



# **Business Climate Survey Report 2011**

## INTRODUCTION

The Swedish Chamber of Commerce India together with the Swedish Trade Council and the Embassy of Sweden presents the report on the 4th annual Business Climate Survey conducted among the Swedish companies present in or doing business in India.

## OBJECTIVES

- To monitor the business confidence of Swedish companies in India
- To gather the joint experience and knowledge of Swedish companies in India in order to facilitate future establishment of Swedish companies in India.

## METHOD

The Business Climate Survey 2011 was distributed electronically to 137 Swedish companies in India in March 2011. The vast majority of the large Swedish companies and a number of medium sized and small sized companies participated in the survey. Out of 137 companies, 78 companies took part in the survey which results in a response rate of about 57%. The companies taking part in this survey represent approximately 90% of Swedish companies' turnover and 85 % of Swedish companies' employees in India. The data collected have been compiled and analysed in-house. The analysis is based on the number of responses and quotations made per question.

The outcome of the survey will serve as a basis for deciding on focal issues and how to improve the existing business climate for the Swedish business community in India.

## CONFIDENTIALITY

The information provided by the companies is strictly confidential and no data related to the individual companies will be published.

## EXECUTIVE SUMMARY

### ***The number of Swedish companies in India has almost doubled during last 5 years***

The number of Swedish companies has almost doubled in India over the last five years, even though there has been a steady inflow during the period from 1996 – 2005. This goes hand in hand with other statistics, which show an average of one to two companies setting up a registered subsidiary per month in India. This trend is expected to remain constant or grow positively in the next 5 years.

Engineering is still the dominant sector representing many of the large companies. However, companies in all other sectors are fast increasing their presence in India. The majority of the companies deal with marketing/sales, by far the most predominant business of Swedish companies in India. The two most preferred cities for headquarters are Delhi and Mumbai. Chennai has become more popular, while Pune as has decreased slightly and Bangalore remains unchanged as the top location, compared to last year. The wholly owned legal entity continues to be the most popular



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vehicle for an India presence, while the second largest form of establishment, joint ventures, has declined from 22% to 17% compared to 2010.

### ***Swedish business rank India highly***

On a scale of 1 to 10, 10 being very favourable, the average of the business climate in India is rated to 7.5. This means that a total of 95% of the companies participating in the survey rank the business climate as “very favourable” or “favourable”. The survey also indicates that the business climate is improving, compared to 2009 and 2010 with ratings at 6.4 and 7.4 respectively. When it comes to the companies’ plans for the coming three years, 96% of the companies were positive in terms of increasing activities in India. Only 1% of the companies are gradually reducing activities or considering leaving India. This indicates a very positive attitude among Swedish companies when it comes to doing business in India.

When it comes to capital investments and employees, 72% respectively 76%, plan to increase their investments at an accelerated or moderate rate. In addition, over 95% of companies anticipate an increase in revenue, while disturbingly 89% report anticipated increased costs.

For the period 2009 -2011, the value of capital investments made was more than 1 billion SEK. The projected capital investments for 2011-2013 is expected to almost triple. This reflects the Swedish companies’ willingness to invest in India and the high growth rate.

The quality of the English language is viewed as the main asset when doing business. The education level is looked upon favourably with general education and post-graduate education viewed highly in particular.

### ***Swedish companies employ more than half a million people in India***

Swedish companies create, directly and indirectly, a large amount of job opportunities in India. In this year’s survey, the estimated number of *indirect* employment opportunities is approximately 580,000, a figure that has almost doubled from last year’s survey. The corresponding figure for *directly* created employment opportunities are approximately 120,000. These employment opportunities reflect positively on Swedish business in India, and the numbers are expected to increase rapidly if the different business sectors evolve in the pace anticipated by the companies.

The projected growth rates show that Swedish companies will strive to double the number of employees by the year 2014, to be realised in most part in the next two coming years. This is only one of the factors that demonstrate the Swedish companies’ eagerness to expand in India.

### ***Business challenges***

The companies stress the lack of proper infrastructure in India and its adverse impact on growth. Infrastructural issues such as electricity/power supply, air quality, and water supply are considered poor, with water/garbage management being exceptionally poor in ratings. Despite these infrastructure issues, the ratings on availability of land and work remain decent.



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Over half of the companies find that the blue collar workforce is not skilled enough. With some calls for vocational training and in-house training, this is an issue which must be dealt with for India to grow. It is also important for the white collar workers to improve their educational level, according to the companies.

Bureaucracy and corruption in India were viewed as the most unfavourable factors when doing business in India, also compared to 2010. The low rates could also possibly mirror the dissatisfaction among the general population in India, as portrayed by the media this year.

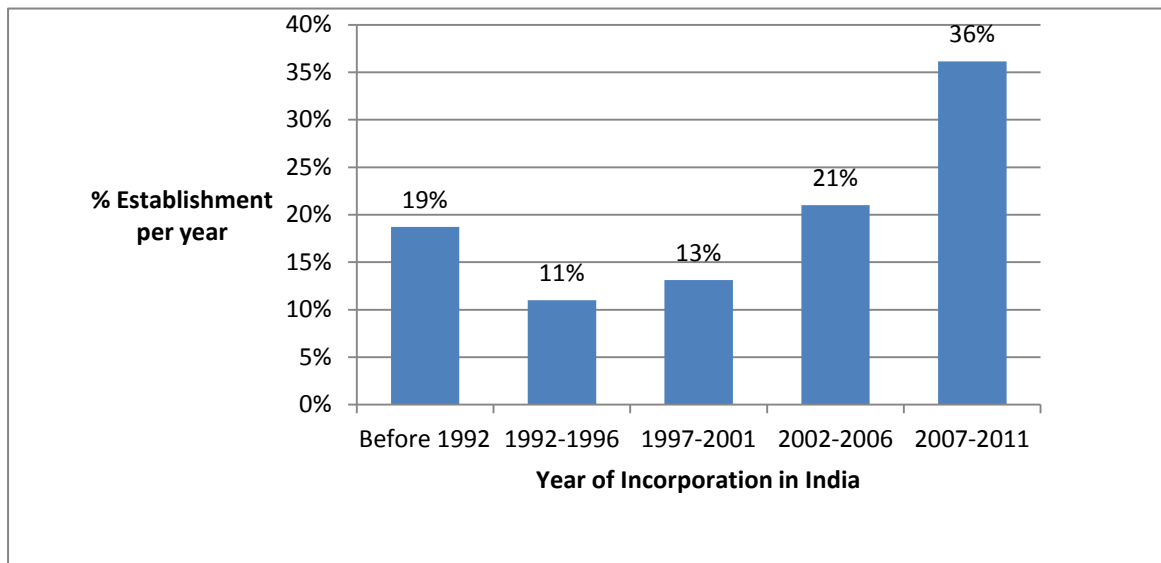
Despite these disturbing factors, the companies view their overall enjoyment when doing business in India at an average of 7. The companies are growing and expanding and despite the challenges, India remains an enjoyable and exciting prospect for future business.

### ***Useful advice for incoming companies***

For those companies who would like to enter the Indian market, the following experience sharing can be noted from the companies' quotations in the survey. It is crucial to carry out a thorough market research before entering the Indian market to understand local conditions across the country and adapt to them. It is of great importance to view India as many countries with different cultures rather than one huge homogenous entity. An entering player needs to prove that it has a long-term commitment to the country by investing in and developing a strategic approach. Building appropriate competencies in the local market to foster the confidence of your customers is crucial when entering India. Many companies stress the importance of showing patience when doing business in India. Therefore, a well-developed strategic plan with both short-term and long-term goals is vital in order to be successful in this huge, diverse, and fast-growing country.

## THE NUMBER OF COMPANIES ARE INCREASING

The survey shows that there has been a substantial increase in the number of set-up of Swedish companies in India in the last five years, as compared to the previous five year ranges. 32% of the companies established after 2007 while 7% were established in 2010-2011. These figures shall be viewed in light of that 55% of the companies were established after 2000.



The majority of the Swedish companies in India have established offices as own legal entities, which account for 51.5% of the survey participants, increased by 5.5% compared to last year's survey. Joint Ventures constitute the second most popular form at 22%, decreased by almost 5% compared to 2010. Partnership start-ups amount to approx. 8%. This figure remains the same as 2010. Other forms of establishments are representative/liaison offices, agents or establishment through acquisition.

### ***Preferred regions***

Delhi region is still the most preferred region for Swedish companies' headquarters. 35% of the companies have Delhi as their "top prime location" followed by Mumbai with 21%, Pune with 13% and Bangalore with 16% each and Chennai with 12%. Compared to 2010, Delhi as preferred location has increased by 4%, while Mumbai and Pune have declined with 3% respectively. Chennai has increased as the top prime location compared to last year, with 4% while Bangalore remains unchanged.



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Most companies have established offices across India and are planning to establish offices elsewhere in the country such as in Kolkata, Chennai, Hyderabad, Chandigarh, and Ahmedabad as well as Indore, Bhubaneswar and Jaipur.

48% of the companies have an office in Delhi, being by far the city with most companies, especially when it is considered that 35% of all companies have their headquarters there.

39% of companies also have offices in Bangalore, and the third most popular city is Chennai, with 37% of the companies having additional offices there.

32% of the companies have additional offices in Mumbai and 32% in Kolkata.

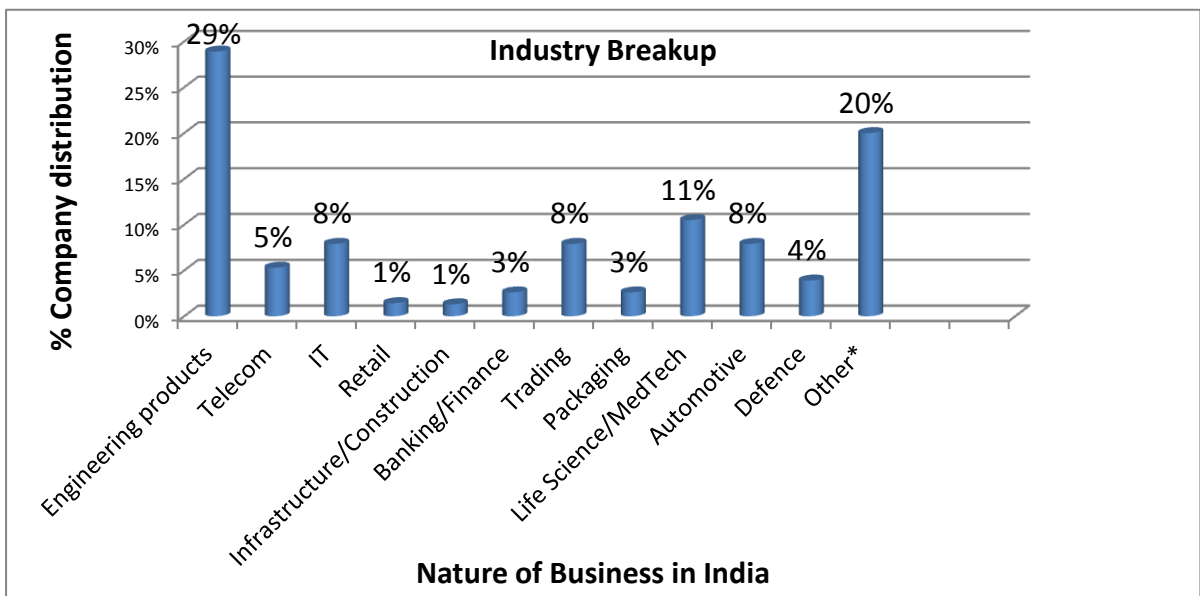
The Survey shows that 20% of the new offices are planned to be established in Chennai as the main preferred city. The corresponding figure for Hyderabad is 15%.

Pune is the third most popular city for opening new offices. There will be an expansion of 11% in this city followed by Delhi, Bangalore, Kolkata and Chandigarh, which will see 9% of the new office establishments.

12% of the new offices are likely to start up in Mumbai and Ahmadabad, while a further 6% of the new offices are expected to open in Indore and Jaipur.

In this respect, it could be mentioned that 90% of the respondents are also present in China, 83% in South-East Asia and 67% in the Middle East. Only 10% had India as their only Asian market.

**THE LARGEST BUSINESS SECTORS**



The largest business sector for Swedish companies doing business in India is engineering products, representing almost 29% of the business of the respondent companies. No other industry sector



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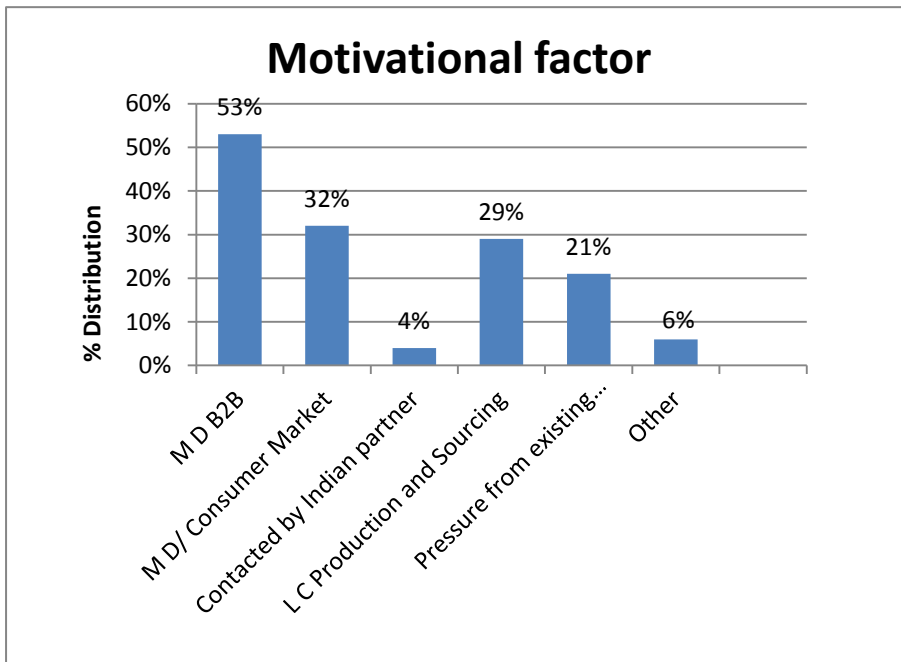
comes close. 10% of the respondent companies are dealing with life science/med tech, being the second largest sector.

The third largest sectors are equivalent in size, with 8% of the companies each, being the automotive, IT and trading sectors. Infrastructure/construction, rated as very poor by the respondent companies and in urgent need for development, only involves 1% of the companies.

20% of the companies deal with “other” businesses, such as retails stores, medical equipment, locking and door opening solutions, IP video surveillance, manufacturing of paints, marine navigational equipment, tourism, pulp and paper, security, speciality oil, cosmetics, chemicals and management consultancy.

The Survey also shows that the primary business for Swedish companies in India is within marketing/sales. Almost 60% of the survey participants are involved in this sector. Second primary business for Swedish companies in India is within production which accounts for 16% followed by “others” such as rentals, R&D, sales & after sales support, software consultancy & development, and financial support to Swedish companies in India. 7% of companies deal with sourcing, 4% in outsourcing of support functions, 1% in Research and Development and 1% in Product Development. This shows that marketing/sales completely dominate the business of Swedish companies in India, although production also has a prominent role. Approximately 10% of the companies are involved in more than one type of business.

### MOTIVATIONAL FACTORS FOR STARTING BUSINESS



Approximately one third of the companies have provided more than one reason for starting business in India, somewhat less than compared to last year’s report. The data analyzed shows that the major



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motivator for Swedish companies to establish in India is not surprisingly market demand/B2B which accounts for 53%. However, it could be noted that low cost production & sourcing is almost as high as market demand/consumer market which accounts for 29% and 32% respectively, but this figure has dropped from 40 to 29% compared to last year.

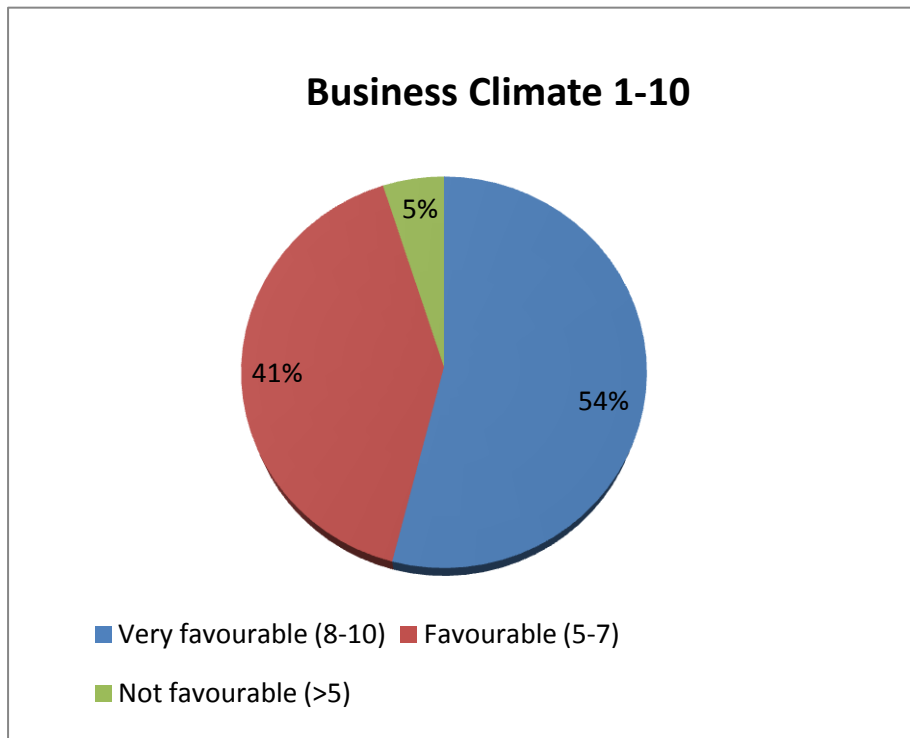
It should also be emphasised that the factor “pressure from existing customers” is as high as 21%, duplication from 2010.

Only 4% was contacted by an Indian partner. 6% mention “other” motivational factors such as establishing business in India through acquisitions or government requests/demands, availability of technical resources, textile potential, international acquisition, to follow customers from Sweden to India and availability of technical expertise.

**THE BUSINESS CLIMATE IN INDIA**

The present *business climate in India* is rated at an average of 7.5. The average rating is also on par with the business climate in 2010, with an average of 7.4. Compared to 2009, the business climate was rated to 6.4.

As shown from the graph, 54% of the companies have rated the climate as very favourable. 41% have rated the climate as favourable. Only 5% have rated the climate as not favourable.



According to the survey responses, the companies are also, on average, positive when it comes to their *overall performance in India*, rated to 7.7%. The companies foresee an increase in activities,



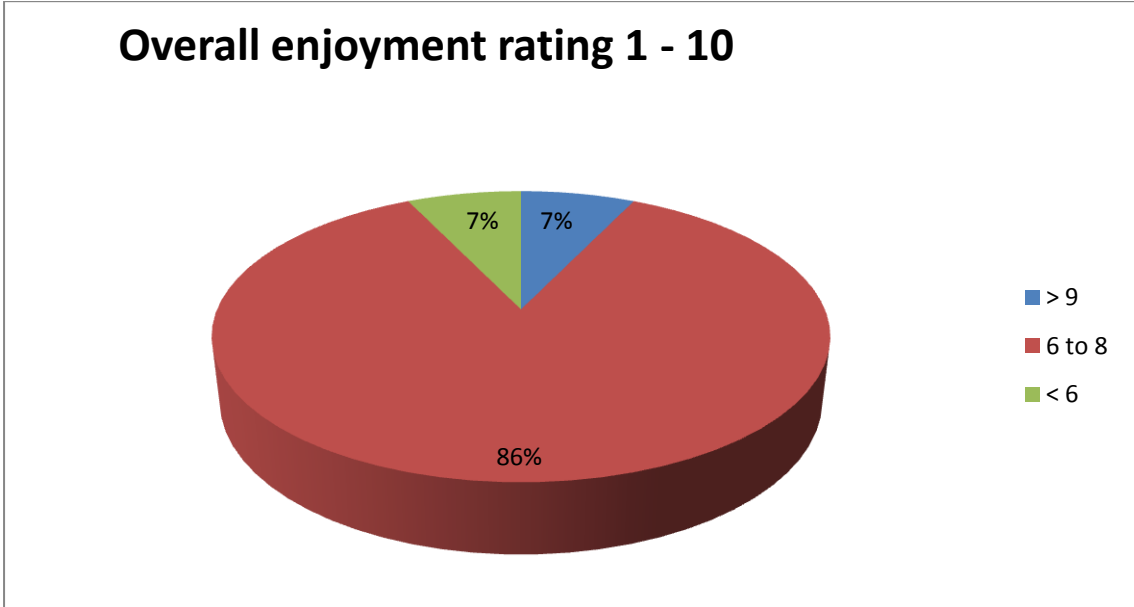
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with capital investments and employees, as 72% respectively 76% plan to increase at an accelerated or moderate rate. In addition, 96% of companies anticipate an increase in revenue, while 89% report anticipated increased costs.



Swedish companies in India rate the *overall enjoyment of doing business in India* at an average of 7, same as in 2010.

In this respect it should be mentioned that 75% of the companies state that their business in India in 2011 was as profitable as or even more profitable than the majority of their other markets.

**EMPLOYMENT OPPORTUNITIES AND CHALLENGES**

The survey shows that the number of employment opportunities is growing rapidly. The estimated number of indirect employment opportunities is approximately 580,000 through suppliers/distributes in India across the value chain, a figure that has almost doubled from the last year’s survey. The corresponding figure for directly created employment opportunities are approximately 120,000.

***Expatriate and local employment contracts***

- a) Three major companies account for 53% of all expatriate contracts in India. The number of expatriate contracts in 2010 was 228 and this figure is estimated to grow to 336 in 2012 and to 347 in 2014.

The above data could imply that the companies are willing to and anticipate a shift in expatriate management and senior positions in India to local management.



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- b) The number of local contracts is estimated to 36,000 in 2010. The projected growth rates show that the companies would like to double this number by 2014, with the aim to engage 70,500 employees. Already by 2012, the number of employees is estimated to 59,000.

The data indicates that Swedish companies will increase local workforce with 61% from 2010 to 2012.

### **Workforce challenges**

#### **a) Blue Collar**

53% of the companies felt that their blue collar workforce was not skilled enough. A number of companies stated that although they are investing heavily in vocational and in-house training, this was not sufficient.

28% experienced that blue collar workers show low loyalty towards their company and 22% was aggrieved about the low availability of workers. A number of companies stressed the need for changes in labour regulations.

17% of the companies had issues with salary remuneration in general even though only 7% considered salary levels where too high. 22% stressed ethical problems including as a workforce challenge.

#### **b) White Collar**

39% of the companies felt that the white collar workforce was not skilled enough.

32% of the companies stated that the loyalty among the white collar workers was low.

28% of the companies' stated that the salary levels were too high for the white collar workers. 25% of the companies stated that they faced difficulties with salary remuneration in general.

16% stressed ethical problems including corruption as a workforce challenge.

### **Corporate social responsibility**

Almost half of the companies are investing time and resources when it comes to Corporate Social Responsibility, CSR. Some of the companies have a large budget targeting CSR issues while it can be noted that the small and/or medium sized companies do not have sufficient resources in respect.

Interestingly, a little less than half (48%) of all respondent companies had a CSR program. 6% are in the process, which would put the eventual total to 54% of respondent companies eventually working with CSR. 46% of respondents did not work with CSR. However, almost all of the respondents replied that they are positive to CSR and in time will invest in this field.



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42% of the companies that work with CSR issues or were in the process to do so had CSR as part of the company's global policy. Another 42% had it as part of the company's global policy but customized towards India. Another 16% of the companies worked with CSR *only* in India.

The vast majority of the companies working with and involved in CSR issues focus mainly upon employee health and education (87%) and environmental aspects (82%). 63% had employee education and development programs in place, and half of the respondents worked on anti-corruption, a factor also identified as one of the most significant obstacles when doing business in India.

Almost three fourths of the respondent companies have an essential environmental policy in place and more than half (53%) also deal with health policies and another 50% are committed to education policies.

37% of the respondents also lever general charity, 34% with livelihood promotion, and one fourth work on anti-corruption initiatives. 11% of the companies invest time and money in rehabilitation and resettlement programs.

Even though most efforts are invested in health and educational programs, the survey shows that companies are also trying to devote resources to anti-corruption measures.

### **INCREASE IN BUSINESS ACTIVITES**

96% (compared to 92% in 2010) of the companies are planning to increase their activities in India in the next three year. 3% of the companies are not going to change their activities. 1% of the companies are planning to reduce business or leave India.

#### ***Growth in revenue, capital investments and human resources***

For the period of 2009 - 2011, the value of capital investments made by the companies exceeded SEK 1 billion in total, according to survey responses. The estimated planned investments for 2011-2013 will nearly be tripled, amounting to approximately SEK 2.7 billion.

The respondents have in average increased their revenue with 31% in the financial year 2010-2011 compared to 2009-2010, an impressive figure in the growing Indian market. This figure should be compared to the increase in cost of 20% for the corresponding time period. The capital investments have increased by 10% and human resources by 20%.

The most notable difference compared to last year's survey (for the financial year 2009-2010 compared to 2008-2009) is the decrease in revenue by 16%.

10% of all the respondent companies, reported negative or no growth, evenly split by 5% of each.

### **Expected performance in 2011 - 2012**

#### ***a. Increase in revenue***



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78% of the companies anticipate an **accelerated growth** in revenue (compared to 44% in 2010), while a further 18% see a **moderate growth** (compared to 52% in 2010).

1.4% of the companies anticipate **slow growth** (compared to 3% in 2010) and 2.6% foresee **no growth** (compared to 0% in 2010).

**b. Increase in cost**

45% of the companies anticipate **accelerated increased costs** and 44% foresee **increased costs**. 11% report **slow cost** increase.

**c. Increase in capital investment**

48.5% of the companies anticipate **accelerated capital investment** and 23.5% foresee a **moderate capital investment**. 4.4% expect a **slowdown** while 22.1% anticipate no change in capital investment. Only 1.5% of the companies expect a **negative capital investment**.

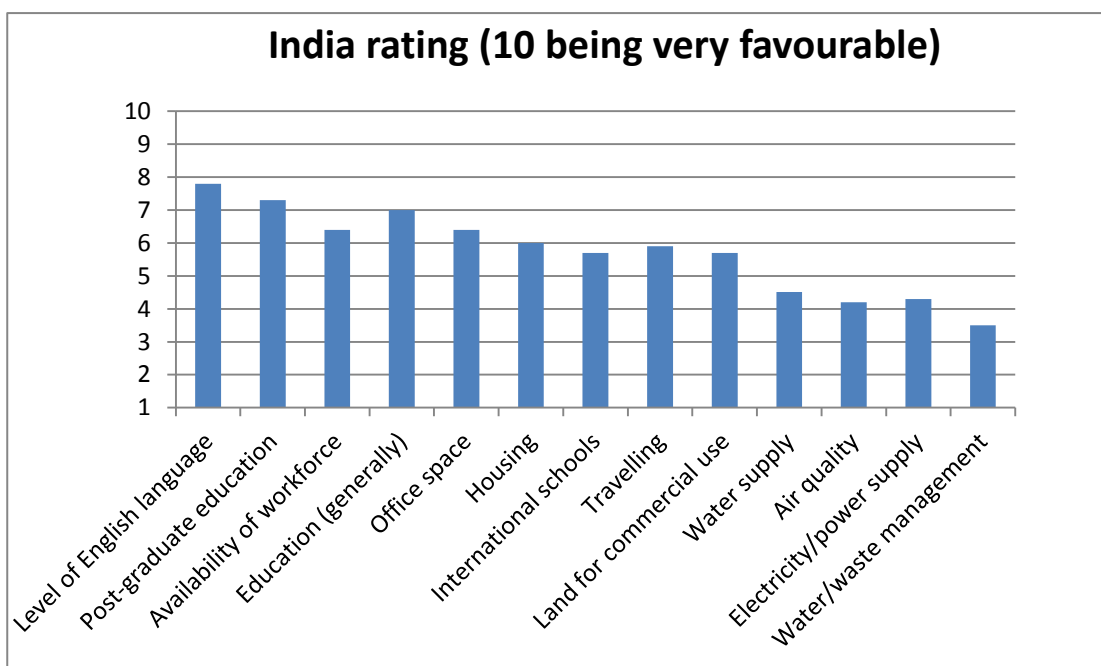
**d. Increase in employees**

More than half the companies (55%) anticipate an **accelerated increase** in employees. 21% plan on a **moderate increase** in employees. 8% foresee a **slow increase** in terms of number of employees, while 16% report that they are not planning to increase employees at all (no change).

**INDIA RATINGS**

**The level of English language and education receive the highest ratings**

The companies have been asked to rate the below factors in the graph.



The survey shows that the level of English language is looked upon as the most favourable factor when doing business in India. General education and post-graduate education receive the second most favourable ratings with 7 and 7.3 respectively. The above numbers differ minimally compared to 2010.

The companies stress the lack of proper infrastructure in India and its adverse affects on growth. Infrastructural issues such as electricity/power supply (4.3), air quality (4.2) and water supply (4.5) are considered poor, with water/garbage management being exceptionally poor, coming in lowest at an average of 3.5.

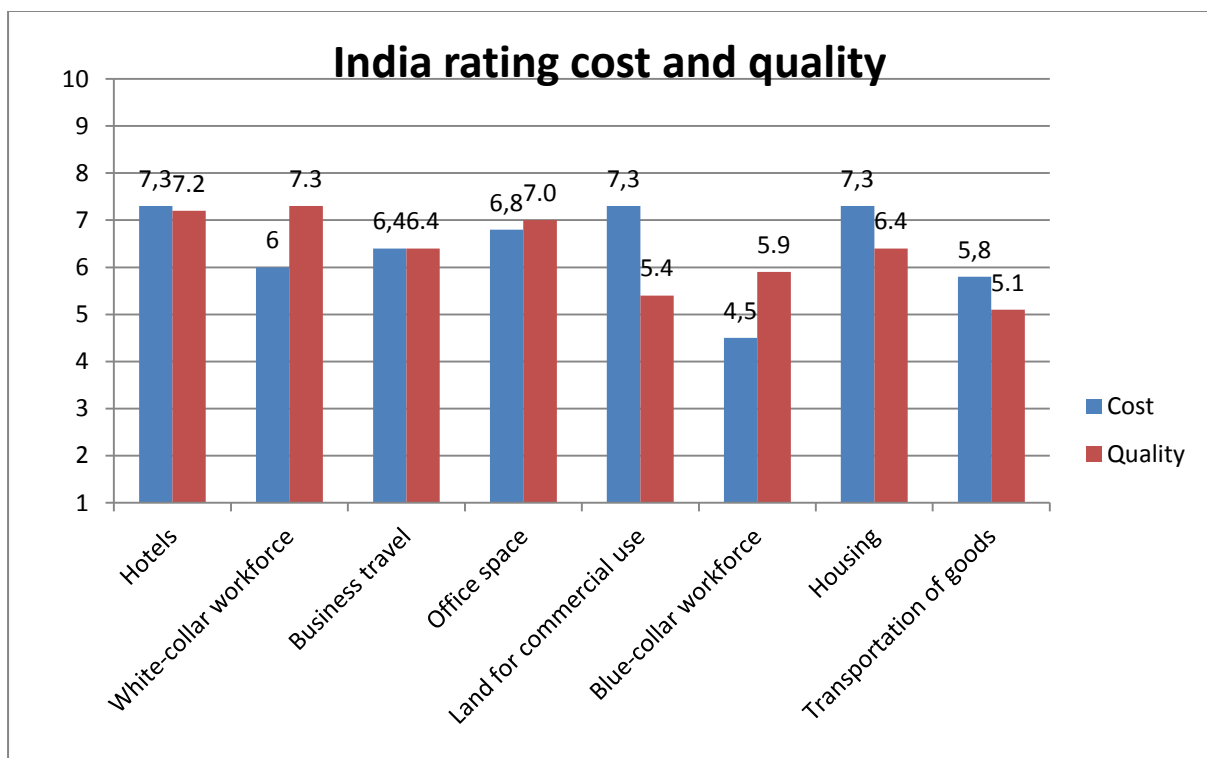
Infrastructure in terms of travelling is higher, rated to 5.9.

The ratings on availability of housing, office space and workforce have all been rated above 6.

Availability of land for commercial use and international schooling are rated to 5.7. The survey points to that the availability of land for commercial use, however, remains a considerable cost.

### **Cost vs. quality**

The below graph shows the companies' ratings both in terms of costs (10 being high cost) and quality (10 being very favourable).



As shown from the graph, the cost of transportation of goods, white-collar and blue-collar workforce have been rated to 6 or below whereas all the others factors are rated to above 6.



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It could be noted that the **white collar workforce**, ranked at 6 for costs, shows an average of 7.3 in quality. **Blue collar workforce** is rated to 4.5 in costs and 5.9 in quality.

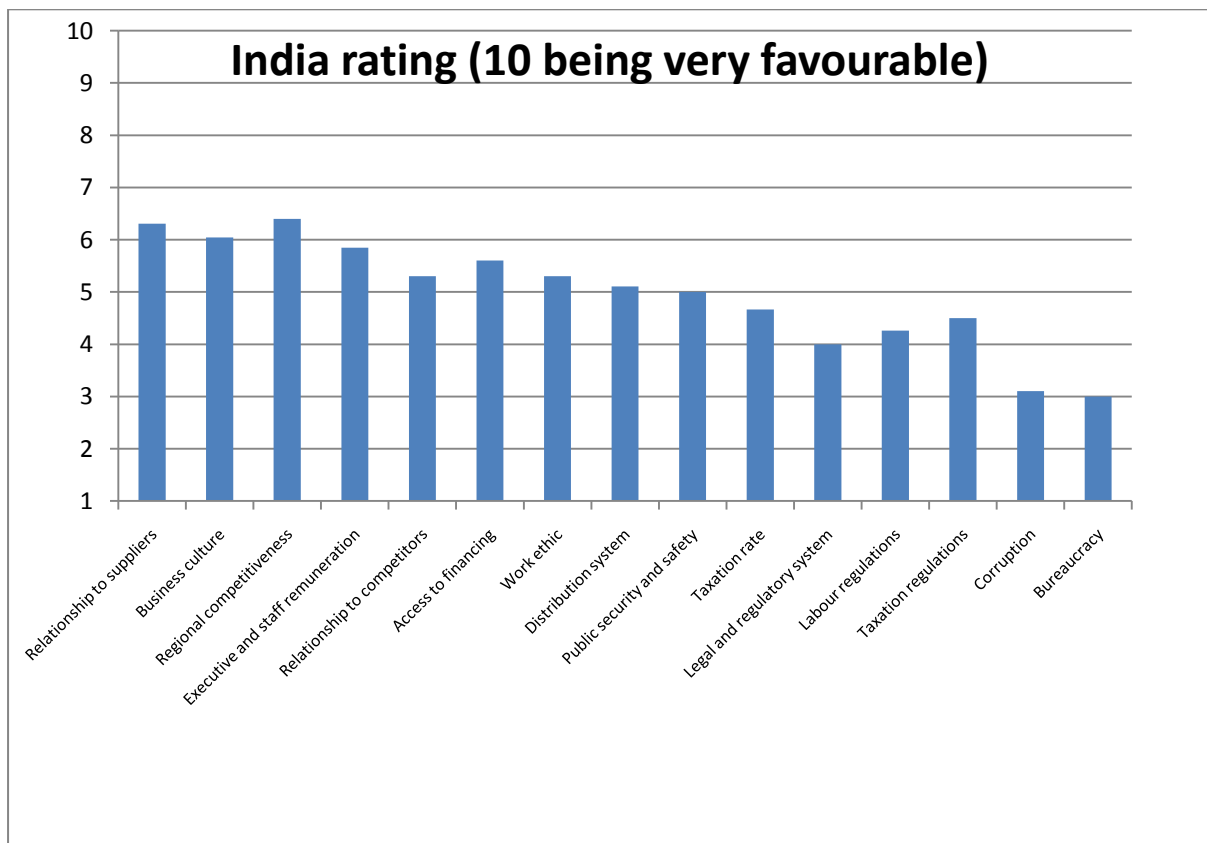
**Land for commercial use** is the sector where cost (7.3) is notably higher than the quality (5.4).

In the sectors business travel, hotels and office space, cost and quality are neutral or with small deviations only.

***Corruption and bureaucracy remain the main challenges***

As shown in the graph, corruption (3%) and bureaucracy (3.1%) continue to be the main obstacles for the companies, also compared to 2010. Legal and regulatory systems have been ranked at 4.5 compared to 4.0 in 2010. The overall regulatory framework, including taxation regulations and taxation rates and labor regulations are rated low, ranging from 4 to 4.5.

Relationships to suppliers (6.4%) and regional competitiveness (6.3%) received the most favourable ratings, which was also the case in 2010.



**BOTTLENECKS ENCOUNTERED WHEN ESTABLISHING BUSINESS IN INDIA**

**62%** of the companies did **not** face bottlenecks or constraints when establishing business in India, compared to 67% in 2010. **38%** reported that they did.



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By far the most common bottleneck encountered was the registration as a legal entity, met by 72% of the companies.

The second most common constraint was acquiring land for commercial use, a bottleneck found by 32% of the companies.

Further, 28% had financial challenges, 24% had trouble finding a business partner/joint venture partner/distributor. Moreover, registration of brand products, personnel recruitment, lack of office space, and transport and logistics were encountered by 20% of the companies.

4% had trouble to find expatriates and competent staff and another 4% found corrupt officials and bureaucracy as the main bottleneck. Other examples of bottlenecks are problems with receiving business licenses, unfavourable regulatory framework for setting up banking operations for foreign banks, high duty on imports, protectionism of local markets, extensive and lengthy procedures when it comes to handling necessary paperwork, processing of applications etc. Further, the fact that legal systems differs from state to state impedes cross boarder business and tax transparency.

One bottleneck that was highlighted is the lack of clarity with regards to the role of the Foreign Direct Investment (FDI). Certain trading activities still require prior approval of the Indian government and in certain fields FDI is prohibited.