in the domain of international business. The qualitative work illustrates the fine nuances of some of the institutional aspects behind the working of the provincial capacities and FDI modes of entry. Future research in the context of India may benefit from this fine grained understanding of institutions. To summarize, the article
well argues the institutional credibility (or incredibility) in sub-national regions of India and how that affects entry strategies of firms of European origin. It also emphasizes investors need for local resources or institutions to craft the entry strategy in different regional institutional contexts. Moreover, previous research always focused on firm-level or country-level in isolation especially with establishment studies or entry mode studies. This article is exemplary in showcasing how a particular investment location can have a say on the mode of entry. The article is also immensely useful for practitioners as they can have an idea regarding the markets for complementary assets and their owners while venturing in India.

Even what happens after the entry is simultaneously determined by the foreign MNE and the owners of these complementary assets. In future whether MNEs decide to expand their foot-print or reduce their footprint in the host country both their and owners of local complementary assets strategies will matter. Contrastingly, this is not what extant theories talk about. Both Anderson & Gatignon's "Modes of foreign entry" and the Johanson & Vahlne's "Uppsala internationalization school" regard the initial entry and its subsequent footprint as an exclusive MNE entity.

Dunning's OLI paradigm (Dunning,1988) calls the local complementary assets as 'location advantages' and internalization scholars call it as 'country specific advantages'. What drives the model in this paper is the relative level of transaction costs for all required inputs. The bundling model I look at is how the optimal bundling of MNE knowledge and local complementary assets determine the choice between JV, acquisition and greenfield. The bundling model has important implications for IB theory and practice. All IB phenomena such as market entry and expansion should be analyzed from the lens of both the parties involved -MNE and owners of local complementary assets.

This study also has important implications for policy makers who would want to prioritize regional promotion. FDI is one of the ways of creating new jobs. It is imperative for policy makers to understand what kind of right mix of institution would attract maximum FDI count and facilitate foreign affiliate performance. Policy makers also need data and information to evaluate regional effectiveness regarding their regional policies. In this study, we have consistently found the evolution of JV to WHO and the concentration of a particular industry in a particular region say auto in Chennai (South) and pharmaceuticals in Gujarat(West). This
would facilitate detailed assessment of regional industrial policies and develop a sound institutional environment suitable for foreign investors.
## APPENDIX

Table 2: Overview of data sources

<table>
<thead>
<tr>
<th>Company</th>
<th>Industry Type</th>
<th>Annual Reports</th>
<th>Other Secondary Sources</th>
<th>Informants interviewed by type</th>
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<td>Legrand</td>
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<td>11</td>
<td>Vice President Strategy, Corporate Executives</td>
</tr>
<tr>
<td>Schneider Electric</td>
<td>Energy</td>
<td>12</td>
<td>9</td>
<td>Corporate Executives, Business Unit/Project Managers</td>
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<tr>
<td>Renault</td>
<td>Auto</td>
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<td>10</td>
<td>Corporate Executives, Business Unit/Project Managers</td>
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<td>Michelin</td>
<td>Auto/Ancillary</td>
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<td>Managing Director, Executive Director</td>
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<td>Saint-Gobain</td>
<td>Construction/Materials</td>
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<td>8</td>
<td>Managing Director, CFO</td>
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