



## **Master Thesis**

# **Specifics of Doing Business in India for Selected Czech Companies**

*Study programme:*

N0413A050030 International Management

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Liberec 2024



## Master Thesis Assignment Form

# Specifics of Doing Business in India for Selected Czech Companies

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*Identification number:* E22000425  
*Study programme:* N0413A050030 International Management  
*Assigning department:* Department of Economics  
*Academic year:* 2023/2024

### Rules for Elaboration:

1. Setting aims and formulating research questions.
2. Definition of main terms and theoretical concepts.
3. Analysis of the business environment in India.
4. Selected Czech companies operating in the Indian market.
5. Assessing the impact of individual factors on implemented strategies of chosen Czech companies.
6. Formulating conclusions and assessing the research questions.

*Scope of Graphic Work:*

*Scope of Report:* 65

*Thesis Form:* printed/electronic

*Thesis Language:* english

### **List of Specialised Literature:**

- EY, 2022. *Doing Business in India*. online; pdf. Kolkata, India: Ernst & Young LLP. Accessed on 30 September 2023 [2023-09-30]. Available at: [https://assets.ey.com/content/dam/ey-sites/ey-com/en\\_in/topics/tax/2022/11/ey-doing-business-in-india.pdf](https://assets.ey.com/content/dam/ey-sites/ey-com/en_in/topics/tax/2022/11/ey-doing-business-in-india.pdf).
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*Date of Thesis Assignment:* November 1, 2023

*Date of Thesis Submission:* August 31, 2025

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# **Specifika podnikání v Indii pro vybrané české firmy**

## **Anotace**

Tato diplomová práce se zabývá problematikou podnikání českých firem v Indii. Cílem práce je identifikovat nejdůležitější kulturní, právní a ekonomické faktory, které ovlivňují podnikání v Indii, a posoudit, jak ovlivňují strategie vybraných společností na indickém trhu. Teoretická část se věnuje vymezení základních pojmů v oblasti mezinárodního podnikání, mezinárodních firem a kultury. V praktické části je nejprve provedena analýza podnikatelského prostředí v Indii, po které následuje analýza jednotlivých firem. Výsledkem je vyhodnocení vlivu jednotlivých faktorů na implementované strategie těchto společností. Provedenou analýzu doplňují rozhovory s jednotlivými zástupci českých firem a odborníky z praxe.

## **Klíčová slova**

Bonatrans, dceřiná společnost, faktory, FDI, firma, Indie, kultura, management, mezinárodní společnost, mezinárodní podnikání, strategie, Škoda Auto, VHS

# **Specifics of Doing Business in India for Selected Czech Companies**

## **Annotation**

This master's thesis deals with the issue of doing business in India for Czech companies. The thesis aims to identify the main cultural, legal, and economic factors that affect doing business in India and to evaluate how they impact the strategies of selected Czech companies operating in India. The theoretical part is devoted to the definition of basic concepts in the field of international business, multinational companies, and culture. In the practical part, an analysis of the business environment in India has been carried out. A study of the selected Czech businesses follows. The impact of individual factors on the implemented strategies of chosen Czech firms is then assessed. Finally, interviews with practitioners and individual representatives of selected businesses complete the analysis.

## **Key Words**

Bonatrans, company, culture, factors, FDI, India, international business, management, multinational company, strategy, subsidiary, Škoda Auto, VHS

## **Acknowledgment**

I would like to express my gratitude to doc. Ing. Aleš Kocourek, Ph.D. His never-ending support and guidance mean a lot to me. My thanks also go to both practitioners: Ing. Hana Onderková and doc. Mgr. Martin Fárek, Ph.D. They both provided extremely useful and practical information. Furthermore, I would like to thank the representatives of selected Czech companies for kindly spending their time on an interview with me despite their busy schedules. This includes Ing. Vladimír Havlíček, Ing. Michal Bachtík, and Ing. Jakub Weimann, MBA. Finally, I would like to thank Ing. Jaroslav Demel, Ph.D. for helping me to get in touch with one of the interviewees from one of the selected companies.





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## List of Abbreviations and Symbols

CAGE	Cultural, Administrative, Geographic, and Economic Dimension
ČNB	Česká národní banka ( <i>Czech National Bank</i> )
FDI	Foreign Direct Investment
HQ	Headquarters
HR	Human Resources
HRM	Human Resource Management
IB	International Business
INR	Indian Rupees
MNC	Multinational Company
OLI	Ownership, Location, and Internalization
PESTLE	Political, Economic, Socio-cultural, Technological, Legal, and Environmental factors
PPP	Purchasing power parity
SEZs	Special Economic Zones



## Introduction

In a globalized world, businesses constantly seek opportunities to expand their horizons and enter emerging markets. One such market that has gained significant attention in the recent years is India. It is widely expected to become an economic powerhouse in the future, mainly thanks to its demographic development and economic growth (PWC, 2017). Untapped potential is one of the main reasons, why increasingly more companies try to enter the Indian market. As of 2023, several Czech companies are operating there. From smaller exporting companies with Indian sales representatives to large multinational corporations with subsidiaries and manufacturing plants. (EOI Prague, 2024)

This master's thesis explores the specifics of doing business in India for selected Czech companies. Its primary goal is to identify the main cultural, legal, and economic factors that affect doing business in India and to explore how they impact the strategies of these companies.

This thesis is divided into four main chapters. The first chapter describes the elementary concepts such as international business, international markets, and multinational companies. In addition, it focuses on the importance of culture in international business.

The second part deals with the analysis of the business environment in India. Furthermore, it also picks out the main factors that influence business in India.

The third chapter is devoted to case studies of selected Czech companies that operate in the Indian market. Special attention is given to their general strategies and how they adapt to individual specifics of this market both internally and externally.

The last chapter evaluates the impact of individual factors on the implemented strategies of the selected Czech companies. The analysis is completed with interviews with practitioners and individual representatives of these companies.

# 1 International Business

International business (IB) is an indispensable part of today's world. Its role has significantly increased in the last century, mainly because of globalisation and the fact that no country can produce all commodities to fully meet its own needs. This applies to both developed and developing countries. (Sharan, 2012)

Sharan (2012) defines IB as business activities that cross the domestic borders of a company. These activities consist of transactions of economic resources such as goods, services, international production, and capital. Hence, IB also includes foreign investment, especially FDI. Grozdanovska et al. (2017) look at IB from a slightly different view. According to them, IB consists of devised transactions, which are implemented through national borders, and realized within the process of globalisation of business. Johnson and Turner (2003) say that IB is a business with an additional layer of complexity that occurs from engaging in cross-border business transactions. The decision-making processes of businesses can be significantly impacted by this trait, which presents unique issues for the governance of the business environment and the management of diversity in culture and business practices. Furthermore, they also put an emphasis on multinational companies (Johnson and Turner, 2003). For Dunning and Lundan (2008) IB is an important field of research. They aim to comprehend the activities and behaviour of companies that own, influence, or control value-adding activities outside the borders of their home country.

Johnson and Turner (2003) focus on the managerial and strategic part of IB. Sharan (2012) uses a more general economic approach while not overlooking the necessity of strategic adaptation. Grozdanovska et al. (2017) highlight globalisation as an important factor in IB. Dunning and Lundan (2008) add that IB is also a research field seeking a better understanding of a global economy.

In conclusion, different authors concur that IB consists of cross-border business activities such as transactions of goods, services, and capital. This transaction is happening in a globalized business environment and affects the decision-making of companies, mainly of MNCs.



## 1.1 Globalisation

Globalisation is an important driving force behind IB. Dey (2007) explains globalisation as a cultural and social process, that results in an increasingly interconnected world. As a side effect of this integration, people are becoming more and more exposed to various different ways of thinking and cultural values. Dey (2007) describes that *“globalisation is about getting an organisation into a position of doing business in any market it chooses”* – indicating that it is a process that eliminates borders. Grozdanovska et al. (2017) add that globalisation heavily influences the economic interdependence of nations. Held et al. (1999) explain that there are three different schools of globalisation, each understanding its essence differently.

- **Hyper-globalist school:** According to hyperglobalists a result of globalisation is a unified global economy. It leads to denationalisation of economic activities and a borderless economy, that needs to accommodate global market forces.
- **Sceptical school:** As opposed to hyperglobalists, the sceptical view believes in inter-nationalisation, where economies remain defined and national economic politics stay effective. The flow of economic resources can therefore still be influenced by individual economies.
- **Transformationalist school:** Transformationalists provide a third point of view on globalisation. They interpret globalisation as a set of processes, rather than an end-state. The processes represent a change from a national to a transcontinental pattern of human organization. In conclusion, the distinction between domestic and global affairs becomes unclear. (Held et al., 2000)

Regardless of the definition, it is evident that globalisation impacts corporate strategies and influences the way companies nowadays operate. (Johnson and Turner, 2003)

### 1.1.1 Advantages of globalisation

Depending on the situation, globalization has a variety of benefits: increased competition, better mobility of labour, and improved international relations. Higher competition theoretically leads to a higher quality of goods, lower consumer prices,

and a bigger variety of brands. For businesses, globalization presents an opportunity to benefit from economies of scale. (Donnelly, 2022). In addition, firms can establish foreign subsidiaries and use this opportunity to lower their costs, get closer to target markets, access resources, or operate with more favourable government regulations. (Johnson and Turner, 2003)

### **1.1.2 Disadvantages of globalisation**

Firstly, globalisation may cause disproportionate growth within and between nations and induce migration from developing countries. Although Di Giovanni et al. (2008) believe that these problems are not an outcome of globalisation, arguing that there is not enough globalisation in the most problematic countries. Secondly, many major environmental concerns have been related to increased globalization. These issues include deforestation, pollution, greenhouse gas emissions, and loss of biodiversity. Lastly, increased competition can result in disadvantaged companies and workers – individuals who lose their jobs and are then inclined to elect political parties that pursue protectionist measures. (Stobierski, 2021)

## **1.2 Competing in international markets**

Trade in goods and services plays a crucial part in IB. According to economic theory, the main reason for international trade of goods and services is absolute and comparative advantage. Absolute advantage is an economic concept developed by the father of modern economics, Adam Smith, stating that entities should specialize in goods they can produce efficiently. A country, or a company with lower production costs should specialize in the production of that specific good and export the production surplus which is not demanded by the domestic market. The production capabilities of a business entity depend on multiple factors such as: labour costs, access to natural resources, and available capital (Segal, 2022). A more holistic approach to international trade was later introduced by David Ricardo – saying that countries can benefit from trade even if they do not have such an absolute advantage. Comparative advantage recommends that countries and companies should engage in international trade by exporting of goods that they have a relative advantage in.

These are goods, that companies can produce with a lower opportunity cost than its trading counterparts. An opportunity cost is a potential gain that someone forgoes while choosing one alternative over another. (Hayes, 2023)

According to Sharan (2012) the main incentive for IB is usually maximisation of corporate wealth and preservation of competitive edge. Export of goods is especially crucial, when the domestic market becomes saturated, and a company is trying to gain access to a larger market. For instance, a firm can try to minimise its cost by moving some of its operations abroad – by making use of cheaper labour there. Once the demand for a company's product matures in the foreign market, it is in the best interest of the company to start production there. However, to establish foreign production, it is necessary to transfer technology and usually also to invest a lot of capital. (Sharan, 2012)

Every country has a unique market and a specific business environment with distinctive features. A company needs to take these factors into account when deciding whether to do international or domestic business (Grozdanovska et al., 2017). Competing in international markets involves both significant threats and great opportunities. (Reed et al., 2020)

### **1.2.1 Advantages of competing in international markets**

According to Reed et al. (2020) there are three major reasons for engaging in international markets.

- **Access to new customers:** Gaining access to new customers can attract companies into foreign markets (Reed et al., 2020) Especially countries such as China and India appeal to companies as they account for more than 2,8 billion people (O'Neill, 2024). With a growing standard of living, Chinese and Indian inhabitants can afford to buy goods and services that are not necessary for life. (Reed et al., 2020)
- **Cost advantages:** In pursuit of lower costs, many companies try to enter foreign markets and take advantage of economies of scale (Donnelly, 2023). Numerous companies try offshoring to gain a cost advantage (Reed et al., 2020). Offshoring refers to the shift of production and relocation of jobs to foreign subsidiaries

(Chang, 2012). Furthermore, MNCs can optimize their tax burden by taking advantage of transfer pricing. Transfer pricing refers to relocation of profits to countries with lower tax rates. (Kalra and Afzal, 2023)

- **Risk diversification:** *“Do not place all your eggs in one basket”* is an old saying explaining why it can be beneficial for companies to operate in multiple countries. To give an example: Japan was seriously affected by natural disasters in 2011. Nevertheless, large Japanese car manufacturers were not as heavily impacted by the outcome of these events as some of the smaller Japanese businesses. They withstood the crisis by operating in multiple countries and not fully relying on the Japanese market as their only source of revenue and production. (Reed et al., 2020)

### **1.2.2 Disadvantages of competing in international markets**

Although it might seem lucrative to compete in international markets, companies need to properly assess the risks before entering new markets. A useful tool for a firm considering international diversification can be PESTLE analysis (Reed et al., 2020). The PESTLE model enables managers to pinpoint the macroeconomic variables that should be considered for the development of the business. It includes six categories of macroeconomic factors – political, economic, socio-cultural, technological, legal, and environmental. The main objective of PESTLE analysis is to conceptualize future scenarios and to make correct decisions that influence the future of a company (Alanzi, 2018). Porter’s five forces model is another practical analytical tool for identifying how much potential exists in an industry. The forces are rivalry among existing competitors, threat of new entrants, threat of substitutes, power of suppliers to an industry, and power of industry’s buyers. When all five forces are strong, there is only a little potential for profit in the industry. If none of the forces works to undermine profit, it is an ideal situation for market entrance. Usually, most industries are located somewhere in the middle of the spectrum. (Reed et al., 2020)

Reed et al. (2020) believe that the main risks in IB involve political, economic, and cultural risks. Sharan (2012) adds that the management function in IB regarding human resources (also HR), accounting, production, and marketing heavily differs

from a standard management function in domestic business. These factors contribute to the overall complexity of competing in international markets. (Sharan, 2012)

Competing in a foreign market can be very difficult if the market is quite different from the domestic one. The CAGE framework can be helpful when assessing the likelihood of success in different target countries and analysing different business environments. It consists of four dimensions of distance – cultural, administrative, geographic, and economic (see table 1). The risk increases with increasing distance in any of these dimensions. Distance in this example stands for the difference between the domestic and host country. (Reed et al., 2020)

*Table 1: CAGE framework*

<b>C</b>	<b>A</b>	<b>G</b>	<b>E</b>
differences in culture	administrative functions	geographic barriers	economic disparities
societal customs, values, language, history	legal systems, political systems	communication, physical distance, time zone, infrastructure	GDP per capita, purchasing power, disposable income

Source: own processing based on (Reed et al., 2020)

The line between success and failure in IB is very thin. Therefore, it is necessary to focus on the correct market and choose an appropriate entry mode.

### **1.3 Types of operations in international business**

The choice of entry mode depends on several factors and is crucial for success in IB. For instance, different firms favour different degrees of involvement. A company that prefers the least amount of involvement can decide to export its products and not be involved in any other way, while other companies prefer maximum involvement. Therefore, the entry mode in IB heavily depends on whether the company can make such an investment. Furthermore, the business environment of a target country is another significant factor. Each entry mode option has its benefits and drawbacks (Sharan, 2012).

According to Sharan (2012) there are four main factors, that influence the choice of an entry mode – corporate objective, corporate capability, host country environment, and perceived risk (see table 2).

*Table 2: Factors influencing the choice of entry mode in international business*

<b>Corporate objective</b>	<b>Corporate capability</b>	<b>Host country environment</b>	<b>Perceived risk</b>
profit vs. control	financial position	culture, political and legal environment, economic environment, market size, shipping costs	degree of risk, control-risk, consideration

Source: own processing based on (Sharan, 2012)

Chen (2008) points out that entry speed is another crucial factor, as some companies prefer to enter a foreign market immediately – through acquisitions – rather than with a delayed entrance in a form of a greenfield investment. Firms take into consideration the industry they are entering, as some industries are evolving more swiftly than others and require instant action. (Chen, 2008)

There are several entry modes in IB, starting with exporting as a mode with the lowest risk and lowest involvement. On the other end of the spectrum lies FDI, as it requires a high level of involvement and a high level of risk. Reed et al. (2020) and Bhandari (2018) concur, that the first three options of entry are exporting, licensing, and franchising. Their definitions differ in the riskiest entry modes, as Reed et al. (2020) differentiate from special modes of entry and FDI (see table 3), while Bhandari (2018) focuses on individual entry modes such as joint venture, acquisition, and greenfield investment. Nevertheless, all options require a certain amount of involvement, investment of capital, and a risk that comes from the investment. The higher the risk, the higher the potential reward. (Reed et al., 2020)

*Table 3: Entry mode options in international business*

	<b>Entry mode options</b>	<b>Involvement</b>	<b>Risk</b>
<b>Exporting</b>	indirect exporting	low	low
	direct exporting	low/medium	low/medium
	intra-corporate transfers	low	low
<b>Licensing</b>	international licensing	medium	low/medium
<b>Franchising</b>	international franchising	medium	low/medium
<b>Special modes</b>	contract manufacturing	medium	low/medium
	business process outsourcing	medium	low/medium
	management contracts	medium	low/medium
	turnkey projects	medium	low/medium
<b>FDI without alliances</b>	greenfield strategy	high	high
<b>FDI with alliances</b>	mergers and acquisitions	high	high
	joint ventures	high	high

Source: own processing based on (Reed et al., 2020)

In summary, entering a foreign market has its upsides and downsides (see table 4), regardless of the entry mode. It is impossible to do IB without any risk – whether it is political, economic, cultural, or a risk that arises from cooperation with foreign partners. (Reed et al., 2020)

*Table 4: Benefits and drawbacks of individual modes of entry in international business*

<b>Entry mode options</b>	<b>Advantages</b>	<b>Disadvantages</b>
<b>Exporting</b>	simplest mode, less risk, limited required finance	costs of transport, complexity of the logistics, tariffs on incoming goods in some countries
<b>Licensing</b>	for the licensor - relatively low investment and low financial risk	one party can affect the other, scope for misunderstanding, less market opportunities
<b>Franchising</b>	for the franchisor - entrance of global markets with low investment and lower risk, worldwide learning from the franchisees	international franchising is more complicated than domestic franchising, scope for misunderstanding, possible leakage of trade secrets
<b>Greenfield strategy</b>	company selects the best location, possibility to have its own policies, human resources management, gestation period to understand the host market	a company must follow the rules and regulations of the host country (in terms of the construction of the buildings, recruitment of employees)
<b>Acquisition</b>	immediate ownership of the acquired firms' resources	a complex task from a legal standpoint
<b>Joint Venture</b>	spread of the risk between partners, synergy effect, it makes larger projects possible	potential for conflicts and disputes, slower decision-making process

Source: own processing based on (Bhandari, 2018), (Sharan, 2012) and (Reed et al., 2020)

## 1.4 Foreign direct investment

According to ČNB (2019), the foreign direct investment (thereinafter FDI) “reflects the aim of obtaining a lasting interest” by a direct investor in a direct investment enterprise. Therefore, this investment usually results in a certain non-negligible degree of control over how the business is run. A direct investor is defined as a non-resident, that owns at least 10% of the equity of a company (Duce, 2003). Furthermore, direct investment enterprises can be divided into associates (10% – 50%), subsidiaries (more than 50%), and branches owned fully by a direct investor (ČNB, 2019). FDI helps to bridge the resource gap between developing and developed countries. For less developed countries, FDI is an important tool when it comes to obtaining latest technology and large amounts of foreign exchange resources. In addition, it develops managerial capabilities and often offers numerous vacant positions for domestic labour. All in all, it is an essential element of a nation's economic behaviour (Sharan, 2012).

The biggest recipients of FDI inflow are traditionally developing economies – with an increasingly higher number of greenfield projects. Although FDI has overall declined in 2022 due to the impact of Covid-19 and political instability, FDI flows to developing

countries reached the highest amount ever recorded - \$916 billion (see table 5). Among all developing countries, India is the largest recipient by number of projects. In both greenfield investments and international project finance deals. (UNCTAD, 2023)

Table 5: Global FDI flows in years 2020 — 2022

in \$ billion	FDI inflows			FDI outflows		
year	2020	2021	2022	2020	2021	2022
world	962	1478	1295	732	1729	1490
developed countries	315	597	378	350	1244	1031
developing countries	647	881	916	382	485	459

Source: own processing based on data from (UNCTAD, 2023)

There are many ways a domestic investor can obtain voting rights in a foreign corporation. The most common ones are mergers and acquisitions, strategic alliances, joint ventures, and the establishment of subsidiaries and branches in a foreign country. FDI has obviously its advantages, but also many disadvantages, depending on the point of view. (CFI, 2023)

**1.4.1 Advantages of FDI**

According to Calimanu (2021), FDI can boost the overall economy of a country. In most instances, it creates new job positions, reduces the unemployment rate, and develops human capital. Besides that, it usually introduces new technology and increases competition and the efficiency of an industry. Furthermore, FDI inflow can improve the exchange rate stability of a developing country – supporting a nation’s central bank in maintaining a healthy reserve of foreign exchange from investment inflows as well as increased exports. (Calimanu, 2021)

**1.4.2 Disadvantages of FDI**

On one hand, FDI has a positive impact because it increases competition and forces local companies to become more competitive. On the other hand, fierce competitors such as large MNCs can drive out local companies and force them out of business. Another major drawback of FDI is profit repatriation. Firms that do not reinvest profits back into the host country are the main reason for significant capital outflows in later years, especially from developing countries. (CFI, 2023)



According to Herzer (2012), FDI has generally a negative effect on the economic growth of developing countries. Herzer (2012) states that FDI can reduce productivity of a host country, especially when it comes to resource-rich developing countries. In these countries, FDI is often concentrated in the primary sector and does not result in spillovers of knowledge into the local economy. In addition, Herzer (2012) argues that impact of FDI depends on the level of local human capital, that is often lacking in developing countries. Kurtishi-Kastrati (2013) adds that other drawbacks of FDI include harmful impact on the environment or taking advantage of inadequate local labour rights. In addition, large inflow of FDI can also lead to an overvaluation of a local currency. Therefore, resulting in a long-term decreased competitiveness and contributing to unemployment. (Chen, 2021)

## 2 Multinational companies

Multinational companies play a pivotal role in IB (Johnson and Turner, 2003). According to Lazarus (2001) an MNC is a business entity whose operations are spread throughout more than two countries. The degree to which MNCs engage in multinational operations varies. The economic definition places a strong emphasis on the ability of owners and top managers to effectively control the operations of foreign subsidiaries. Thus, MNC is the product of FDI. (Lazarus, 2001)

Mayrhofer and Prange (2015) say that MNCs are companies that engage in FDI and control value-added activities in multiple countries. These activities most commonly take the form of subsidiaries, minority equity investments, or joint ventures. A typical trait of MNCs is integration into numerous networks that change over time and are influenced by local governments. (Mayrhofer and Prange, 2015)

Considering that an MNC significantly differs from a local firm in terms of capital, technology, capabilities, and access to international markets, there is a possibility of major spillovers. Spillovers are positive externalities that occur from the presence of MNCs in a developing economy (Rugraff and Hansen, 2011). Therefore, MNCs can positively influence the technological development of a country. (Ali et al., 2023) Spillovers occur either directly (through licensing, franchising, subcontracting) or indirectly (spillovers on local competitors). Furthermore, spillovers most commonly take the form of knowledge externalities such as technology and know-how. (Rugraff and Hansen, 2011)

Dunning and Lundan (2008) add that the main reason for engaging in foreign production is to increase the value of income-generating assets. Therefore, MNCs aim to gain profit for their owners. They try to accomplish that goal by coordinating their existing assets with the configurations of countries. (Dunning and Lundan, 2008)

All in all, MNCs control value-added business activities in multiple countries and are embedded in several networks. On top of that, they generally have more resources at disposal than their local competitors and apply more advanced technologies and methods, which tends to result in spillovers of knowledge.

## 2.1 Traditional theories of multinational companies

Multiple theories try to explain why and when MNCs emerge – the specific reasons differ in each of them.

- **Internalization theory:** Internalization theory states that MNCs emerge when the benefits of internationalization exceed the costs, depending on location factors. It is stated that the net benefit of internalization is positive if a company is found to be an MNC. Hence, it is asserted that the net benefit is negative if it is not an MNC. Internalization theory assumes that firms maximize profit and managers make rational decisions that protect the interests of shareholders (Buckley and Casson, 2020). Internalization theory sees the MNC as a response to market failure. (Strange, 2018)
- **Eclectic paradigm:** The eclectic paradigm, also known as the OLI framework, is a paradigm that includes many explanations for the cross-border value-adding actions of businesses. Furthermore, it can be used for determining if an FDI is attractive for a company. FDI can be beneficial if a company has three advantages – ownership, location, and internalization advantages. **O**-advantages mostly take the form of privileged possession or access to unique and valuable intangible assets. **L**-advantages include geographic advantages and other location advantages such as low-cost raw materials, cheap labour, and lower taxes. **I**-advantages reflect greater organisational efficiency. OLI characteristics vary according to the circumstances of a country, industry, or firm. (Dunning and Lundan, 2008)
- **Evolutionary theory:** The evolutionary theory claims, that firms are social communities that possess tacit knowledge embedded in their employees and routines. Companies compete based on information, knowledge, and their ability to develop and exploit new knowledge. Transfer of knowledge is costly, and the difficulties increase the more tacit the knowledge is. Evolutionary theory claims that the transfer of such knowledge can be most efficiently done within an MNC. Therefore, MNCs do not arise due to the failure of markets, but rather thanks to their capability to efficiently transfer knowledge across borders. (Strange, 2018)

All three theories give an overview of the emergence of MNCs but overlook an important aspect of decision-making. In an ideal situation, MNC is its own decision-

making entity, but that is usually not the case as they need to consider important stakeholders (mainly controlling shareholders) and their influence on strategic decision-making. Different stakeholders vary in terms of objectives and attitudes towards risk. Thus, the application of these theories on a firm is always unique. (Strange, 2018)

## **2.2 Conflicting forces of multinational companies**

Every MNC is faced with an important decision – whether to adapt or standardize when it comes to its products, services, or business practices. This choice depends on the specifics of a foreign market where MNC operates (Eckert, 2023). The decision should correspond with the international strategy chosen by the company (Reed et al., 2020). On one hand, different markets can vary in terms of cultures, regulations, and preferences – resulting in a diverse environment with a necessity to adapt. On the other hand, standardized practices are often desired by MNCs (Kristiansen and Schweizer, 2022). Coordination is required to unify all operations and organizational divisions under a single strategy. It is a process of integrating internationally dispersed activities across subsidiaries (Morschett et al., 2015). Standardization and drive for homogeneity can be reached through instruments of coordination and integration. (Eckert, 2023)

### **2.2.1 Instruments of coordination**

Instruments of coordination can be divided into two main groups based on different point of view – processual and structural, or formal and informal (see table 6). Processual instruments take place during an ongoing managerial process, while structural instruments serve a function of a prerequisite for coordination. The higher the interdependency between a headquarters (thereinafter HQ) and a subsidiary, the higher the necessity for coordination between them (Eckert, 2023).

Formal mechanisms are often written, while informal mechanisms are more subtle and consist of things such as personal contacts, meetings, management trips, or transfers of managers. In general, multiple coordination instruments are used at the same time. (Morschett et al., 2015)

Table 6: Coordination instruments of MNCs

Coordination instrument		Example
Processual	Person-oriented	corporate culture, transfer of managers, visits, personal directions, self-coordination
	Technocratic	formal reporting systems, formalization, centralization, planning systems
Structural	Legal	legal form of the HQ and its units, contractual relationships between the units, ownership structures
	Organizational	organizational structure – differentiated, integrated, and hybrid

Coordination instrument	Example
Formal	organizational structure, centralisation, formalisation and standardization, planning
Informal	lateral or cross-departmental relations, informal communication, normative integration

Source: own processing based on (Eckert, 2023) and (Morschett et al., 2015)

Managing geographically distant and heterogeneous subsidiaries is a crucial component of international management. (Kristiansen and Schweizer, 2021)

## 2.3 International management

According to Mead and Andrews (2009), international management is the concept of staffing, planning, and control of international business activities. It can also be defined as the generation and transfer of knowledge across organisations from different countries (Mead and Andrews, 2019). Furthermore, it is characterized as a process of achieving goals. To successfully achieve their goals, MNCs need to consider the balances in the global environment by effectively coordinating the process of their resources. Therefore, it is an element of coordination of material and human resources. (Adiguzel, 2019)

Moreover, Jagersma (2005) understands international management as a way of managing the mission, vision, and plans coming from the HQ of a company. Another important role of international management is examining economic and political factors that influence foreign subsidiaries. (Jagersma, 2005)

Furthermore, international management is about how companies remain international in scope. Managers of MNCs must have sufficient knowledge about cultural, legal, political, and social differences among countries. Understanding the cultural values

of foreign employees is especially crucial for a manager's success. (Ubrežiová and Formánková, 2012)

All in all, international management is a bridge between the plans and goals of MNCs. It is a way of surviving in an international business environment. Compared to domestic management, it includes factors such as interculturality, different legal systems, economic factors, and political factors of foreign countries. These factors impact the way MNCs manage foreign subsidiaries. Another important factor influencing international activities of MNCs is a choice of a strategy.

### **2.3.1 International business strategy**

According to Bhandari (2018) four methods are commonly used by MNCs for formulating and implementing strategies.

- **Administrative coordination:** Instead of employing a predetermined economic or political strategy, MNC bases its strategic decisions on the merits of the particular situation. This approach is useful when expanding into specific markets where standardization of operation is not possible. Flexibility of decision-making plays a major role. A good example of a company using administrative coordination is Walmart, especially during its expansion into Latin and South America, where it encountered several difficulties.
- **Economic imperative:** An approach used by MNCs that offer homogenous products and focus on cost leadership, segmentation, and differentiation. Because the product does not usually require modification to suit specific markets, the company can use a worldwide strategy. This includes industries such as steel, cars, motorcycles, and chemicals. This strategy is also suitable for and applicable to generic goods. Typical company using this imperative is Tesla.
- **Political imperative:** The political imperative is used by companies that need to respond to specifics of individual markets and alter their products. This is a complex approach to strategic planning. An example given by Bhandari (2018) focuses on Coca-Cola's failed attempts to enter the Indian market. In 1993, Coca-Cola acquired an Indian version of its soft drinks, in attempts to weaken competition. Nevertheless, local customers were not interested in Coke, resulting

in Coca-Cola switching focus to its newly acquired brand Thums Up. Nowadays, it is the company's biggest seller in India (Ranipeta, 2022). All in all, Coca-Cola had to alter their product portfolio offered in India to satisfy customers and be successful in a specific market.

- **Quality imperative:** Bhandari (2018) says that the quality imperative focuses on the quality of the product as the most important factor of an international business strategy. Companies focusing on quality imperative often use total quality management. Toyota is a classic example of a company focusing on quality as a competitive tool. (Talha, 2004)

Large MNCs try to combine the four approaches to strategic planning, mostly focusing on the economic, political, and quality imperative. In addition, they aspire to coordinate their strategies both regionally and globally. (Bhandari, 2018)

Reed et al. (2020) offer a slightly different perspective on international business strategies. Two main pressures influence international strategies – cost pressure and local responsiveness pressure (see table 7). Companies choose how much they respond to these pressures. A choice of a strategy is based on this decision. (Reed et al., 2020)

Table 7: Four international business strategies

<b>Cost pressure</b>	High	<b>Global strategy</b>	<b>Transnational strategy</b>
	Low	<b>International strategy</b>	<b>Multidomestic strategy</b>
		Low	High
		<b>Local responsiveness pressure</b>	

Source: own processing based on (Bhandari, 2018) and (Reed et al., 2020)

- **International strategy:** Companies that use this strategy attempt to sell their products internationally with barely any changes. Furthermore, they are not

pursuing cost leadership. Customers buy their products because of their brand. An example of a company pursuing international strategy is Harley-Davidson.

- **Multidomestic strategy:** Firms pursuing multidomestic strategy do not emphasize cost leadership but rather adapt their products to local preferences. For instance, Netflix offers a customized programming on its channels in numerous countries – recommending and preferring local TV shows over American shows. Another example is Heinz in India. Heinz has modified the recipe of their signature ketchup to suit local Indian tastes.
- **Global strategy:** This approach is the opposite of a multi-domestic strategy. The global strategy focuses on cost leadership and economies of scale. Some minor changes to the product can be made, but in general, companies that use this strategy try to offer the same products or services in each market. A typical company using global strategy is Microsoft. The only thing Microsoft adjusts is the language of its software programs and other products.
- **Transnational strategy:** Transnational strategy is a compromise between a global and multi-domestic strategy. It is a way of balancing efficiency with adaptation. An example of a company following this strategy is McDonald's. McDonald's maintain the core of their menu worldwide, while offering some additional local specialties such as wine in France or McArabia Chicken sandwich in Saudi Arabia. (Reed et al., 2020)

All in all, companies operating in IB must respond to various pressures that influence their choice of strategy. The strategy of a company is also dependent on a mode of entry into business transactions across borders. The effective implementation of international strategies also heavily relies on the activities of MNCs being adequately coordinated (chapter 2.2.1). (Kristiansen and Schweizer, 2021)

## **2.4 Subsidiaries and parent-subsidiary relationships**

Subsidiaries of MNCs operate in complex international environments. Thus, their management poses significant challenges. The MNC subsidiary is an organizational unit, that is located outside of the home country, and it competes and collaborates with local companies. What distinguishes subsidiaries from local companies is their multiple embeddedness, given that they are part of the host economy as well as the



MNC. The role and organisational structure of each subsidiary differ in terms of the motivation of its establishment – objectives and performance criteria that are set by the HQ. (Meyer et al., 2020)

Hoffman (1994) states that the parent-subsidiary relationship has changed from a control-centred relationship to a strategic-oriented relationship, as subsidiaries are no longer considered as a pipeline from HQ to a specific market. Rather, the emphasis lies more on each subsidiary's unique capability to increase the competitive advantage of the whole MNC. Hoffman (1994) put together multiple studies about the different roles of subsidiaries and highlighted several factors that influence them. They include factors such as the importance of the local market, competence of the subsidiary, dependence on the HQ for key capabilities, organisational relationships, and multiple others. (Hoffman, 1994)

Meyer et al. (2020) consider the main elements that impact the roles of subsidiaries to be: motives of FDI, integration responsiveness (based on the concept of standardization and adaptation), knowledge contribution types, and position in the global value chain of the MNC.

According to Victoria and Dipak (2014), the HQ-subsidiary relationship is dependent upon how the decision-making process is organized. Some companies prefer bureaucratic control of subsidiaries, while others rely on organizational culture as a control mechanism. They divide the roles of subsidiaries based on a typology from Bartlett and Ghoshal from 1988. According to them, subsidiaries have four generic roles depending on their strategic importance and their competencies (see table 8). The roles are called: the strategic leader, the implementer, the contributor, and the black hole. (Victoria and Dipak, 2014)

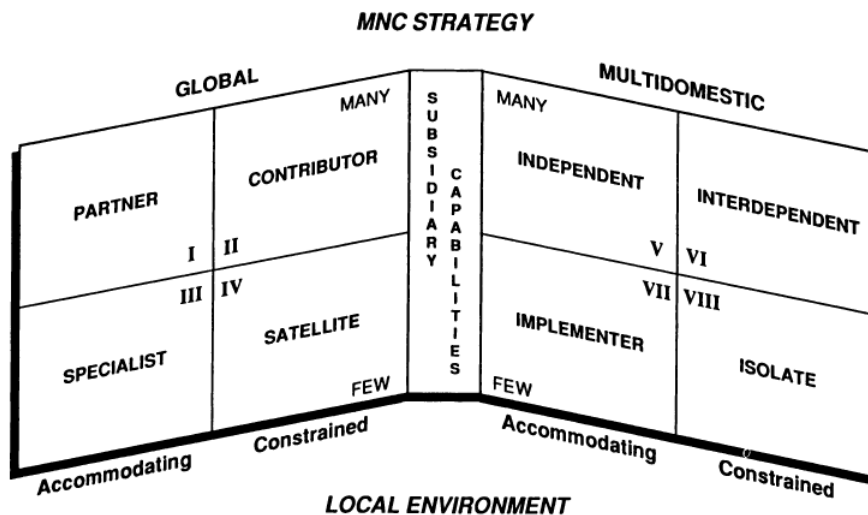
Table 8: Four generic roles of subsidiaries

<b>Competencies</b>	High	<b>Contributor</b>	<b>Strategic leader</b>
	Low	<b>Implementer</b>	<b>Black hole</b>
		Low	High
		<b>Locational advantages</b>	

Source: own processing based on Bartlett and Ghoshal's typology from (Victoria and Dipak, 2014)

Later, Hoffman (1994) proposed to expand the model with an additional factor – the MNC strategy (see figure 1). According to his model, there are eight different roles of subsidiaries, although an MNC needs to consider only four of them, based on the chosen international strategy: Hoffman distinguishes between a global strategy and a multi-domestic strategy (chapter 2.3.1) as the two main options for an MNC.

Figure 1: Three-factor model of generic subsidiary strategies



Source: (Hoffman, 1994)

MNC strategy is defined at the HQ level, while the local environment and subsidiary capabilities at the subsidiary level. Critical skills and resources possessed by the subsidiary decide whether the subsidiary has many or few capabilities. When formulating a strategy, the local environment can either offer opportunities or threats based on the economic, political, cultural, and other factors. Hoffman (1994) divides

the local environment into accommodating (an environment without barriers, where full partnership between the HQ and a subsidiary is possible) and constrained (an environment that provides economic or political barriers and limits the capability of a subsidiary to assist other MNC units). Therefore, the ideal subsidiary type is a 'partner' when the MNC prefers a global strategy and 'independent' when it focuses on a multidomestic strategic. (Hoffman, 1994)

Furthermore, the role of a subsidiary depends on the organization of decision-making in an MNC. Thus, it is dependent on the organizational structure of a company. (Victoria and Dipak, 2014)

## **2.5 Organizational structures**

Organizational structure is one of the most important coordination instruments of the MNCs (chapter 2.2.1). It is a formal framework of reporting relationships in an organization. The relationships are visualized through organization charts (Clawson and Pitts, 2008). Charts show how firms' structures are built using vertical and horizontal linkages. Vertical linkages explain relationships between supervisors and subordinates, and they show the line of responsibility. Relationships between equal employees are shown by horizontal linkages. (Reed et al., 2020)

In an ideal situation, these charts fully reflect the actual reporting and decision-making relationships, although that is not necessarily always the case – as most organizations also have informal structures (Clawson and Pitts, 2008). Informal structures refer to unofficial relationships, for example, personal friendships, rivalries, and politics within a company (Reed et al., 2020). Furthermore, organizational structures are one of many elements of organizational design. Other aspects include factors such as organizational culture and leadership. (Clawson and Pitts, 2008)

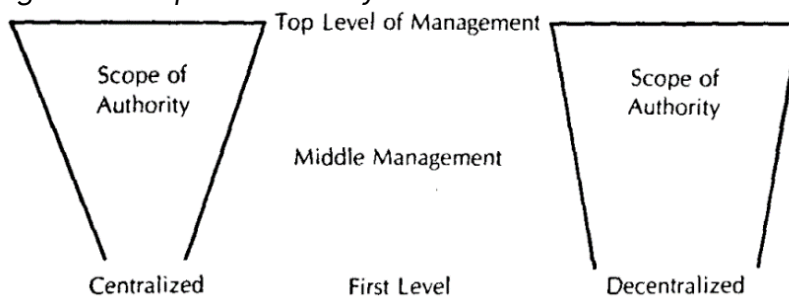
Montana and Charnov (1993) say that the formal relationships within an organizational structure consist of responsibility, authority, and accountability. Therefore, the structure provides the means for clarifying and communicating the lines of formal relationships. (Montana and Charnov, 1993)

## 2.5.1 Centralization and decentralization

The principle of delegation of authority is an important aspect of each MNC. An organization is typically described as centralized when a limited amount of authority is delegated to lower levels of its hierarchy. When a significant amount is delegated, a firm is decentralized. Hence, the scope of authority is narrower in centralized companies, and broader in decentralized businesses (see figure 2). Which approach is more suited for a company depends on factors such as the size of organization and the amount of geographic dispersion. (Montana and Charnov, 1993)

Clawson and Pitts (2008) add that centralization and decentralization depend on a span of control, which refers to the number of people reporting to a supervisor. The span of control is also based on the leadership style and the degree of empowerment top management wants to develop in their company. (Clawson and Pitts, 2008)

*Figure 2: Scope of authority in centralized and decentralized companies*



Source: (Montana and Charnov, 1993)

Each approach has its advantages and disadvantages. For instance, decentralized companies benefit from faster decision-making and better adaptation to local conditions, while centralized companies take advantage of uniformity of policies, practices, and procedures. (Montana and Charnov, 1993)

Every company uniquely approaches its organizational structure. Nevertheless, most structures can be divided into a few categories.

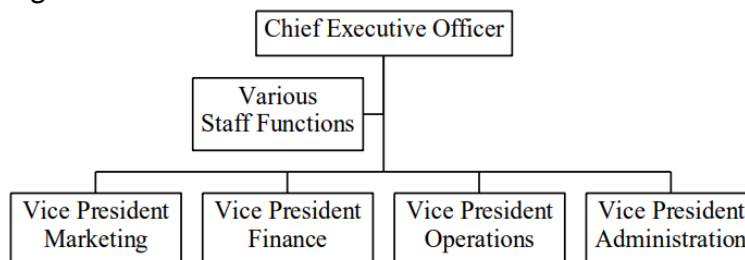
## 2.5.2 Types of organizational structures

There are multiple common organizational structures. Most authors distinguish between functional, product, regional (or geographic), and matrix structures. (Reed et al., 2020; Clawson and Pitts, 2008; Eckert, 2023)

- **Functional structure:** The functional structure separates work into categories such as marketing, production, finance, administration, HR, and customer service (see figure 3). The functions vary in each industry and company, but the main concept remains the same. Functional structures are usually centralized. (Clawson and Pitts, 2008)

The main benefit of this structure is that it tends to develop highly skilled employees in their areas. In addition, this grouping of employees reduces the number of conflicts within departments. Nevertheless, functional structures are often very slow when it comes to executing strategic changes. (Reed et al., 2020)

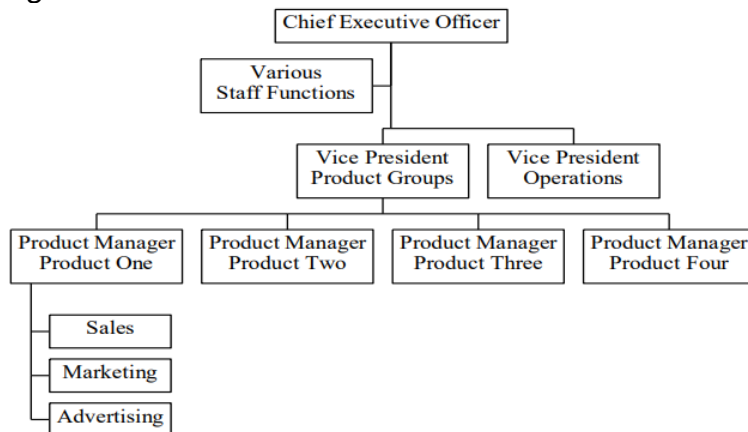
Figure 3: Functional structure



Source: (Clawson and Pitts, 2008)

- **Product structure:** Companies that offer a wide variety of products often abandon the functional structure and divide their employees into departments based on product areas (see figure 4). This approach allows them to quickly act and react to customers' needs. Compared to functional structures, they are typically more costly to operate. (Reed et al., 2020)

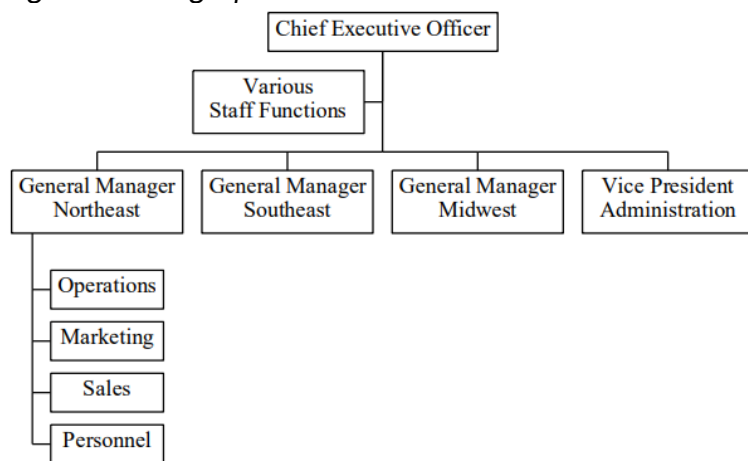
Figure 4: Product structure



Source: (Clawson and Pitts, 2008)

- Geographic structure:** The geographic structure (also known as the regional structure) divides the departments by regional location (see figure 5). The reason for considering the geographic form can be the differences in cultural norms and legal environment between individual regions where a company operates (Clawson and Pitts, 2008). Similar to the product structure, it allows the organization to focus on the customer needs of specific regions, but it is also more costly than a functional structure (Reed et al., 2020).

Figure 5: Geographic structure

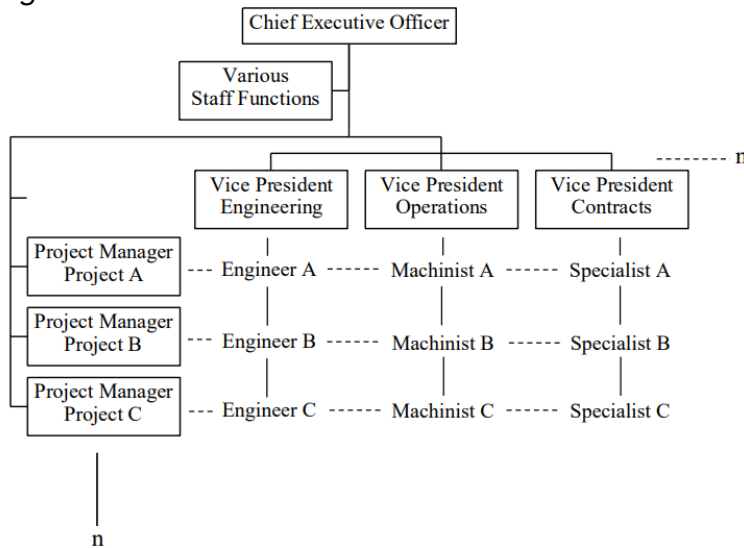


Source: (Clawson and Pitts, 2008)

- Matrix structure:** Matrix structures rely on horizontal linkages and create cross-functional teams that focus on different projects (see figure 6). The main advantage of a matrix structure is its flexibility and enhanced communication across functional lines. Furthermore, it helps with the development of new managers.

Employing a matrix structure might also present challenges. It violates the unity of command principle because each employee needs to report to multiple bosses at the same time. This creates confusion for employees and can result in potential conflicts between project managers. Matrix structure is not suitable for every company, but it can be beneficial in the right setting. (Reed et al.,2020)

Figure 6: Matrix structure



Source: (Clawson and Pitts, 2008)

Organizational structures serve multiple purposes at the same time, they help understand the formal relationships between the employees and can accelerate the development of important human capital.

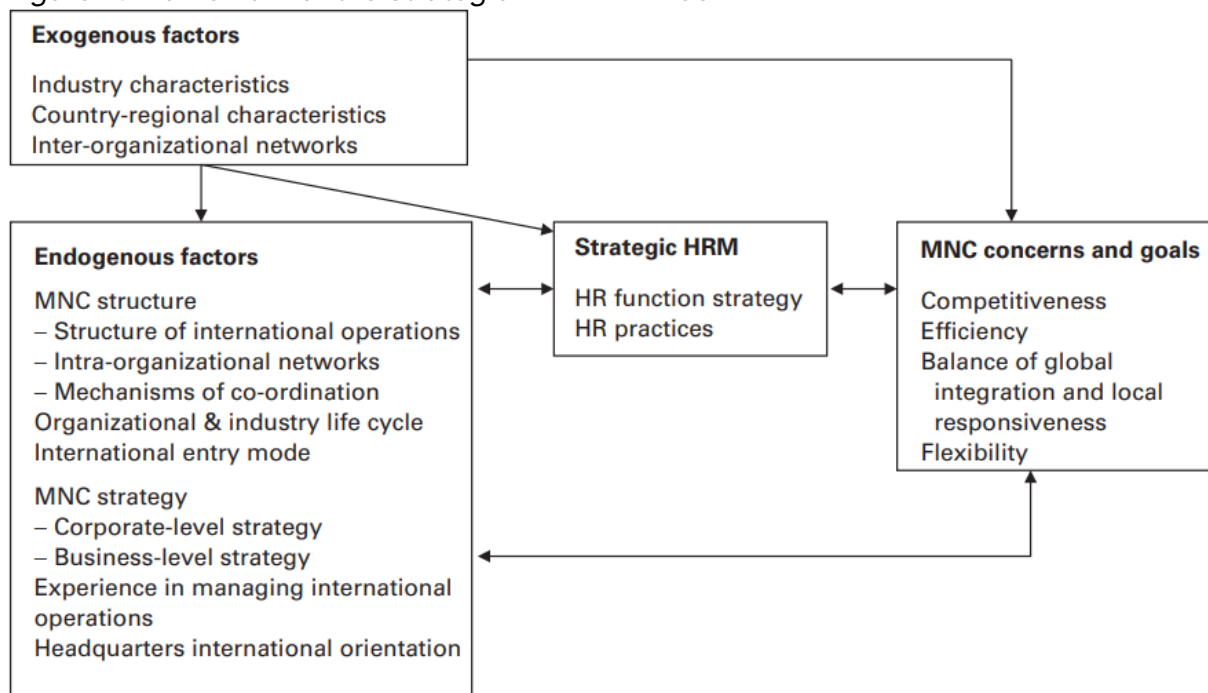
## 2.6 Human resource management in MNCs

Management of human resources is recognized as one of the major determinants of success or failure in IB (Harzing and van Ruysseveldt, 2004). Özbilgin (2005) adds that people are the most valuable resource in business. Thus, it is crucial to properly manage them. Human resource management (thereinafter HRM) can be defined as a set of management activities that seek to accomplish a specific company's objectives through the effective use of employees (Özbilgin, 2005). In a diverse MNC, employees often differ in terms of nationalities, cultures, and values. Therefore, HRM takes on a new dimension and functions such as cross-cultural management, collaboration of foreign and domestic employees, resolving disputes, and functions of expatriates. MNC is the most common entity that performs international HRM.

International HRM is more complex than HRM in a strictly domestic business (Rao, 2015). The additional layer of complexity includes factors such as cultural differences, foreign business environment, and legal systems that may require a company to change its procedures (Mukhtarova et al., 2016). Also, MNCs have the option to use expatriates when needed for the development or management of a foreign subsidiary. (Rao, 2015)

De Cieri and Dowling (1999) introduced a concept of strategic HRM (see figure 7), explaining that MNCs face the challenge of balancing integration and differentiation (chapter 2.3) while considering internal (MNC structure, industry life cycle, strategy, entry mode, experience in IB) and external factors (industry characteristics, country-regional aspects, inter-organizational relationships). According to their model, there are reciprocal connections between the goals of MNCs, the strategic HRM, and the endogenous factors, suggesting that MNCs will benefit by utilizing and integrating appropriate strategic HRM strategies and practices to improve company performance. Furthermore, the framework implies that exogenous factors have a direct influence on the other aspects of the model. (Harzing and van Ruysseveldt, 2004)

Figure 7: Framework of the strategic HRM in MNCs



Source: (De Cieri and Dowling, 1999) from (Harzing and van Ruysseveldt, 2004)

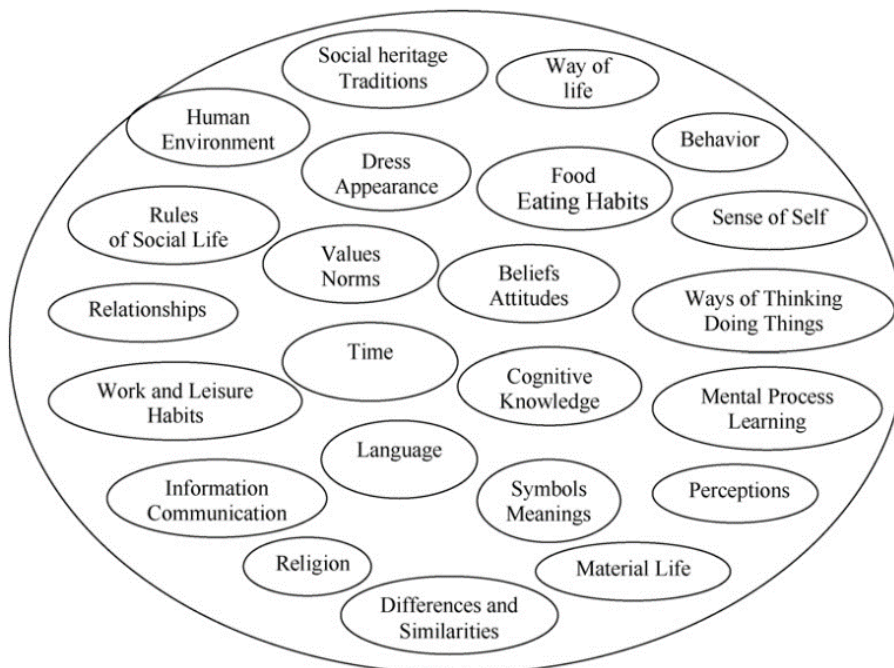


Management of people, amidst other important factors, is crucial for the success of MNCs. Multinational companies encounter and interact with several different cultures that influence their way of doing business.

### 3 Culture

Culture is a complex, multidimensional phenomenon. The definition of culture varies in each scientific field because it lacks an integrated and consistent definition. Nevertheless, there are two main points of view regarding its meaning. The first being that culture is everything, i.e. understanding culture as an all-inclusive phenomenon. The second point of view focuses on specific aspects and features of culture, thus, taking a narrower perspective. Reisinger (2009) presents a wide range of cultural elements, according to several different definitions from multiple authors (see figure 8).

Figure 8: Elements of culture



Source: (Reisinger, 2009)

Culture is represented by tangible and intangible components. Material culture comprises elements such as clothing, buildings, food, and other artefacts. Intangible elements refer to non-material concepts such as beliefs, traditions, and values. The foundation of all human behaviours is a specific value system, as values are the fundamental principles of any culture. (Reisinger, 2009)

Culture has a dynamic nature; it evolves over time. It is important to a great degree when it comes to communication. (Adamczyk, 2017)

Caprar et al. (2015) add that culture is commonly characterized as a group-level construct, mostly operationalized at the country level – especially when it comes to IB. There, culture is viewed as a collective trait and a major explanation of why countries differ. Moreover, culture is both a challenge and an opportunity for MNCs. (Caprar et al., 2015)

### **3.1 Cultural values**

Values are individual attributes, and preferences, that are socially shared. They determine social behaviour, and their main purpose is to guide people while providing specific standards and criteria. They help to decide between what is right and wrong because they create social order. Moreover, they play a major role in decision-making. (Reisinger, 2009)

Values characterize people within the same culture. Therefore, culture is a system of shared values of its members, although each member can also have its own unique set of values. Values are divided into two types – instrumental and terminal. Instrumental values concern human behaviour, for instance, values such as being honest, polite, ambitious, or independent. Terminal values are goals in life, such as social recognition, wisdom, and happiness. (Reisinger, 2009)

According to Rokeach (1973) values can be organized into a value system, which is the criteria by which a person can evaluate behaviour of others. Differences in value systems can lead to disagreements between people, due to different views on the importance of specific values. (Reisinger, 2009)

In IB, encountering differences in cultural values is inevitable. Hence, knowledge of cultural differences is key to success (Zhao et al., 2020). An important factor when examining different cultures is orientation towards specific values. Multiple authors have tried to find distinguishing features between different cultures. (Reisinger, 2009)

## 3.2 Cultural dimensions

Cultural dimensions are the fundamental building blocks that help in the understanding of cultural differences. They serve as a lens through which cultures can be analysed and compared. Therefore, it is an aspect of culture that can be measured (Hofstede, 2011). Cultures are distinguished based on different criteria and accordingly organized based on the cultural orientation towards specific values. Countries are usually understood in IB as individual national cultures. People from different cultures tend to have non-identical attitudes towards business and life in general. (Adamczyk, 2017)

The most frequently used concepts of cultural dimensions have been developed by Trompenaars with Hampden-Turner, and Hofstede, although there are numerous other approaches with several classification criteria. (Adamczyk, 2017)

### 3.2.1 Trompenaars and Hampden-Turner

In the 1990s, Trompenaars and Hampden-Turner developed a seven-dimensional model of culture (see table 9), building on previous findings from Parsons and Shils, and Kluckhohn and Stodtbeck (Hofstede, 2011). Their conceptual dimensions focus mainly on human relationships, time, and environment (THT Consulting, 2023). According to their model, it is possible to distinguish between different types of national cultures. (Adamczyk, 2017)

Table 9: Seven dimensions of culture

Classification criteria	Dimension pairs	
Human relationship	universalism	particularism
	individualism	collectivism
	achievement	ascription
	neutral	affective
	specific	diffuse
Time	past-present-future short-term vs. long-term sequential vs. synchronous	
Environment	internal	external

Source: own processing of (Sattorovich, 2020) and (THT Consulting, 2023)

- **Human relationship:** The first five dimensions define cultures based on the common approach of people to human relationships. Universalist cultures value rules and obligations more than personal relationships (Sattorovich, 2020). On the other end of the spectrum are particularist societies. They believe that relationships and particular circumstances are more important than any abstract rules (THT Consulting, 2023). The second criterion is the orientation of cultures towards an individual or a community (Sattorovich, 2020). Individualists emphasize the individual welfare and happiness rather than serving the interests of a community. The third criterion for dividing cultures is based on their approach towards the status of individual members. Achievement-oriented cultures believe in competence and performance, while individuals in ascriptive cultures do not have to achieve results to gain or retain status (THT Consulting, 2023). The fourth cultural dimension distinguishes between cultures based on their willingness to express and accept emotions (Sattorovich, 2020). The last dimension concerns the degree to which personal relationships and professional relations diffuse. In a specific culture, people tend to separate personal and professional lives, while diffuse cultures do not mind their lives overlapping. (Balan and Vreja, 2013)
- **Time:** Apart from the human relationship dimensions, another factor that differentiates cultures is time, more precisely the attitude to time. This dimension consists of three aspects. According to Trompenaars and Hampden-Turner cultures focus either on the past, present, or future. The second aspect is the time horizon. Some cultures revolve around short-term activities and live in the moment, while others focus on the long-term time horizon. The third aspect of time is the way people structure their time. On one end of the spectrum are sequential cultures that prefer planning and staying on schedule. On the other end of the spectrum are synchronic cultures that strive to be more flexible. (Sattorovich, 2020)
- **Environment:** Concerning environment, the authors divide between internally and externally controlled cultures (Sattorovich, 2020). Cultures with an internal focus have a mechanistic view of nature, while externally controlled cultures have an organic view of nature. While the former group believes in their ability to control results, the latter one often believes that people cannot shape their destiny. (THT Consulting, 2023)

The cultural dimensions from Trompenaars and Hampden-Turner assume, that people from one nation tend to have a similar cultural orientation. Although it is imperfect (Hofstede, 2011), it can be a useful tool when it comes to IB and understanding foreign cultures.

**3.2.2 Hofstede**

Hofstede started his research about cultural dimensions in the 1980s, with a basis from several previous studies (Hofstede, 2011). He found that most differences in values and attitudes can be attributed to national culture (Sattorovich, 2020). Throughout the years, he has come up with a total of six cultural dimensions (see table 10). Hofstede positions each country relative to other countries by using scores on each dimension. Two of his dimensions (time orientation and degree of integration into groups) are closely related to Trompenaars’ model of culture, as they focus on similar criteria. (Hofstede, 2011)

*Table 10: Hofstede's six cultural dimensions*

Classification criteria	Dimension pairs	
	Power distance	small
Uncertainty avoidance	weak	strong
Degree of integration into groups	individualism	collectivism
Distribution of values between genders	masculinity	femininity
Time orientation	short-term	long-term
Human desires related to enjoyment of life	indulgence	restraint

Source: own processing based on (Hofstede, 2011)

- **Power distance:** Power distance describes the extent to which societies (and even their less powerful members) accept unequal distribution of power. Countries with a small power distance strive for equality, while the countries with a large power distance believe that there is nothing wrong with having an unequal and hierarchical society.
- **Uncertainty avoidance:** Each person experiences unstructured situations, but not everyone reacts to it the same way and feels the same way of discomfort. Uncertainty-avoiding countries try to avoid these situations at all costs by having rules, laws, and behavioural codes. Cultures with weak uncertainty avoidance are more comfortable with ambiguity.

- **Degree of integration into groups:** This dimension addresses one of the most common issues in all societies and explains why some people identify themselves more as individuals, while others feel integrated into strong groups.
- **Distribution of values between genders:** A high degree of prioritizing material success and assertiveness, over showing compassion for others is known as masculinity (Sattorovich, 2020). Masculine countries put an emphasis on ambitions and value men more than women. Femininity, in contrast, focuses on modest and caring values. Feminine cultures aim for an equal society that cares for the weaker and does not discriminate between genders.
- **Time orientation:** This dimension refers to the degree to which cultures focus on short-term, or long-term success. Long-term societies tend to focus on the future while delaying short-term success. The values of a short-term society are related to the past and present.
- **Human desires related to the enjoyment of life:** The last dimension established by Hofstede explains how national cultures differ in terms of the gratification of needs. Restraint societies control the gratification of needs by social norms. The cultures that focus on enjoying life lean towards the other end of the spectrum, more precisely to indulgence. (Hofstede, 2011)

Each nation has a specific cultural orientation and different authors focus on a variety of aspects that can distinguish between national cultures. Culture influences the daily life of people, and impacts IB (Reisinger, 2009). MNCs often establish foreign subsidiaries in countries with different cultural values than their domestic values (Sharan, 2012). Therefore, they need to consider the most important differences and their magnitude (Schneider, 1988). In terms of organizational culture, multinationals can either adapt to local culture or implement a consistent corporate culture throughout their countries of operation. (Rozkwitalska, 2012)

### 3.3 Corporate culture

Corporate culture is the culture of a specific organization (Reisinger, 2009). It is a 'glue' providing cohesiveness and coherence. Moreover, it is a tool for coordination and integration of subsidiaries (Schneider, 1988). Corporate culture influences the behaviour and attitudes of employees. Thus, it can be understood as a framework or

a set of values that shapes what happens in the workplace. Corporate culture serves two functions: internal integration and external adaptation. The first function deals with the integration of employees and the way they cooperate. The second function refers to how the company achieves its objectives and goals. In comparison to national culture, corporate culture can be more easily learned and modifiable. (Amah and Daminabo-Weje, 2013)

Developing a corporate culture is a challenging task for MNCs due to the conflicting values of their organizational units. Nevertheless, cultural diversity cannot be overlooked, especially when entering foreign markets by acquisitions or mergers. (Rozkwitalska, 2012)

On one hand, a strong organizational culture can be beneficial to the management of a company. On the other hand, it may lead to negative consequences, especially in fast-paced business environments. In general, MNCs should strive for a unified corporate culture, rather than an entirely homogenous one. This kind of corporate culture enables local responsiveness and appropriate HRM practices in each subsidiary. (Rozkwitalska, 2012)



## 4 Business Environment in India

In 2014, the prime minister of India introduced an important national program called 'Make in India'. The main purpose of this program is to attract investments from across the globe to strengthen India's manufacturing sector. Besides that, the program focuses on innovation facilitation, skills development, intellectual property protection, and ease of doing business (IBEF, 2021). Eight years later, India attracted its highest FDI inflow ever (83.57 billion USD), despite the impact of the Covid pandemic and the war in Ukraine. *"This is the best time to invest in India"*, explained prime minister Modi in his speech at the World Economic Forum in 2022 (EY, 2022, p. 2). Nowadays, India is regarded as a potential economic powerhouse of the future. PWC (2017) predicts that India will be one of the fastest growing markets in the world in the next 25 years and the second largest economy (in terms of GDP based on purchasing power parity, thereafter PPP) by the year 2050. Furthermore, PWC (2017) claims that a major shift in global economic power will happen, moving from today's established economies towards emerging economies.

The Republic of India is the largest democracy in the world with over 1.41 billion people living in 28 states and 8 union territories. It borders eight countries and has a total area of 3.29 million square kilometres. India spans over two main climate zones, with tropical monsoons in the south and temperate climate in the north. Over 65% of inhabitants live in rural areas and the median age of the population is only 28.43 years (data from 2020), further underlying the economic potential. Around 82% of men and 65% of women are literate. The capital city is New Delhi. The official languages are Hindi and English. The GDP is approximately 3.2 trillion USD (2022) (EY, 2022). India has a diverse population in terms of religion: 80.5% of people practise Hinduism, 13.4% Islam, and 2.3% Christianity (MZV ČR, 2023). Other minor religions include Sikhism and Buddhism (Hough, 2020). Therefore, India is home to a wide range of different cultures. (MZV ČR, 2023)

India's foreign policy is based on the desire to maintain long-term peace and stability in the Asian region and the world. The main goal is to create favourable conditions and an environment for its own economic development (MZV ČR, 2023). India's largest trading partners in 2021 were the USA (11.6% of total trade), China (11.4%),

and the EU (10.8%). EU was also the second-largest destination for Indian exports (14.9%), lacking only behind the USA (18.1%). (EC, 2023)

Despite being significant trading partners and sharing common values, the EU and India do not have a free trade agreement in place yet (EC, 2023). In 1994 both parties agreed on an EU-India cooperation agreement, which was eventually upgraded to a strategic partnership in 2004. In 2007, the parties started negotiations regarding a bilateral trade and investment agreement (Jain and Sachdeva, 2019). In the period of 2007 to 2013, numerous rounds of negotiations took place without any conclusion. The whole process resumed in 2021. However, the negotiations are still ongoing at the beginning of 2024 as both sides are unsuccessfully pursuing a mutually beneficial free trade agreement. (EP, 2024)

Regarding the Indian relations with the Czech Republic, the parties have agreed on multiple contracts of an economic and commercial nature. A specific example is a bilateral agreement on social security signed in 2014. This agreement regulates the conditions for payment of pension contributions when Czechs are employed in India and vice versa. In addition, Czech expatriates working in India must obtain an employment visa to be legally allowed to work in India for a longer period. (MZV ČR, 2023)

All in all, India is one of the most attractive markets for foreign MNCs, especially in terms of manufacturing. Nevertheless, there are still many challenges for MNCs operating there. This includes bureaucracy in setting up a business, a low level of enforceability of contracts, tax collection, and property registration. The most common market entrances – excluding export activities – are capital or share entry into an Indian company, establishment of a branch, and the creation of a joint venture with an Indian business partner. Limited Liability Company (LLC) and Limited Liability Partnership (LLP) are the most prevalent legal forms of business entities (see chapter 4.2.1 for details). (MZV ČR, 2023)

According to MZV ČR (2023), specific challenges that Czech companies face when doing business in India are differences in culture and mentality, the course of business meetings, climatic and sanitary conditions in the country, frequent and prolonged

holidays, and major emphasis on personal contact. These factors shape the Indian business environment.

## 4.1 Economic factors

In any market economy, economic factors play a crucial role, and India is no exception (Pereira, 2023). India's GDP growth trajectory in the past decade has been extraordinary. Since 2007 India more than tripled its GDP and is predicted to stay on the same high-growth trajectory in the next 25 years (O'Neill, 2023). Apart from the year 2020, it has maintained an annual GDP growth of more than 6% (see table 11). A similar trend can be seen in terms of GDP per capita (in USD PPP) as India reached its new peak of 8940 USD in 2023. In the past few years, the inflation rate has been hovering around 6% and the unemployment rate around 7%. India can be regarded as a net importer of goods, with a balance of trade of -287.36 billion USD in 2023.

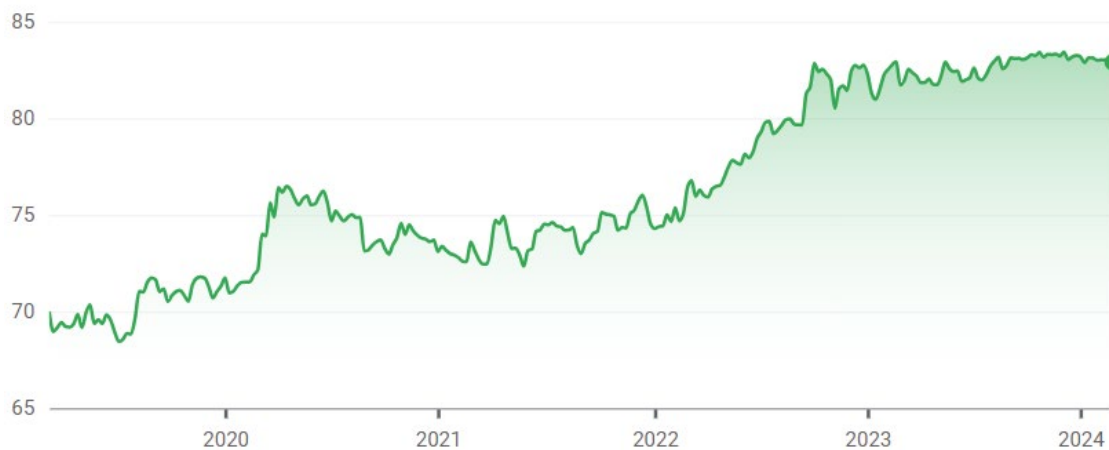
*Table 11: Economic Indicators in India from 2020 to 2024*

Indicator	2020	2021	2022	2023	2024 prediction
<b>GDP growth (%)</b>	-6.81	8.83	6.90	5.40	6.20
<b>GDP per capita (PPP) in USD</b>	6,438.52	7,263.32	8,230.00	8,940.00	9,580.00
<b>Real GDP growth (%)</b>	-5.80	9.10	7.20	6.30	6.30
<b>Inflation rate (%)</b>	6.64	5.13	6.69	5.30	4.90
<b>Unemployment rate (%)</b>	10.40	8.90	7.00	6.70	6.90
<b>Balance of trade (billion USD)</b>	-95.45	-176.72	-275.32	-287.36	-280.98

Source: own processing based on (MZV ČR, 2023) and (IMF, 2024)

India's official currency is the Indian rupee (MZV ČR, 2023). The exchange rate regime of the rupee is officially characterized as a floating exchange rate regime, although the IMF questions whether the Reserve Bank of India does not control the exchange rate excessively (Akiyama, 2023). In 2023, the exchange rate of the US dollar to the Indian rupee was relatively stable (see figure 9), slightly oscillating around 83 rupees per US dollar (Google Finance, 2024). IMF claims that the Reserve Bank of India has likely exceeded the levels necessary to address disorderly market conditions and fixated the exchange rate to US dollars. Limited fluctuations of the rupee should theoretically make it easier for investors to reduce risk related to the exchange rate. If the alleged interventions stop and the Indian rupee depreciates, it will lead to more expensive imports, but also to higher price competitiveness of Indian exports. (Akiyama, 2023)

Figure 9: The exchange rate of US dollar to Indian rupee from 2019 to 2024



Source: (Google Finance, 2024)

According to O'Neil (2024), the service sector is traditionally India's biggest contributor to GDP. The tertiary sector generates almost half of India's GDP mostly thanks to services such as IT, software, and telecommunications. The second largest is the secondary (industry) sector, usually generating around 27% of the GDP. The smallest contributor is the primary sector focusing on agriculture and natural resource extraction (O'Neill, 2024). The main business sectors in India are IT, telecommunications, media, aerospace and defence. Besides that, India is also one of the biggest automotive markets in the world and it is expected to become the second-biggest e-commerce market by 2034. (EY, 2022)

Although India is one of the founding WTO members, it pursues a mixed approach toward international trade. It continues to promote free trade by improving trade procedures at the borders, but it has also adopted some protectionist measures. For instance, agriculture is heavily subsidized while high tariffs are maintained to prevent the import of agricultural products. In 2019, the government also increased tariffs in sectors such as vehicles, toys, and household products. Furthermore, imports to India are often subject to several non-tariff barriers such as licenses, prohibitions, restrictions, or sanitary requirements. (BTI, 2022)

Firstly, India is a relatively stable developing country from an economic standpoint. In comparison to other developing countries, it is not reliant on the primary sector to generate most of its GDP. Moreover, it is rapidly growing in terms of GDP and GDP per capita and has been able to stabilize regarding unemployment and inflation. However, it should aim to achieve even lower numbers regarding the latter two

indicators. In addition, the Indian rupee has been allegedly fixated on the US dollar, thus, reducing the exchange rate risk for foreign investors and MNCs operating in India. Secondly, the fiscal policy has remained conservative until the Covid pandemic. Due to the pandemic, the Indian government changed its long-term plans regarding fiscal deficit and since then, the yearly deficit has risen from 3% of GDP to 6% of GDP (MZV ČR, 2023). Finally, India also adopted specific protectionist measures. Consequently, some sectors of the economy are protected from foreign competition.

The second group of factors that influence business in India are legal factors. They include areas such as taxation policies, FDI regulations, and employee rights.

## **4.2 Legal factors**

As the previous chapter outlined, doing business in India is not an easy task for foreign MNCs. India governs FDI with the Foreign Exchange Management Act from 1999. In most sectors, FDI is permitted and can be made by following two different routes: the first route is called automatic. Under this route, the foreign investor does not need approval from the government of India or the Reserve Bank of India. The government route is much stricter and requires the prior approval of the Foreign Investment Promotion Board, the Ministry of Finance, and the government. In addition, the Foreign Exchange Management Act prohibits FDI entirely in certain sectors. These include agriculture with a few exceptions, real estate business (does not include construction of residential and commercial premises, roads, and bridges), nuclear energy, or construction of farmhouses. Furthermore, there are also sector-specific investment limits for which a company is allowed to use the automatic route. (RBI, 2007)

### **4.2.1 Legal forms of business entities**

When entering the Indian market, a foreign investor should choose the right kind of business presence. This selection can ensure efficiency, whether from a tax perspective, legal perspective, or operational perspective. According to EY (2022), there are two main options for setting up business operations in India: incorporated entities and unincorporated entities. The most common incorporated entities are

Private Limited Companies and Limited Liability Partnerships. Unincorporated entities include a liaison office, branch office, or project office. From a legal standpoint, the liaison office only acts as a communication channel, while both the branch office and the project office can carry out business activities. Invest India (2023) distinguishes between seven permitted business establishments in India. Starting with One Person Company and sole proprietorship as business entities that only require one person to set up the company. A minimum of two members or partners is legally required in establishments such as Private Limited Companies, Partnership firms, and Limited Liability Partnerships. Regarding a Public Limited Company, a minimum of seven shareholders is required to establish the company. Besides that, there are also some requirements on the number of directors and minimum amount of capital. The seventh permitted business entity is a foreign company, consisting of unincorporated companies. (Invest India, 2019)

A foreign investor can take three main paths depending on the required business activity of a foreign subsidiary (see table 12). For export and import activities, research, and project execution strategies Invest India (2019) recommends using unincorporated companies as foreign subsidiaries. For more advanced business operations such as manufacturing an MNC should either establish a Limited Liability Partnership or focus on Private and Public Limited Companies. Indian company law is based on the Companies Act 2013 and the Limited Liability Partnership Act 2008. (Invest India, 2019; Hathi, 2013)

Table 12: Common business entity options for foreign investors in India

<b>Business entity</b>	<b>Specific example</b>	<b>Purpose and specific details</b>
Foreign Company	Liaison office	representation of the parent company in India
	Branch office	export and import of goods, research, consultancy
	Project office	contract activities to execute a project
Indian Company (through joint venture or as a wholly owned subsidiary)	Private Limited Company	manufacturing or providing services and other business activities
	Public Limited Company	manufacturing or providing services and other business activities
Limited Liability Partnership	Limited Liability Partnership	manufacturing or providing services and other business activities, subject to FDI limits in specific sectors

Source: own processing based on (Invest India, 2019) and (EY, 2022)

Another important factor that can affect doing business in India is taxation. Thanks to the 'Make in India' program, several tax incentives are available for existing and newly established companies. (EY, 2022)

#### **4.2.2 Taxation policies**

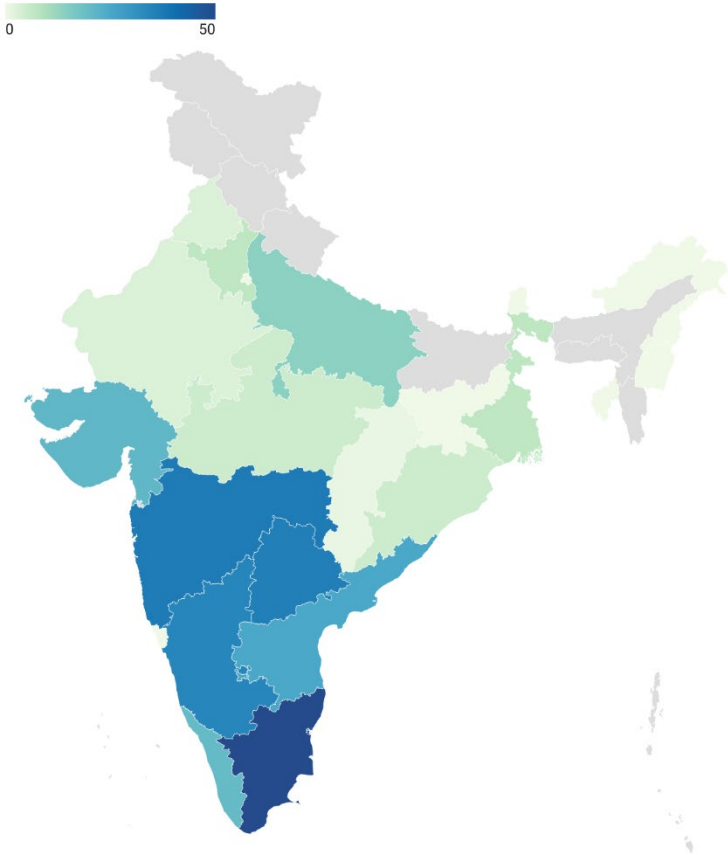
The tax structure in India consists of direct and indirect taxes. Direct taxes are levied on the taxable income of companies and individuals. In this case, companies and individuals bear the responsibility of depositing the taxes. Indirect taxes are levied on the sale and provision of goods and services. They differ from direct taxes in terms of the responsibility to collect and deposit taxes. Here, the responsibility is on the sellers instead of the assesses. The tax structure can be also divided into taxes that are levied by the central government and state governments taxes. In addition, there are also some minor taxes levied by the local authorities. (Invest India, 2024)

In the past few years, India has undertaken several policy reforms in hopes of increasing the ease of doing business. Thanks to these reforms, India has jumped up from 142nd to 63rd place in the World Bank's Ease of Doing Business Ranking (Invest India, 2024). Nevertheless, the situation is still far from ideal (MZV ČR, 2023). A specific reform that helped to simplify the indirect tax regime in India is The Goods & Services Tax (thereinafter GST) reform. In 2017, GST replaced all previous indirect taxes levied on goods and services. GST works under a dual regime where both central and state governments levy taxes. The main benefits of this model are a unified tax-regime, less physical interface, and IT-based administration which reduces tax-evasion. (Invest India, 2024)

Regarding the taxation of foreign entities, it differs depending on each business entity. The liaison office is not a subject to income tax in India, due to its nature of not being able to conduct business activities. Both the branch office and the project office are subject to corporate income tax on profits in India. The basic tax rate is 40%. For Limited Liability Partnership the tax rate is 30% of the global income since it is an incorporated business entity and a tax resident of India. For Indian companies (see also table 12), the basic tax rate is 30% with a possible reduction to 25% in case of a lower turnover. (Invest India, 2024)

India also offers specific tax incentives. They are available for new and existing companies and include three specific groups: location-based incentives, export-linked incentives, and industry-specific incentives. Location-based incentives are provided mainly in Special Economic Zones (thereinafter SEZs). These zones act as duty-free enclaves, for the purpose of trade operations and tariffs. SEZs provide direct and indirect tax incentives to encourage manufacturing and exporting (EY, 2022). In total, there are 270 operational SEZs, mostly located in the southern part of India with convenient connection and transport infrastructure to the main ports (see figure 10). Main SEZs such as Maharashtra or Karnataka include tens of minor SEZs (Dezan Shira & Associates, 2019; GOI, 2024). Other location-based incentives include tax holidays in specific regions and exemptions from stamp duty or electricity duty. Export-linked incentives consist of advance authorization, duty-free import authorization, and remission of duties and taxes on exported products. The last set of incentives focuses on specific industries such as tourism, oil and gas, or infrastructure. (EY, 2022)

Figure 10: Operational SEZs in India



Source: own processing based on (GOI, 2024)



### **4.2.3 Labour and employment laws**

India's labour and employment laws are based on a dual legal system. It is a system where both state and central governments have the power to make laws. Therefore, there has been a growing need for a reform that would simplify it (EY, 2022). In 2020 the parliament passed a reform regarding four central labour codes. These codes are supposed to replace the previously existing 29 central labour laws. Nevertheless, the implementation of these codes has been postponed and it will most likely take effect after the Indian general election in 2024 (Haq, 2023). The drivers behind this reform are enhanced ease of doing business, economic development based on well-administered labour laws, social equity, and social security. Both employees and employers will be impacted by this reform. For instance, employees will be eligible for additional benefits under a new definition of wage. Additionally, employees will be able to better ensure the compliance of employers. Consequently, employers can receive monetary penalties which can lead to imprisonment when not complying with the new labour laws.

All in all, when the new central labour codes enter into force, the changes will increase employees' rights and ensure higher enforceability of laws. Nevertheless, this legal reform will not impact the labour laws of individual states. The employers will have to comply with both sets of laws at the same time. Thus, further improvements to the system can still be made. (EY, 2022)

All things considered, India has taken steps in the right direction regarding tax policies and labour laws. Nevertheless, there are still some areas where improvements are necessary. As mentioned by MZV ČR (2023), one of the main problems for foreign companies in India is contract enforceability. India has enhanced its commercial court system, based on the Commercial Courts Act 2015. In addition, specific changes trying to mirror international best practises have been made under the Specific Relief (Amendment) Act 2018 (Anand and Dutt, 2023). Despite that, India still ranked only 163<sup>rd</sup> (out of 190 countries) in terms of contract enforcement in the 2020 edition of World Bank's Ease of doing business (WB Archive, 2020). According to the WB, contract enforcement in India used to take up to 1445 days until new acts entered into force (Mukherjee, 2018). Other problematic areas pointed out by the World Bank are starting a business and registering property. India ranked 136<sup>th</sup> in the former area

and 154<sup>th</sup> in the latter one (WB Archive, 2020). The government led by Modi has been focusing on this index as one of the main indicators of its performance and is aiming to further improve India’s ranking. (Mukherjee, 2018)

Regarding the WB’s Ease of doing business ranking of around 190 countries, the Czech Republic ranked 41<sup>st</sup> in total, slightly above India’s 63rd place (see table 13). In 2020, India was far worse in areas such as registering property, paying taxes, or enforcing contracts, and moderately worse in trading across borders. On the other hand, the Czech Republic was one of the worst countries when it comes to dealing with construction permits and it was somewhat worse than India in the protection of minority investors and getting credit. Overall, it could be challenging for a Czech company in India to deal with the administration process of contract enforcement, the taxation process, and the registering of property. (WB Archive, 2020)

*Table 13: Comparison of India and the Czech Republic based on the Ease of doing business ranking in 2020*

<b>The Ease of doing business</b>	<b>India (rank)</b>	<b>Czech Republic (rank)</b>
total ranking	63	41
starting a business	136	134
dealing with construction permits	27	157
getting electricity	22	11
registering property	154	32
getting credit	25	48
protecting minority investors	13	61
paying taxes	115	53
trading across borders	68	1
enforcing contracts	163	103
resolving insolvency	52	16

Source: own processing based on (WB Archive, 2020)

Socio-cultural elements are the third category of factors that impact business in India. Areas such as social classes, religious beliefs, cultural values, business culture, or wealth distribution shape the Indian business environment.

### **4.3 Socio-cultural factors**

India is a country with a rich history and cultural diversity. It is a nation where traditional values meet a global mindset and state-of-the-art industries. Since 1991

India's economic reforms led to increased integration into the global economy, thus, also influencing the culture (Hough, 2020). Furthermore, society has been influenced by two centuries of colonialism, which resulted in a complex culture where both western and eastern values play major roles. Nevertheless, some characteristic values are shared by most of the Indian population. These include norms associated with fatalistic thinking, or hierarchical authority, which is deeply rooted in Indian society due to the long history of caste distinctions (Berger et al., 2020). In addition, culture can vary in specific regions of India. Hough (2020) states, that the main differences are between northern and southern India. This division can also be seen in terms of the concentration of SEZs (see chapter 4.2.2 for further details).

Social classes in India are influenced by the former caste system, which used to have a major role in society. The caste system was a form of social stratification where people belonged to specific groups. The ability to change one's path in life was very limited, especially for the members of lower castes. Although this sort of segregation was officially abolished over 70 years ago, it left a significant impact on Indian society. Nowadays, the quality of life should be improving, specifically in terms of non-predestined possibilities for each member of society (Deshpande, 2010).

In 2021, 30% of Indian households belonged to the middle class (table 14). However, around 67% of households belonged to a lower social class. This class includes two groups of people: aspirers and destitutes. Aspirers can be characterized as an upper-lower class, while destitutes are the lowest income group in India including 15% of all households. Only 3% of households belonged to the upper class. Although India is one of the fastest-growing economies in the world (see also chapter 4.1), it is affected by major income inequality and the income differences between each social class are vast. (Rathore, 2023)

*Table 14: Social classes and income inequality in India in 2021*

<b>Social class</b>	<b>Share of households</b>	<b>Annual household income range</b>
Lower class – Destitutes	15%	less than 125,000 INR
Lower class – Aspirers	52%	125,000 – 500,000 INR
Middle class	30%	500,000 – 3,000,000 INR
Upper class	3%	over 3,000,000 INR

Source: own processing based on (Rathore, 2023)

Another area where India does not quite keep up with developed countries is education. In 2011, around 71% of adults had not completed secondary education and only 11% of adults had attained tertiary education. Women's numbers are even worse, as there is a major gender gap across all levels of education (OECD, 2019). This corresponds with the fact, that India can be characterized as a patriarchal society (Hough, 2020). Among young adults, 58% of men and 70% of women did not attain secondary education. The education gap can also be seen in terms of the literacy rate, as only 65% of women are literate, in comparison to 82% of men (EY, 2022).

Hough (2020) points out specific cultural values that need to be considered when doing business in India. These are relationships, collectivism, hierarchy, and religion. Firstly, building lasting relationships is essential as a foundation for success in the Indian market. MZV ČR (2023) confirms that personal contact is especially important, and it is one of the problematic areas for Czech companies in India. Secondly, collectivism and a sense of belonging to a group play a major role in the life of Indians, whether the group is a family, religion, caste, or company. Thirdly, hierarchy is embedded in the minds of many Indians. The top-down approach is a common approach to management in India, as the power and decision-making lie at the top of the organization. Therefore, it is necessary to have a strong decision-maker leading the organization. Lastly, religion is an essential part of all communities in India. When major religious festivals take place, work is of lesser importance. Besides that, consumer demand in specific industries in India is also impacted by religion, as most of the population is required to meet religious dietary requirements. (Hough, 2020)

A Czech company hoping to be successful in India must have a good understanding of the beliefs and underlying values of the Indian culture. Although it is difficult to generalize Indian culture, there are a few specific rules to follow regarding business culture. According to ICC CZ (2023), small talk – especially about family – is very common, as it helps build the relationship between two parties. Furthermore, Indians can have difficulty saying “no”, as it may be perceived as offensive. Also, business meetings can start and end late, as interruptions happen regularly. Most importantly, being flexible and respectable goes a long way. (ICC CZ, 2023)

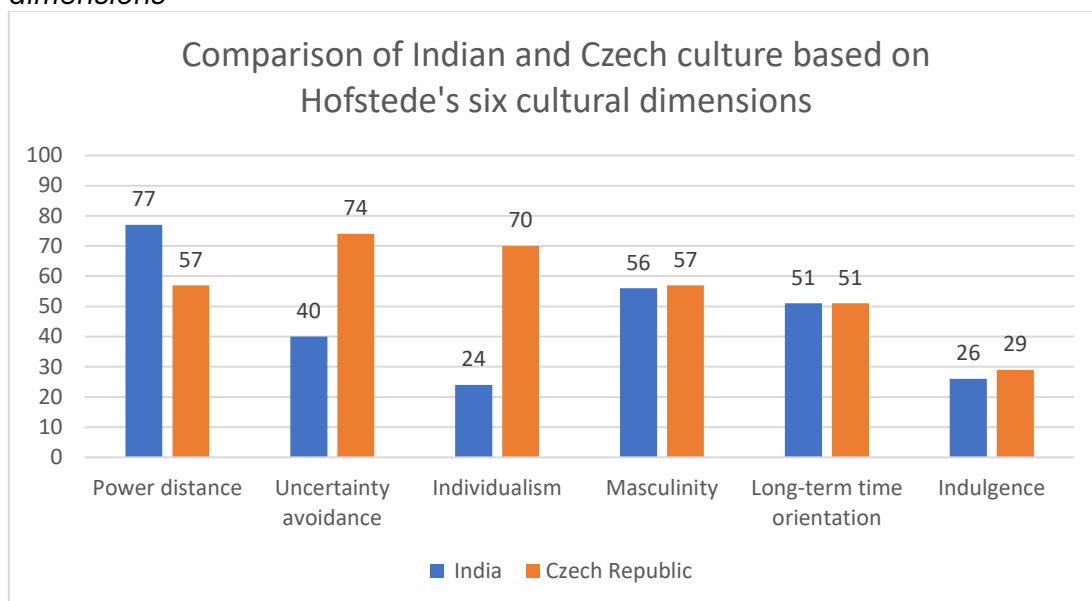
The main differences between Czech and Indian culture can be measured according to cultural theories by Hofstede and Trompenaars with Hampden-Turner.

Understanding the contrast between the two cultures can help properly adapt strategies to the specifics of the Indian market.

### 4.3.1 Comparison of Czech and Indian culture

According to Hofstede's six cultural dimensions (see also chapter 3.2.2), Hofstede Insights (2023) assign each country a score based on a generalisation of common values, norms, and patterns of thinking in the country. Thus, they understand culture as a collective mental programming of the human mind. The scores on a scale of 0 to 100 are only meaningful when compared between more countries. Therefore, they can help identify specific dimensions where values and norms differ between cultures (see figure 11). (Hofstede Insights, 2023)

Figure 11: Comparison of Indian and Czech culture based on Hofstede's six cultural dimensions



Source: own processing based on (Hofstede Insights, 2023)

- **Power distance:** India scores relatively high (77) in the power distance dimension, indicating that it is a culture that respects hierarchy, a certain degree of inequality, and the top-down structure in companies. The Czech Republic scores 57 in this dimension, implying that it is a culture where power distance is also present and inequalities in society are inherent. Nevertheless, it is a much more neutral score than the one achieved by India. Therefore, power distance could be a problematic area for Czech companies in India. Especially in the manager-

subordinate or HQ-subsidary relationship. Czechs can incline to a more neutral approach, while Indians do not mind full control, obedience of subordinates, and direct management.

- **Uncertainty avoidance:** The second dimension with a major difference between the two cultures is uncertainty avoidance. With a score of 40, India can be characterized as a culture that moderately tolerates unexpected situations and accepts imperfection. People generally settle into established roles, as the future will happen regardless of trying to control it. In comparison with Indians, Czechs prefer avoiding uncertainty. Punctuality and precision are the norm and people often want to control their future.
- **Individualism:** Individualism is a dimension with the highest cultural difference between the Czech Republic and India. While Indians have a high sense of belonging to specific groups, Czechs are more of an individualist society. The difference is especially significant in an employer-employee relationship. In Czech companies, this relationship is a contract based on mutual advantage. Promotions of employees happen based on their performance. In India, this relationship is based on mutual loyalty. Furthermore, promotions may happen based on relationships, which are crucial in collectivist societies.
- **Other dimensions:** In all three remaining dimensions, Czechs and Indians should theoretically share similar values, as they score nearly the same in each of them. Both societies emphasize competition, assertiveness, and performance. In addition, both cultures do not show a preference in either direction regarding time orientation. The Czech Republic and India also share a similar stance toward indulgence, as both are cultures of restraint. (Hofstede Insights, 2023)

All in all, a potential clash between cultural values may happen due to differences in three Hofstede dimensions: uncertainty avoidance, individualism, and power distance. The seven-dimensional model of culture by Trompenaars and Hampden-Turner offers another point of view on cultural differences.

- **Human relationship:** There is a major difference between India and the Czech Republic regarding the human relationship criterion. According to Silintowe and Susanto (2018), India is a particularistic society, which means that it values personal relationships over abstract rules and obligations. The Czech Republic lies on the other end of the spectrum, as it is characterized as a universalistic

culture (Dumetz and Gáboríková, 2017). Another dimension where the two cultures differ is the orientation towards an individual or a community (figure 10). Furthermore, the Czech Republic is an achievement-oriented society, while India is more of an ascriptive culture. These two cultures also differ in terms of their willingness to express and accept emotions. Czechs can be described as neutral, but Indians as affective. In addition, India can be generalized as a diffuse culture, while the Czech Republic is a specific culture. (Silintowe and Susanto, 2018; Dumetz and Gáboríková, 2017)

- **Time and environment:** The most important difference between the two cultures regarding time and environment is their attitude towards control. Indians tend to believe in external control, thus, the inability to shape their destiny. However, Czechs focus on internal control of their fate. (Silintowe and Susanto, 2018; Dumetz and Gáboríková, 2017)

According to Trompenaars and Hampden-Turner's model of culture, the Czech Republic and India differ in every dimension of the human relationship criterion, which can lead to potential intercultural issues. These issues can arise during business meetings, whenever Czech employees interact with Indian colleagues, or during the HQ-subsidary interaction. Thus, navigating cultural differences is one of the essential tasks for Czech companies operating in India.

#### **4.4 Political, technological, and environmental factors**

Economic, legal, and socio-cultural factors form the basis of the business environment. However, other factors such as political, technological, and environmental should not be overlooked as they are a significant part of the PESTLE analysis (see table 15). Regarding the political factors, India is a democratic country with a very stable government led by the prime minister Modi (also called the Modi government). According to EIU (2024), India is classified as a flawed democracy, and it ranked 41<sup>st</sup> out of 167 countries in the 2023 edition of the Democracy Index. Flawed democracies are countries with fair elections, although they can have flaws in other democratic aspects such as low levels of political participation. India's worst-scoring democracy categories are civil liberties and political culture. The ruling political party

BJP is projected to win again in the 2024 general elections, after a previous decade in power. This should ensure continuity in terms of policies for the next five years.

However, according to Transparency International (2023), India ranked as low as 93<sup>rd</sup> out of 180 countries in terms of corruption perception. This index ranks countries based on their perceived levels of public sector corruption. India scored only 39 out of 100 points, where a score of 0 means that the country is highly corrupt and a score of 100 indicates a flawless corruption-free economy.

According to Rahman (2023), India is a technologically advanced market, especially in the IT industry. In addition, the Indian government promotes and invests in technology, with initiatives such as 'Make in India', or 'Digital India'. However, India is lagging behind in areas such as 5G, artificial intelligence, and biotechnology. Furthermore, initiatives such as 'Make in India' and especially the SEZs split the country into two parts: advanced industrial south and underdeveloped north (EY, 2022; Ghani, 2023). According to WIPO, India ranked 40<sup>th</sup> out of 130 countries in innovation capabilities captured by a Global Innovation Index. Relative to economic development, India is overperforming in terms of innovation. Nevertheless, India still placed quite low (84<sup>th</sup>) in infrastructure, leaving space for further improvement (WIPO, 2023). As for gross domestic research and development expenditure, India has been investing yearly around 0.66% of its GDP in R&D (GOI, 2023). This is a relatively low share in comparison to EU countries, which spend on average more than 2% of their GDP. (Eurostat, 2024)

Despite the rapid economic growth and development, India faces numerous environmental challenges. Rahman (2023) mentions that environmental issues can very negatively impact the lives of expatriates in India. Ghani (2023) adds that the main issue is undoubtedly air pollution. An alarming fact is that ten of the fifteen most polluted cities in the world are located in India. Other important issues are water pollution, shortages of food, waste management, and biodiversity loss. It has been estimated that around 70% of surface water in India is polluted and unfit for consumption. India is also lagging behind in terms of waste management, as only 5% of the collected waste is recycled and around 80% is dumped at landfill sites (Igini, 2024). India's poor environmental performance is underlined by its ranking according to WIPO (2023), considering that it came in last in 2023. Furthermore, India has lost



around 90% of area within their four biodiversity hotspots. The spots are located in the Himalayas, the Western Ghats, Indo-Burma region, and Sundaland. The degradation of these areas continues due to rapid deforestation, forest fires, and unrestrained tourism. (Dhawan, 2021; Aryadevi, 2023). All in all, the environmental factors are significantly negative, and they slow down the otherwise fast development of India.

*Table 15: PESTLE analysis of the business environment in India*

<b>P</b>	<ul style="list-style-type: none"> <li>↑ high government stability in the past decade (Modi government)</li> <li>↑ pro-reform and business-oriented government expected to continue ruling</li> <li>↔ flawed democracy (Democracy Index score 7.18 out of 10)</li> <li>↓ Corruption Perception Index score 39 out of 100 (moderately corrupt public sector)</li> <li>↓ multiple protectionist measures (mixed approach toward international trade)</li> </ul>
<b>E</b>	<ul style="list-style-type: none"> <li>↑ continuous economic growth (yearly growth of total GDP and GDP per capita)</li> <li>↑ developed service sector (especially the IT sector) and a growing industry sector</li> <li>↔ inflation rate (6%) and unemployment rate (7%) stability in the past few years, although both rates should be ideally lower</li> <li>↔ stability of currency (INR fluctuating around 83 INR/USD)</li> <li>↔ negative balance of trade (imports&gt;exports)</li> <li>↔ rising yearly fiscal deficit (6% of GDP)</li> </ul>
<b>S</b>	<ul style="list-style-type: none"> <li>↑ positive demographic development (young and growing population)</li> <li>↔ impact of the former caste system, colonialism</li> <li>↔ main role of religion (80.5% Hinduism, 13.4% Islam, 2.3% Christianity)</li> <li>↔ collectivism, hierarchy, relationship-oriented society</li> <li>↓ social classes (67% of the population in the lower class, 30% in the middle class)</li> <li>↓ income inequality (3% of inhabitants relatively rich)</li> <li>↓ education gap between men and women, low education attainment in general</li> </ul>
<b>T</b>	<ul style="list-style-type: none"> <li>↔ technologically advanced IT industry</li> <li>↔ initiatives such as 'Make in India' and 'Digital India'</li> <li>↔ Global Innovation Index rank 40<sup>th</sup> out of 130 countries</li> <li>↔ spillovers of knowledge from foreign MNCs</li> <li>↓ underdeveloped infrastructure (84<sup>th</sup> out of 132 countries based on WIPO's ranking)</li> <li>↓ relatively low gross domestic research and development expenditure (0.66% of GDP)</li> <li>↓ lack of development in new areas such as 5G and artificial intelligence</li> </ul>
<b>L</b>	<ul style="list-style-type: none"> <li>↑ tax incentives (SEZs, export-linked, specific industries)</li> <li>↑ labour and employment laws reform (Four Labour Codes set to enter into force in 2024)</li> <li>↔ legal forms of businesses (Foreign company, Indian company, LLP)</li> <li>↔ taxation policy (indirect and direct taxes, GST reform, dual regime of tax levying)</li> <li>↓ FDI regulations (automatic and government route)</li> </ul>
<b>E</b>	<ul style="list-style-type: none"> <li>↓ air pollution (10 out of 15 most polluted cities globally are in India)</li> <li>↓ water pollution (70% of surface water polluted)</li> <li>↓ insufficient waste management (only 5% of collected waste is recycled)</li> <li>↓ loss of biodiversity (90% of the main area has been lost)</li> <li>↓ ranking last in the world in terms of environmental performance (in 2023)</li> </ul>
	<ul style="list-style-type: none"> <li>↑ positive factor</li> <li>↔ neutral factor</li> <li>↓ negative factor</li> </ul>

Source: own processing based on chapter 4

PESTLE analysis provides a helpful framework for understanding the general environment (Reed et al., 2020). Furthermore, it shows the complexity of doing business in a developing country, especially for companies with production activities

located there. All in all, the biggest weakness of India is the environmental area. All other areas combine a wide variety of factors, each contributing differently to the business environment. However, due to varying entry methods and business activities, each Czech company operating in India is affected by these elements uniquely.

## 4.5 Interviews with practitioners

The analysis of the business environment in India is completed by interviews with two practitioners. Both practitioners have tremendous expertise and knowledge in their specific fields regarding India. The interviews provide practical information and allow for comparison of the secondary and primary data.

Ing. Hana Onderková from CzechTrade India, the director of the Bangalore office, provided a thorough interview regarding the business environment. CzechTrade is a national pro-export organization established by the Ministry of Industry and Trade in 1997. It aims to develop international trade and cooperation between Czech and foreign entities. Onderková has lived and worked in India for the past 15 years (CzechTrade, 2024; Onderková, 2024). The interview is divided into five parts: setting up business, personal relationships and culture, human capital and management, product adaptation, and other problematic areas.

- **Setting up business:** According to Onderková, bureaucratic issues arise during the whole process. For instance, when a company wants to set up a bank account or obtain specific documents required to run a business. Going through an Indian system can be quite time-consuming. It also depends on the business activities of a company, more precisely if the company manufactures in India or not. *“Bureaucracy is slower than in Europe. Although the Indian government claims, that ease of doing business has improved, setting up a business can still be quite challenging.”* Another important aspect is a choice of an Indian vendor – company, which helps a Czech company to solve accounting or legal issues. Many local companies offer their help, but the quality of the service is often lacking. *„We had a Czech company here, which wanted to cut down costs when acquiring required documents. In the end, the company had to pay bigger fines for insufficient*

documentation, than the amount of money it saved on a cheaper vendor," added Onderková.

- **Personal relationships and culture:** Companies achieve better results when they attend business meetings in India and build relationships with Indian companies. *"Proactivity here has to be definitely bigger than in Europe."* Regarding culture and communication, Indians do not like to tell bad news. Therefore, they can have a trouble saying 'no'. They rather promise things, even when they do not intend on keeping the promise. However, if they feel that there is a massive business potential, then there are no communication issues. In terms of Hofstede dimensions, Onderková argued that the masculinity of Indians should be much higher – ideally around 80 (chapter 4.3.1). In addition, she thought that the indulgence score of India was too high. Regarding corporate culture, Onderková added: *"It certainly cannot be the same as in the Czech Republic. The company must follow the local cultural factors, and especially the religious factors must be respected."*
- **Human capital and management:** According to Onderková, another major difference between undertaking in the Czech Republic and India is in terms of human capital, especially of the unskilled workers. Business operations such as constructions require higher amount of managerial control in India, which can be challenging for Czech companies.

A common approach of western companies is to set up business in India with an expatriate management. Throughout years, these companies train local talents to take over the top managerial positions of the subsidiary. Although, some foreign MNCs keep their expatriate managers as an instrument of coordination.

*"Another thing that is common here is micromanagement, although it depends on the organization and the type of work involved. In general, I think it is kind of necessary here."*

Regarding the wages of Indian employees, Onderková mentioned that it is better to pay accordingly to the industry standard and rather offer additional intangible benefits such as kindergarten, insurance, and education for women. There are many things a company can do in terms of investing in people that have long been unnecessary in the Czech Republic. Importantly, wages in Indian companies rise annually in line with the growth of GDP per capita. Usually, the raise is at least 10% each year.

- **Product adaptation:** *"Companies often come up with technologies that do not work in India because some things are done differently here,"* said Onderková. *"For example, a company that does waste management must adapt here. Indian sewerage system is slightly different from European as it is a bit more wet than the one in Europe."* In general, it depends a lot on the industry, where a company operates.
- **Other problematic areas:** Onderková also pointed out that the Indian government continues to adopt protectionist measures in specific sectors. Furthermore, the government can even forbid import in especially important business sectors. In addition, the government can decide to retroactively increase taxes and demand a tax surcharge from previous years. Another quite difficult thing for MNCs operating in India is profit repatriation. *"India is trying to compete with China, it is trying to attract foreign companies to manufacture and invest here. Modi government wants India to be seen as a business hub for south-east Asia."* (Onderková, 2024)

Onderková concluded the interview by saying: *"Overall, there is still a certain bias against India in the world. I believe that it will be the next Asian tiger."*

The second interviewee was doc. Mgr. Martin Fárek, Ph.D., a professor at the Technical University of Liberec. Most importantly, Fárek is an author of an academic book called 'India in the Eyes of Europeans' and a co-author of 'Western Foundations of the Caste System'. Furthermore, he has participated as a speaker at multiple congresses and led several university delegations to India. As a researcher, he focuses mainly on topics such as East Asia, relationships of Europe and India, and Indian religions and traditions (KGE FP TUL, 2024). The focus of the interview was on cultural factors.

- **The caste system:** According to Fárek, there is a significant misunderstanding of the caste system in India and the Indian culture in general. *"It is a long story. The British tried to understand the local culture and they had found that there are many different groups of people, and they do not understand what it is really like among them. The ancient concept of four to five caste groups seemed to help them,"* explained Fárek. *"This is a profound mistake. The British thought that this division would help them in their colonial domination."* However, they had a

problem identifying members of the four groups, yet they pushed this division into legislation. *“The British separated the Hindu upper classes from the lower classes. They used three social categories for the caste division of the lower castes (also called the oppressed) – the Scheduled Castes, the Scheduled Tribes, and some other classes. Thus, the British introduced caste discrimination in legislation and administration.”* Fárez added: *“The British thought it was all related to religion – Hinduism. But then they found out that Muslims, Sikhs, and even Christians belong to castes. Clearly, it is something inherent in the whole culture.”* After gaining independence, India abolished the caste system. However, the legislation from 1950 started a new phenomenon called positive discrimination. *“Positive discrimination means that only people from the lowest groups (the oppressed) are eligible for specific government grants.”* Furthermore, these people have multiple advantages throughout life, especially in education and the admission process. *“It seems like the oppressed people have had the bar lowered for them.”*

The truth is that there are many groups of people in India, that help each other and are somehow historically related. *“It is an interesting system that absorbs newcomers and can integrate foreigners.”* Regarding the Indian culture, Fárez stated: *“They will forgive you for a lot of things because you are a foreigner. Which is good for business, a lot of other cultures are not that accommodating. Indians appreciate that you can observe their events with respect. Something they truly do not like is a clever Westerner who brought all the wisdom.”* Fárez compared this behaviour with Škoda Auto during its first years of operating in India (see chapter 5.1).

- **Cultural specifics of doing business in India:** Regarding doing business in India, Fárez added: *“My experience is that if you want something to work in India, you need local partners. It is important to talk to the people who make the decisions.”* In addition, Fárez explained the important aspects of business meetings. *“Realistically, the fact that Indians have signed a treaty does not commit them to anything. That is often unimaginable to us. Everything only starts to work when you talk to the right people who make the decisions. Often, your counterpart is also someone else who may not even be present at the first meeting. My experience is that Indians test how serious you are. It is only when they make their own assessment that you get to the people who really make the decisions.”*

Fárek added: *"It is a tough business. For Indians, business means time and money. You can often find signals that Indians evaluate the business potential during a meeting. A lot of the time and energy is required just for the initial meetings. If something more interesting comes up, Indians do not continue negotiations. The only way to avoid this is to build long-term, genuine relationships."* Fárek continued: *"I have found out that most Europeans do not want that. They do not want to go into deep, real relationships. If you want to build relationships with Indians, there are a lot of things you must get over. Indians expect you to open up, it is normal for them."*

*"Indians are very pragmatic people. The whole culture is like that. It means that they are willing to experiment with things much more than we are. A lot of people say that it is a static religious culture, but it is not at all. You must be prepared that what worked for you in one situation may not work next time. In fact, European in India is always getting angry, frustrated. It can be mentally challenging,"* explained Fárek at the end of the interview. (Fárek, 2024)

In summary, both practitioners underlined the complexities of doing business in India, emphasizing the necessity of establishing relationships for successful business operations in India. Onderková pointed out specific legal, political, and cultural factors, while Fárek focused mainly on the cultural aspects.

## 5 Selected Czech companies operating in India

According to the Embassy of India in Prague (2024), several Czech companies are operating in the Indian market. The list offers a wide variety of companies from different industries including automotive, aerospace and defense, engineering, finance, and medical equipment (see table 16). Some of them export their products to India, while others operate in India through FDI (EOI Prague, 2024). However, continuously more Czech companies are trying to enter the Indian market through FDI, as direct exporting can be costly and inefficient due to the tariff rates in specific industries.

Nevertheless, establishing its Indian subsidiary can be very demanding, so a common approach is finding an Indian partner company and operating in India through a joint venture (CzechTrade, 2023). A perfect example of this approach is Zetor Tractors, a Czech manufacturer of agriculture machinery. Zetor entered the Indian market in 2023 through a joint venture with a local farm equipment manufacturer VST Tillers Tractors. Together they formed an Indian company called VST Zetor Private Limited and they are planning on launching three types of tractors that have been developed specifically for the Indian market. Even before 2023, Zetor had already had a lot of experience with business activities in India, after many years of exporting in the 1960s, a licensing contract with an Indian state-owned company HTM in 1970–1990, and an Indian sales-oriented subsidiary from 2014 (VST, 2023). Operating directly in India offers multiple advantages since it is a large stable economy with untapped potential. It has a high domestic demand and a growing middle class with a rising standard of living. Furthermore, the labour force is still significantly cheaper than the one in the Czech Republic. However, entering India takes time due to the emphasis on building relationships. Therefore, it is a long-term investment with both upsides and downsides (CzechTrade, 2023).

Table 16: Main Czech companies operating in India

Name of the company	Area of business
Škoda Auto a.s.	automotive
Doosan Škoda Power	steam turbines
Omnipol a.s.	aerospace and defense
Howden ČKD Compressors s.r.o.	compressors
ZETOR Tractors a.s.	agriculture machinery
BONATRANS Group a.s.	wheelset solutions
BTL zdravotnická technika, a.s.	medical equipment
Home Credit a.s.	finance
LIKO-S, a.s.	manufacturing and construction
Gearspect Group a.s.	gear measuring equipment
ŠMT a.s.	heavy machine tools
VH services s.r.o.	heavy machine tools

Source: own processing based on (EOI Prague, 2024)

Škoda Auto a.s., BONATRANS Group a.s., and VH services s.r.o. have been selected as case studies for this thesis. Each company represents a different business area, and the companies also significantly differ in terms of their size. First, VH services s.r.o. is a small exporting and service-providing company with around 10 employees, operating in India for more than 30 years (VHS, 2024). Second, BONATRANS group a.s. is a leading entity of the GHH-BONATRANS group, employing around 1700 employees worldwide. The company used to own a majority stake in Bonatrans India Pvt. Ltd. between the years 2016 and 2024. (Bonatrans, 2024a; LinkedIn, 2024a). Third, Škoda Auto group is a large MNC, widely considered as a pillar of the Czech economy. It employs around 35,000 employees in the Czech Republic and almost 5,000 employees in India, where it has been operating since 2001 (Škoda Auto, 2024a; Škoda VW India, 2024).

## 5.1 Škoda Auto a.s.

Škoda Auto is a Czech car manufacturer established in 1925 through a merger of Laurin & Klement and Škoda Company. Originally, Laurin & Klement started by manufacturing bicycles in 1895 and only entered the car industry ten years later. Over time, Škoda Auto has become one of the largest Czech employers and an important pillar of the Czech economy (Škoda Auto, 2024a). Škoda Auto used to be a state-owned organization, prior to 1991 when Volkswagen Group acquired 31% of the shares in the company. Then, Volkswagen Group gradually increased its stakes in



Škoda Auto and became the sole owner in 2000. Škoda Auto is headquartered in Mladá Boleslav and has a production network of three sites within the Czech Republic (Škoda Storyboard, 2016).

In 2001, Škoda Auto entered the Indian market as it established its first production plant outside of Europe (Škoda Auto, 2024b). This plant was initially characterized as a semi-assembly plant, later it became a fully operating production plant (Bachtík, 2024). Škoda Auto Group consists of Škoda Auto a.s., Škoda Auto Slovensko s.r.o. (100% of shares belonging to Škoda), Škoda Auto Volkswagen India Pvt. Ltd. (12.1% of shares), and Škoda Auto Deutschland (0% of shares, only management control). In terms of the Volkswagen Group, Škoda Auto is its leading brand in the southeast Asian region (Škoda Media, 2023). Škoda Auto Volkswagen India Pvt. Ltd. employs around 5,000 employees (Škoda VW India, 2024). Operations in India are part of the India 2.0 project, which aims to make India a global manufacturing hub of the Volkswagen group. In 2018, Volkswagen Group invested around one billion euros in the implementation of the project and a development of new models for the Indian market (Škoda Auto, 2018). In 2023, Škoda Auto Group achieved its highest revenues of 26.5 billion euros, delivered almost 867,000 cars to customers and produced slightly over a million cars. (Škoda Media, 2023)

Ing. Michal Bachtík provided a thorough interview on activities of Škoda Auto in India. Bachtík has been with Škoda Auto and the Volkswagen Group for more than 20 years. Currently, he is working as a Head of purchasing of lighting and electromechanics parts (LinkedIn, 2024b). In addition, Bachtík is an expert in product development. Bachtík provided useful insight information on Škoda's adaptation to the Indian market and the company's main failures in India.

Bachtík divided the time of Škoda Auto in India into three periods: the first period consists of years 2001 to 2010, the second of years 2010 to 2017, and the third period from 2017 up to now. According to Bachtík, the first period for Škoda in India can be described as "*a happy period*".

- **Years 2001 to 2010:** Škoda Auto entered India by exporting full-business units, which were cars produced in the Czech Republic. These cars were subject to massive duty. Therefore, Škoda Auto cars could only be sold in a luxury segment.

*“With this move, Škoda Auto secured its position as a premium brand. When you are entering the Indian market, it is good to ensure some brand exclusivity.”* According to Bachtík, there were many low-cost car brands that were trying to secure their market position in India. The branding aspect of market entrance was successful. Afterwards, Škoda Auto secured an advantageous duty rate on import of middle-knocked-down cars. These cars were assembled in the Aurangabad plant. *“This was the golden period when you have a premium position, and a product that is interesting – because it is European. And at the same time, you have almost zero tariffs. We could afford to have high prices because of that, as a premium brand.”* In 2010, the Volkswagen Group decided to manufacture tens of thousands of Škoda Auto and Volkswagen cars in India. *“And here comes the first mistake made by the Volkswagen Group.”*

- **Years 2010 to 2017:** Because of this strategic decision, Škoda Auto brand changed from a premium to an ordinary-better brand. Škoda Auto products were not adapted to the Indian market in terms of consumer needs, technical parameters, and the market requirements. In addition, there has been an unwritten agreement within the Volkswagen group that Volkswagen is positionally perceived to be higher than Škoda Auto. Thus, if Volkswagen sets its price at a particular level, Škoda Auto must go slightly under with pricing. Furthermore, the parameters in terms of quality and technology remained European. For that reason, some of the car parts still had to be imported or expensively manufactured by local suppliers. Bachtík added: *“So we have a period of about seven or eight years until 2017, when we and Volkswagen were producing European products that were not technologically adapted in any way, and we were not making a profit on them. Quite frankly, it was not a success, maybe in terms of volume, but the losses were incredible.”*
- **From 2017 to now:** The year 2015 saw a top-level management shift at the Volkswagen Group. Most importantly the group significantly changed its mindset. Škoda Auto was chosen as an ideal brand for the Indian market and received full control. *“In 2017, we travelled to India to ask local suppliers about the technology and products. We asked them: how do you do it with local manufacturers and brands? Local-external firms led by Indians began to get involved in the decision-making process. We gained know-how from them, and Indians gradually got into the management and leadership of our plant.”*

Crucially, Škoda Auto changed the temperature tests of their new Indian products. In Europe, it is necessary that cars pass this test up to minus 30°C. In India, it is only minus 10°C. *“This step was quite important, as you can use local materials for the production,”* explained Bachtík. Other things that were specifically tailored are for instance the interior or the air conditioning. On the other hand, the positioning of a blinker and the wipers stayed the same. One of the local Indians recommended to keep the blinker on the left side of the steering wheel, even though Indian car manufacturers have it on the right side. *“It is an atypical way of thinking, but if the customers have to learn that it is on a different side than usual, they will understand it as European quality.”* Therefore, not everything needs to be changed for a car to be ideal and interesting.

The development phase lasted until 2020 when Škoda Auto started manufacturing its first fully adapted Indian car – Škoda Kushaq. *“We developed completely new local products – products that have nothing to do with Europe. Hence, Indian design, Indian technology, and the level of Indian quality,”* explained Bachtík. Since then, Škoda Auto has developed two other models, Slavia, and a yet-to-be-named model which is being released in 2025. The latter model is designed to maximize excise (tax) benefits for sub-4-meter size cars. This specific car segment for India is the largest Indian segment in terms of sales volume.

Furthermore, Bachtík stressed the necessity to adapt: *“The lesson for any European brand: you must adapt to their technology, quality, requirements, and most importantly to their customer requirements, which are different from the European ones.”*

- **Management, corporate culture, culture, and other remarks:** Regarding corporate culture, Bachtík explained the necessity to let local employees into the top managerial positions. Until 2017, only Germans were managing the Indian subsidiary. *“If you do not allow someone from India to lead, you can hardly make local Indian decisions. This really changed only when Škoda Auto took over.”* Currently, the CEO and three out of five board members of Škoda Auto Volkswagen India Pvt. Ltd. are Indians. *“They were externally recruited managers from local brands. It is a very important aspect – let them lead the way.”* Furthermore, Bachtík mentioned the element of corporate culture: *“When you have your own European culture, you cannot implement it anywhere else. You*

*just cannot. You must let the local brand breathe its own culture. So, the Indian cultural habits had to be implemented. That was crucial."*

In terms of cultural differences, Bachtík put an emphasis on patriarchy. *"In India, you must understand that you still cannot put a woman in charge. It is embarrassing, but it cannot be changed. You can try to gradually influence it, but do not force it at all."* Furthermore, Bachtík claimed that the caste system still plays a role in India. *"What we do not understand at all is that the caste system does indeed still exist in India, it has not been completely abolished. Indians recognize each other's caste. As a European, one can only accept this."* Besides that, micromanagement and a hierarchy are also important. *"But that will change in time. They will understand the need to give trust to the workers."*

Finally, Bachtík explained his thoughts about India's economic growth and importance for Škoda Auto: *"We are using India as a hub for expansion into emerging Asian markets. Vietnam has been recently declassified. Therefore, Vietnam can be characterized as an extended arm of India. The cars that will be sold there will be Indian."* Finally, Bachtík added: *"India is becoming and will become a great power."* (Bachtík, 2024)

Škoda Auto is turning its Indian subsidiary into an expansion hub and using it to further enter Asian markets. The company achieves up to 95% localization, thus, it is an embodiment of the 'Make in India' initiative. Both Indian production facilities are located in SEZs, making it a perfect strategic location for further export (Škoda VW India, 2024). All in all, Škoda entered India with a greenfield strategy. Later, Škoda and the Volkswagen group experienced major losses due to the unwillingness to adapt the product to Indian requirements. This led to a development and launch of three car models custom tailored to the Indian market. Regarding the role of the Indian subsidiary, it can be considered as a strategic leader or independent subsidiary according to the three-factor model of generic subsidiary strategies (see chapter 2.4). Škoda Auto began their operations in India with a global strategy, but it was forced to change it to a multidomestic strategy. In terms of coordination instruments, Škoda started with a person-oriented instrument in a form of transfer of managers and technocratic instrument in a form of centralization. After the year 2017, it has moved away from this approach and rather started treating the Indian subsidiary as

its own entity with local managers. Lastly, the India 2.0 project has increased the decentralization of the Škoda Auto Group.

## 5.2 BONATRANS Group a.s.

BONATRANS Group a.s. (thereinafter Bonatrans) is a Czech manufacturer of wheelset systems, headquartered in Bohumín and operating since 1965. Bonatrans focuses on the development, engineering, production, assembly, and service of wheelset systems for the railway industry. Bonatrans' products are useful for all types of rolling stock such as high-speed trains, locomotives, metro, trams, and freight wagons. The company delivers to more than eighty countries in the world. It is a part of an MNC called GHH-BONATRANS, established in 2014 by acquiring the German company GHH-Radsatz. GHH-BONATRANS manufactures in the Czech Republic, Germany, and India. Furthermore, the group operates a sales and service office in Hong Kong. In total, GHH-BONATRANS employs around 1,700 people worldwide. (Bonatrans, 2024a; Bonatrans, 2024c)

The company began setting up Bonatrans India Pvt. Ltd. in 2013. However, the official opening of the plant took place later in 2016 (Bonatrans, 2024a). The subsidiary had operated under Bonatrans' ownership for eight years until Bonatrans sold a major share of the subsidiary (Weimann, 2024). Indian company Jupiter Wagons acquired 94.25% of the Indian subsidiary on the 20<sup>th</sup> of March 2024. The company acquired Bonatrans India in a pursue of becoming India's only rolling stock manufacturer with its own wheelset plant. (LinkedIn, 2024a)

A managing director of Bonatrans Ing. Jakub Weimann, MBA shared his experience in a thorough phone call interview regarding the company's operations in India. Besides being a managing director, Weimann also serves as a member of the board of directors (Bonatrans, 2024b). The interview is divided into four main parts: acquisition of Bonatrans India, problematic business areas, labour and employment, and other remarks.

- **Sale of Bonatrans India:** The first part of the interview focused on Bonatrans' reasoning behind the sale of their Indian subsidiary. Weimann explained that the

company was forced by the market to reorientate its focus on wheelsets for freight transport, although Bonatrans mainly focuses on wheelset for high-speed trains, metro, and trams. Trains and metro are a state matter in India and the projects regarding this segment were too lengthy, lasting almost up to five years. In general, Weimann described the pace of the market as slow. In terms of freight transport, Bonatrans began building a long-term relationship with its main customer, Jupiter Wagons. Their main customer later proposed an interesting offer, hoping to acquire 94.25% stake in Bonatrans India. This offer seemed mutually beneficial, resulting in Bonatrans accepting the deal. Nevertheless, Bonatrans remains a minority owner and intends to stay in the Indian market also through exporting.

- **Problematic business areas:** Regarding the challenges of doing business in India, Weimann expressed that most areas pointed out by MZV ČR (2023) are in general true (chapter 4), especially the bureaucracy. During the years 2013 and 2016, Bonatrans was building the manufacturing plant in Aurangabad. Weimann described this greenfield investment as „*extremely administratively demanding*“. Bonatrans built the plant in an industrial zone close to the Aurangabad plant owned by Škoda. The company received some assistance from the Czech Embassy in India regarding several administrative areas.

In terms of the management of an Indian subsidiary, Weimann stated: “*It is necessary to have a European leading, either with previous experience from India, or at least from southeast Asia.*” The managing director of Bonatrans India is Slovak, with a previous experience from the Indian subsidiary of Škoda. According to Weimann, the person leading the subsidiary should truly understand the company and ideally there should be no cultural difference between the HQ and this person. On the other hand, for local issues such as taxes and accounting, Indian employees are much better and knowledgeable.

In terms of corporate culture, Bonatrans' manufacturing plant is located in an area with a mix of 50% Hindu and 50% Muslim inhabitants. In the manufacturing department, Bonatrans does not employ any women, although they have had some women employees in the legal department. Weimann also explained, that you could sense the caste system still existing, even between the employees of Bonatrans India. All in all, the corporate culture definitely varies from the one in the Czech Republic.

Regarding other problematic areas, Weimann mentioned that repatriation of profit can be especially difficult for a MNC in India, sometimes even leading to a withholding of payment. Furthermore, Weimann confirmed that Indians can have a difficult time saying 'no', leading to a much longer effort required to reach actual agreements. When comparing the differences between business meetings in Europe, USA, and India, Weimann provided an example from the pandemic period. *"When there is an unexpected change in the market, Europeans and Americans discuss the changes together and there is always a room for negotiation. Indians are much tougher negotiators and when they decide that they do not accept any changes, the meeting is over."* This is especially noticeable during business meeting with state organizations. Bonatrans has experienced this when they tried to enter the market of wheelsets for high-speed trains, metro, and trams.

- **Labour and employment:** Regarding labour and employment, Weimann mentioned that: *"Outside of the grey zone of employees without contracts, the labour and employment is immensely regulated. The labour unions have significant power. There are many companies that I would describe as dead or non-functional because of it. They cannot afford to dismiss their employees because of fines and payouts."* The whole process is administratively challenging. Weimann also described Indian employees as not entirely loyal. *"It is difficult to find loyal employees and to retain them."* In addition, he explained that this often has to do with the wage level, as employees often change jobs in order to gain higher salary.
- **Other remarks:** When doing business in India, most transactions are done in INR, although most private companies can also operate with euros and dollars. However, the state organizations only operate with INR. In addition, it is problematic to secure higher amounts of Indian rupees, as it is still a regulated currency. In general, Bonatrans has never had to enforce contracts in India. Lastly, Weimann explained that the company has benefited from its location in a SEZ, where the company received specific advantages from the state and local government regarding tariffs and other issues. (Weimann, 2024)

All in all, Bonatrans has managed to establish an Indian manufacturing plant through a greenfield investment. In terms of generic subsidiary roles, the subsidiary serves a role of a contributor (see chapter 2.4). Although it has high capabilities (LinkedIn,

2024a), the environment is restraint, and that is one of the reasons why Bonatrans decided to move to a minority ownership. Other reason was the necessity to shift the main business focus toward wheelsets for freight wagons. Bonatrans have focused on a global international business strategy in India. Regarding coordination instruments, the company emphasizes person-oriented coordination in a form of transfer of the managing director. Regarding corporate culture, the company has decided not to enforce Czech corporate culture due to major cultural differences. According to Bonatrans (2024c), the company has enjoyed a strategic cooperation with Jupiter Wagon in the recent years, and a transition to a minority owner will result in further development in the Indian market.

### **5.3 VH Services s.r.o.**

VH Services s.r.o. (thereinafter VHS) is a Czech company based in Pilsen. It has been operating since 1991 in the field of heavy machine tools (VHS, 2024). According to Havlíček (2024), the founder and managing director, around 80% of their turnover comes from business activities in India. It is a small enterprise with around 10 employees. The operations of VHS can be divided into three main segments: providing service for heavy machine tools, export of used and new machines, and spare parts. VHS offers service activities concentrated on machine tools with an origin in the Czech Republic, primarily on tools made by Škoda Machine Tool a.s., which is a company based in Pilsen and operating since 1911 (ŠMT, 2024). The main services include modernization, modification, repairs, inspections, assembling, and dismantling. The second business area is export of used and new machines, although this area has been declining in volume according to VHS' reference list. Regarding the last business area, VHS delivers spare parts mainly to India, Germany, and other countries. The company is equipped with a design facility in Pilsen, and commercial and service network in India. (VHS, 2024)

The founder and managing director of VHS, Ing. Vladimír Havlíček, provided an in-depth phone call interview regarding his company. The interview is divided into three main parts: general information, problematic areas of doing business, and strategy.



- **General information:** Havlíček started the interview by explaining the current business situation and the historical development of VHS. Currently, his company focuses almost entirely on a delivery of spare parts and providing services for heavy machine tools. His commercial network in India consists of individual partner companies, where VHS does not own any shares. The relationships are based on commission-based contracts. Regarding the partners, Havlíček has not encountered any issues yet. He specifically insists on not paying his Indian partners in advance to have some leverage. In the past, VHS used to have a liaison office located in India. However, due to a major administrative burden required to run a liaison office, Havlíček eventually decided to shut it down. The bureaucracy was due to the business nature of liaison offices. VHS had to provide yearly proof that all their costs and revenues arose in the Czech Republic and not in India, since liaison offices can only be used as a representation of a foreign company in India.
- **Problematic areas of doing business in India:** Havlíček confirmed the main challenges in India as defined by MZV ČR (2023) (see chapter 4 for more details), adding that his company has experienced most of them to at least some extent. Although VHS has never had to enforce contracts in India, he stressed the fact that enforcement process is long anywhere in the world, but especially in India. Then, the conversation shifted toward business meetings. Havlíček considers Indians to be one of the toughest negotiators worldwide, and business meetings in India are considerably different than the ones in the EU. Indians never want to accept the initial offer, and they negotiate even for small amounts. *“It is in their DNA,”* commented Havlíček, explaining that the negotiating process can also last much longer in India. It is significantly much more difficult to agree on the price, the delivery terms, and payment terms. *“On one occasion, a representative of an Indian company started negotiating a discount, without even knowing the offered price,”* added Havlíček. In terms of significant deals, it is essential to negotiate with a member of the top management. Otherwise, the person does not hold the power to accept the contract and the whole process can last additional months due to the hierarchy in Indian companies.

Next, the interview with Havlíček addressed the importance of relationships in India. According to Havlíček, long-term relationships are extremely important for success in India. Afterall, he started building his own relationship network with

Indian companies when he lived and worked in India as an expatriate. Under the communism-regime in Czechoslovakia, exporting was regulated and only specific companies such as Strojimport could engage in export activities. Havlíček spent a few years working for the Indian subsidiary of this company and gained experience and knowledge of the Indian market. After the change of political regime in Czechoslovakia, he came back and established VHS. Most importantly, he used his contacts and expertise to successfully enter the Indian market.

Regarding the stability of the Indian rupee, VHS has noticed that the currency has been relatively stable in 2023, although their main business operations are done in euro. The Indian companies also pay VHS in euro, despite the bureaucracy regarding foreign exchange administration, which is required by the Foreign Exchange Management Act. Lastly, Havlíček added that his Indian partners in general praise the current government led by Modi.

- **Strategy:** VHS is a unique company since it was established with a purpose of supplying and cooperating with Indian companies. Therefore, Havlíček tailored his strategy to the Indian market from the beginning. The only changes he has had to make so far have been the closure of liaison office and moving away from the export of machine tools since 2017. On that regard, VHS has received an increasing number of inquiries regarding machine tools in 2024. Because of that, VHS is strongly considering re-entering this business area. VHS believes that it might have to do with the economic growth in India and re-exporting from India to Russia. In general, the demand in India for industrial machines is growing, thanks to the fast-growing industry sector. (Havlíček, 2024)

All in all, VHS is a small Czech company with most of their activities focused on India. The company was established with a major competitive advantage, thanks to an already existing knowledge of the Indian market and personal connections with several Indian companies. VHS entered the market through direct exporting and an establishment of a liaison office. The office served a representative purpose, thus, acting as an implementer with low capabilities and low locational advantages. The company has been pursuing a multidomestic strategy regarding the service of machine tools and a global strategy in terms of the spare parts. Later, VHS decided to shut down its foreign branch. Because of these reasons, the company has not had to adapt their strategy that much, with the exception of a slight change of offered

portfolio. Nevertheless, the difference in culture and mentality has influenced the way VHS handles business meeting with Indians. Nowadays, VHS have been benefiting from their long-term relationships with several Indian partners and are preparing for a growth of business as the demand in India rises.

## 6 The impact of individual factors on implemented strategies of chosen Czech companies

According to the interviews with representatives of selected companies and secondary research, both Škoda Auto and Bonatrans had to significantly alter their strategy in India (see table 17). VHS, on the other hand, has not had to adapt that much since it is an exporting company focusing primarily on the Indian market since its foundation.

*Table 17: Adaptation of the selected Czech companies to the specifics of the Indian market*

<b>Important changes</b>	<b>Škoda Auto</b>	<b>Bonatrans</b>	<b>VHS</b>
product, product portfolio	✓	✓	✓
approach to top management	✓	×	not applicable
corporate culture	✓	✓	not applicable
role of subsidiary	✓	✓	✓
type of international business strategy	✓	no information	×
approach to business meetings	✓	✓	✓

Source: own processing based on (Bachtík, 2024), (Weimann, 2024), and (Havlíček, 2024)

Škoda Auto was forced to change its product due to economic reasons, as maintaining European quality and importing specific car parts was highly cost-inefficient. That was also due to political factors such as higher tariff rates and the influence of initiatives such as 'Make in India', through which the Indian government pushes foreign MNCs to manufacture and invest in India. To avoid further losses and to use India as a hub for expansion into southeast Asia, Škoda Auto heavily invested and developed new car models tailored to the needs of Indian customers. These models are cost-saving because of high localization of their production. They were developed in cooperation with local companies, paying attention to local cultural preferences. Bonatrans also had to change its product portfolio due to the specifics of the Indian market. According to Weimann (2024), the main reasons for this were the slow pace of the market growth and difficulty in negotiating with state-owned organizations, which were the company's main partners before reorienting to private-owned organizations operating in the freight wagons industry. VHS has had to slightly change its product portfolio, by no longer exporting used and new heavy machine tools. However, this change in strategy is being reconsidered because of higher

demand for these tools, as the industry sector in India grows in line with the economic growth (and perhaps also because of growing re-exports to Russian Federation).

Regarding the top management of an Indian subsidiary, Škoda Auto and Bonatrans differ in their approach: Škoda Auto started doing business in India with expatriate management incapable of making appropriate local decisions (Bachtík, 2024). Later, the company moved from its initial expatriate approach and let local Indian managers lead the way. Bonatrans has had a Slovak managing director for the entirety of its existence in India. Weimann (2024) believes that no cultural distance between the HQ and the director of a subsidiary has been crucial for their success. Nevertheless, the rest of the top management in Bonatrans India consists of local managers, stressing the need to have managers who understand local issues and the local environment. (Bonatrans, 2024d)

In terms of corporate culture, representatives of both Škoda Auto and Bonatrans agreed that it is necessary to adapt to local specific, especially regarding religion. *"You must let the local brand breathe its own culture,"* stated Bachtík. Religion as a cultural factor was also pointed out by Onderková (2024). The two companies built their manufacturing plant in a SEZ in Aurangabad and employed a mix of Hindu and Muslim employees. Both Bachtík and Weimann expressed the opinion that the Indian caste system still persists. Each noticed the importance of this cultural factor during daily operations in their subsidiaries, or during business meetings. This corresponds with the information from Fárek (2024), explaining that the caste system is deeply rooted within the Indian culture, no matter what religion the people believe in. However, the groups cannot be divided into the original four or five castes which were used during British colonial administration. Regarding this matter, Fárek understands the caste system as a dynamic constellation of groups. Regardless of the definition, this cultural factor plays an important role. (Bachtík, 2024; Weimann, 2024, Fárek, 2024)

For Škoda Auto and Bonatrans, the original purpose and role of a subsidiary had to be changed. The subsidiary of Škoda Auto has developed from a contributor to an independent subsidiary. This change was possible because of the shift from a global strategy to a multidomestic strategy. Bonatrans, however, moved from a majority to minority ownership of its Indian subsidiary, likely because the subsidiary has not

fulfilled its potential and remained a contributor instead of a strategic leader. In the case of VHS, the company used to operate a liaison office in India. Nevertheless, they have decided to close the subsidiary due to a sole reason – bureaucratic burden. (Havlíček, 2024)

Regarding business meetings and building long-term partnerships with Indian companies, Havlíček and Weimann confirmed the difficulty of negotiating with Indian partners. Both in terms of the contents of the meetings and the length required to reach any kind of conclusion.

In general, Škoda Auto adapted themselves to the Indian market the most. Bonatrans has also had to make significant changes. Despite those changes, full ownership of a manufacturing plant in India likely seemed no longer advantageous for the company. This underlines the difficulty of undertaking in India for some businesses that encounter barriers such as when dealing with state-owned companies. Weimann also specifically pointed out bureaucracy as one of the main business issues in India, which was further underlined by Onderková (see chapter 4.5). VHS is the only selected company that has not had to adapt that much to be successful in India. However, that is thanks to its mode of entry and expertise in the market from the very beginning.

Overall, the biggest challenges Škoda Auto, Bonatrans, and VHS have faced in India are bureaucracy, differences in culture and mentality, the course of business meetings, a strong emphasis on personal contact, and repatriation of profit in the case of MNCs.

In addition, the Modi government has been a positive political factor for foreign MNCs. Havlíček confirmed that his Indian partners are satisfied with the political development in India. However, as mentioned by Onderková, the government can suddenly decide to protect specific industries, or even retrospectively raise taxes, which could become a major issue for specific companies. Regarding this matter, Onderková added: *"Companies need to look at their industry and in which direction are the laws developing before entering India."*

For Škoda Auto, it is evident that its success in India depended on the ability to adapt the strategy to the Indian market. The same can be argued for Bonatrans, which completely reoriented its focus on a different segment. In comparison with Škoda Auto and Bonatrans, VHS is the only selected company which can be characterized as a domestic company, rather than an MNC. According to the managing director Havlíček, the company has not had to adapt its strategy much since its foundation.

## Conclusion

India is a country of untapped potential, and the Modi government is hoping to reach this potential by transforming India into a global manufacturing hub. The country is rapidly developing in terms of economic indicators and is set to become a world powerhouse by 2050. India is a democratic republic, which is one of its most important upsides. However, the country is also facing several issues. These consist of environmental issues, income inequality, low educational attainment, and cultural factors such as patriarchy, or positive discrimination of people from the lowest societal classes.

The government is trying to attract FDI and motivate MNCs to manufacture in India with initiatives such as 'Make in India', while aiming to prevent the repatriation of profit. However, some industries remain heavily protected from foreign competition and in some instances, import is strictly prohibited. Generally, the government is hoping to protect the strategically important sectors, while liberalizing the trade in other sectors.

Doing business in India can be challenging, due to several obstacles: bureaucracy, differences in culture and mentality, the course of business meetings, and a major emphasis on personal contact. For these reasons, a common approach is finding an Indian partner company and establishing a joint venture. Issues regarding taxation or accounting generally require local expertise, usually acquired through cooperation with vendors. Often, the pace of business is slower than in Europe.

The main economic factors that influence business in India are the continuous economic growth, both in terms of the total GDP and the GDP per capita. In addition, other macroeconomic factors such as inflation and unemployment have been stable in the past few years, although they have been hovering around 6% and 7%. In comparison with other developing countries, India has a developed service sector and a growing industry sector. Furthermore, the Reserve Bank of India is trying to make INR a stable currency that can be used worldwide by reserve banks of other countries. Regarding the most important legal factors such as the taxation policy and labour law, the government is trying to ease the complexity of these areas through multiple reforms. In terms of FDI, there are two legal routes – automatic and



government. A company is allowed to use the automatic route up to sector-specific investment limits. To attract foreign MNCs, the central government provides tax concessions and other incentives. These incentives consist of export-linked incentives and industry-specific incentives, while local cities and individual states also often provide additional incentives, especially in their SEZs. Regarding cultural factors, there is a major difference between Czechs and Indians in all human relationship dimensions, uncertainty avoidance, power distance, and individualism. According to a practitioner, masculinity in India is also much higher than in the Czech Republic. Other main cultural factors that play a role in India are religion, hierarchy, and the caste system. Often, a higher degree of micromanagement is required. Due to the cultural differences, the difficulty of business meetings is especially high, and negotiations can last much longer than what are Czech businesses used to. Culturally, Indians can have a difficult time saying 'no', which adds to the complexity of cooperation.

Many Czech companies operate in India with hopes of securing a place in one of the largest growing markets in the world. They are operating mainly in areas such as automotive, aerospace and defense, engineering, finance, and medical equipment. Three Czech companies have been selected as case studies for this thesis. MNCs Škoda Auto and Bonatrans had to significantly change their strategy to be successful in India. This includes a major change of a product and the product portfolio. Both companies also had to change the role of their subsidiary. Furthermore, Škoda Auto replaced its expatriate top management with local Indian managers and increased the decentralization of the whole group. Nowadays, Škoda Auto Volkswagen India Pvt. Ltd. is planning on exporting their Indian car models to Vietnam. Regarding Bonatrans, the company has kept its own managing director to ensure smooth coordination between the HQ and the subsidiary. However, for all other top managerial positions, the company hired local managers. Both MNCs had to adapt their corporate culture in India, as it was deemed illogical to enforce European habits and values. Regarding VHS, the company was established with the intention of supplying Indian companies. It operates in India through exporting and contractual agreements with Indian partner companies. Throughout the years, the company has shut down its Indian subsidiary due to a high degree of bureaucracy. Out of the three selected Czech companies, it is this one that has adapted the least. Nevertheless, that is understandable as its

mode of entry is exporting and not greenfield investment as in the case of Škoda Auto and Bonatrans. Furthermore, the company provides service for heavy machine tools that last decades and do not have to be adapted as often as cars, or railway wheelsets.

All in all, doing business in India is a difficult task. However, if a foreign company succeeds there, it can expect long-term growth and increasing opportunities. Despite all the challenges companies face in India and the often-necessary adaptation, the upsides of this Asian economic giant are likely bigger than the disadvantages.

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## Interview with Ing. Hana Onderková from CzechTrade

The interview took place online on the 15<sup>th</sup> of March in 2024, lasted around 60 minutes and it was conducted entirely in Czech. Therefore, the transcription is also available in Czech. The interview was semi structured, with general topics. These topics had been sent beforehand and served as an inspiration for the practitioner.

Otázka: „Mohli bychom začít třeba těmi problematickými oblastmi?“

Onderková: „Já bych začala s byrokracií při založení podniku. Ta je v každém kroku. Firmy se musí prvně rozhodnout jaký typ podnikání chtějí, pak jsou problémy třeba při založení bankovního účtu, nebo při získávání různé dokumentace. Na placení daní tady máme tzv. Pan Cards, ty je také občas těžké získat. Indové jsou takový papírníci a hodně věcí jim trvá dlouho. Takže to je určitě aspekt, který hraje roli. Pak taky záleží, jestli jsou ty firmy výrobního charakteru – jestli tady mají výrobu, nebo jen obchodní pobočku. To se pak může velmi lišit. Někdy se stává, že si firmy přivezou své přístroje, určitým způsobem musí tedy dojít k proclení. Byrokracie a postup dokumentace je pomalejší než v Evropě. Indie tvrdí, že se ‚Ease of doing business‘ zlepšilo. Přesto víme, že proces zakládání pobočky je pro českou firmu hodně náročný. Další věc, která jde ruku v ruce se zakládáním pobočky je výběr tzv. vendora, tedy kdo českým firmám v Indii pomáhá. Je tu velké množství organizací – ať jsou to účetní, nebo právní firmy – které pomoc nabídnou, ale ne vždycky adekvátně. Hodně krát dochází k tomu, že firmy vstupující na indický trh nemají dobrého partnera, nebo chtějí ušetřit peníze a vyberou si špatného partnera. Potom dochází k problémům, kdy partneři nedělají práci dobře, či vůbec. Je to tedy kombinace pomalého administrativního prostředí v Indii a úroveň některých provozovatelů služeb, kteří nedávají adekvátní podporu firmám. Měla jsem tu malou českou firmu, která chtěla ušetřit při získání dokumentů, a nakonec musela zaplatit větší pokuty za nedostatečnou dokumentaci, než kolik tato firma ušetřila na výběru partnera.“

„Další věc je důraz na osobní kontakt, a to nejenom při zakládání, ale také při hledání distributorů. Vidíme, že firmy, které se snaží a osobně přijedou na jednání do Indie, mají lepší výsledky. Proaktivita, aby tady byly firmy úspěšné, tady určitě musí být větší než v západní Evropě. Firmy, které mají víc proaktivní přístup (osobní obchodní jednání v Indii, follow-up) jsou tady určitě trochu úspěšnější než firmy, které se

spoléhají na pouhé zavolání. Odlišná mentalita a kultura jde ruku v ruce s důrazem na osobní kontakt. Indi si na osobní kontakt dají. Jakmile si partnery najdete a oni vám věří – tak vám vyjdou vstříc. Fakt ale je, že Indové jsou tzv. slibotechny. Kulturně tady není dobré říkat špatné zprávy, každý tedy hodně naslibuje, a ne vždy to dodrží. Kulturně se Indové stále učí (západním zvykům). Málo kdo vám třeba řekne ‚ne‘. Indové vše odsouhlasí, ale pak od nic dlouho nic neuslyšíte. Další věc je, že pokud Indové vidí obří obchodní potenciál, tak nejsou pomalý. Indie je v tomto ohledu taková zvláštní. Někdy je to hodně nepředvídatelné. Pokud cítí, že to může být dobrý business, tak velké problémy v komunikaci nejsou.“

Téma: „Podle teoretické přípravy jsem připravil rozdíly našich kultur (Hofstedeho dimenze). Je to samozřejmě trochu zobecněné.“

Onderková: „Long-term time orientation bych řekla že sedí. Co se týče masculinity, tak bych řekla, že Indie je určitě víc maskuliní (než podle Hofstede Insights 2023). Tady je work-life balanc obecně špatný. Na čím vyšší pozici jste, tím delší pracovní doba se očekává. Já jsem dělala pro indické firmy roky a řekla bych, že jejich zákoník práce je stále nedefinovaný. Jak přicházejí západní společnosti do India, tak se na to určitým způsobem začíná hledět, ale obecně je pro hodně Indů práce jejich život. Samozřejmě je rozdíl, jestli pracujete v korporátní společnosti, nebo třeba jako řidič, ale řekla bych že masculinity by měla být kolem 80. Já jsem například ještě nikdy neslyšela, že by tu někdo stávkoval (kvůli pracovním podmínkám). Je tu obří množství lidí, kteří pracují denně a neregulovaně. České firmy musejí následovat zákoník práce a samozřejmě zaměstnávat Indické zaměstnance legálně. Máme tu obrovskou populaci, stále relativně velkou nezaměstnanost a levnější pracovní sílu. Mentalita tady stále je, že nespokojeného zaměstnance může nahradit dalších deset tisíc lidí. Další věc, s kterou mohou mít české firmy tady problém je úroveň zaměstnanců. Když se podíváme například na dělnické profese, tak český dělník je obecně vzdělanější než indický. Na většině indických staveb jsou zaměstnanci úplně nigramotní. Takže ta úroveň nutného dozoru je tu větší. I když je tedy pracovní síla levnější, tak vyžaduje větší množství manažerské kontroly. To může být určitým způsobem výzva.“

Otázka: „Jestli mohu dodat, já tady mám příklad z jedné české firmy v Indii, z Home Credit India. Ti mají ve vedení Čecha a téměř všechny zaměstnance z Indie. Je toto normální přístup zahraničních firem v Indii?“

Onderková: „Ano je, to se obecně děje hodně, když tady západní firmy – nejenom české – zakládají pobočku, tak si vždy přivezou expatský management. Takže management jsou obvykle expati a firmy si poté dodatečně hledají a trénují indické ‚náhradníky‘. Jsou tady určité firmy, které si expatské vedení nechávají. Řekla bych, že je to důležité, šéf potřebuje mít přehled. Pokud nemáte vyloženě člověka, co pracoval v zahraničí, tak je ve firmě stále určitým způsobem indické myšlení a jejich způsob vedení, který je od západního odlišný.

Další věc, která je tu obvyklá, je micromanagement. Záleží na organizaci a o jaký typ práce se jedná. Já jsem viděla firmy, které micromanagovali hodně, některé zas méně. Obecně si myslím, že je to tady trochu nezbytné.

Řekla bych, že ‚indulgence‘ v Čechách je vyšší než v Indii. V Čechách má hodně lidí koníčky a volný čas. Tady to téměř neexistuje. I co se týče střední třídy, tak téměř každý tu pracuje mnohem více hodin než v Evropě. Hodně lidí tu nemá život mimo práci. Pro vyšší střední třídu a bohaté je to už samozřejmě jiné. Já jsem tady standartně pracovala 12 hodin denně, když jsem dělala pro indickou právní firmu. Indii bych dala ‚indulgence‘ tak na 15. Další věc tu je, že v Indii jsou obrovské vzdálenosti na dojíždění, lidi tu stráví denně klidně dvě až tři hodiny denně dojížděním. Očekávání, že budete pracovat více hodin je tu určitě větší než v České republice. Je tu obří konkurence, pokud chcete být úspěšný, tak musíte makat. A to i co se týče třeba vzdělávání a vysokých škol.“

Otázka: „Můžeme přejít na ovlivnění strategie firem, například adaptace produktu, změna firemní kultury, jiný přístup k obchodním jednáním a podobně?“

Onderková: „Obecně vidím, že české firmy mají hodně rigidní způsob obchodu. Indie je země kde se všemu nechává volný průběh a Indové přemýšlí dost kreativně. Já bych české firmy rozdělila oborově. Na výrobní a ostatní firmy. Modiho vláda obecně tlačí na to, aby výroba byla v Indii. Už to, že se česká firma rozhodne vyrábět v Indii je svým způsobem změna strategie. Další věc je, že určitě nelze mít stejnou firemní kulturu jako v Čechách. Dám příklad, Indi oslavují velké množství náboženských svátků. Firma musí následovat kulturní faktory, zejména ty náboženské musí respektovat. Pokud má firma na to zdroje, tak musí určitou částku ze zákona darovat (investovat) na dobrý důvod. Proaktivní firmy mohou například založit organizace pro

vzdělávání žen. Je tu hodně věcí, co může firma udělat týkající se investice do lidí, které jsou v Česku už dávno nepotřebné. Můžou mít třeba školku pro děti zaměstnanců, poskytovat vzdělávání, a podobně. Prozatím je to něco, čím se české firmy moc nezabývají. Vidíme to ale u Dánů, Němců a jejich poboček v Indii. Co se týče tedy podpory společnosti, zahraniční firmy mohou Indii hodně pomoci. Obecně bych řekla, že je lepší (pro zahraniční společnosti) platit indické zaměstnance standartně a nabízet jim nepřímé benefity – školka, vzdělání, pojištění. Mzdové náklady ale obecně v Indii rostou rychle, stejně jako HDP. Mají tady roční zvýšení platu, kdy mají indické firmy zvýšit plat. Já osobně jsem jednou měla zvýšení platu o 40 %. V dobré práci se očekává, že meziroční zvýšení platu bude 10 % anebo více.

Jinak Indie je v současnosti země, na kterou se kouká celý svět. České firmy tu nejsou jen v konkurenci s indickými firmami, ale i s celým světem. Trochu odbočuji od tématu, tak jdeme na adaptaci/přizpůsobení produktu. Ano, ale záleží na firmě. Například firma, která dělá ‚waste management‘ se musí adaptovat. Indický odpad je trochu odlišný od evropského. Často přicházejí firmy s technologiemi, které v Indii nefungují, protože tady se některé věci dělají jinak. Záleží tedy hodně na odvětví, skvělý příklad customizace v Indii je McDonald ‚s, který musel velmi změnit nabídku.

Co se týče podnikání v SEZs, clo se odpouští při importu do Indie pouze, když zde firmy něco vyrobí a exportují dál. SEZs mají smysl pro firmy, které vidí Indii jako centrum pro jihovýchodní Asii. Pokud si výrobní závod firma v SEZ udělá, tak se musí dívat i na celý trh jihovýchodní Asie, poté to má význam. Indi se snaží konkurovat Číně, snaží se přilákat zahraniční firmy, aby tu vyráběly.“

Otázka: „Dočetl jsem se, že indická vláda se snaží být proreformní a proobchodní, přitom v Indii přibývají tarifní opatření. Myslíte si, že tento trend bude pokračovat?“

Onderková: „Dva dny zpátky podepsala Indie FTA se zeměmi EFTA. Evropská FTA je v jednání, je v jednání myslím také FTA s Američany a Australany. Indi určitě jsou obchodně otevření, ale umí si vše spočítat. Celní výhody budou dostupné pouze v oblastech, kde se to Indii vyplatí. Stále tady budou určité oblasti, kde bude Indie nechávat cla. Kvalita je totiž pořád lepší ze západu. Určitý protekcionismus tu bude, aby Indové donutili západní firmy si tu založit fabriky.



*Dodala bych, že je tu obtížná repatriace zisku pro zahraniční firmy. Další věc je, že tu platí určité zákony o placení penze zaměstnancům. Tyto zákony fungují trochu jinak než v České republice."*

*Téma: „Z více zdrojů jsem se dozvěděl o problému vymahatelnosti smluv v Indii."*

*Onderková: „Je to trochu problém. Na druhou stranu jsem zase zažila, že nám české firmy pošlou určité smlouvy a požadují, aby tyto smlouvy platily podle českého práva. Na to se každý v Indii vysměje. Právní služby jsou tu relativně drahé a soudy tady mají více nevyřízených záležitostí. Co se týče zdanění, měli jsme tu specifické případy. Třeba gaming (online gaming) se snaží indická vláda regulovat. Pár roků nazpět se indická vláda rozhodla, že zpátečně zvýší daň ze 18 % na 32 % a požadovala doplacení daně z předchozích tří roků. To je ta nepředvídatelnost, kdy se může vláda zpátečně rozhodnout. Je to potenciální risk u určitých segmentů. Co se týče obchodu, když se Indie rozhodne, že některé odvětví je klíčové, tak může úplně zakázat dovoz do země. To se týká třeba dronů. Nedávno zakázala Indie dovoz součástek laptopů. Firmy se musí podívat před vstupem do Indie na svůj obor a jakým směrem se ubírají zákony. V mnoha ohledech jsou tedy zahraniční firmy nucené vyrábět v Indii, pokud chtějí v Indii obchodovat."*

*Téma: „V minulém roce byla INR stabilní vůči USD."*

*Onderková: „To se v současnosti snaží indická vláda udělat. Po Covidu začala indická vláda chtít, aby byly INR vhodné k nákupu globálně. Poté by mohly být nakupovány centrálními bankami celosvětově. Zrovna nedávno jsem o tom s někým mluvila."*

*Dodatečná témata:*

*Onderková: „Firmy si tu občas musejí najít obchodního partnera, který produkty dokáže dostat do státních organizací, jako jsou například nemocnice. Některé české firmy se tu tedy mohou setkat s tím, že po nich budou chtít Indové ‚brokerage fee‘. Mimo to, české firmy, které chtějí dostat indické zaměstnance z Indie do Čech (školení apod.) naráží na problémy s vízy. Co se týče nekvalifikovaných zaměstnanců, tak Česká republika vydává pouze velmi malé množství víz za rok. Z tohoto důvodu nedochází k mezikulturní výměně. Byrokratické problémy jsou tedy i na straně Čech."*

*Celkově ve světě stále existuje určitá zaujatost vůči Indii. Indie bude podle mě dalším tygrem z východu (i co se týče HDP na osobu).“*

## Interview with Ing. Michal Bachtík from Škoda Auto a.s.

The interview took place online on the 19<sup>th</sup> of March in 2024, lasted around 40 minutes and it was conducted entirely in Czech. Thus, the transcription is also available in Czech. General topics had been sent beforehand and served as an inspiration for the interviewee.

Bachtík: „Nejvíce zkušeností mám v oblasti produktu. Produkt skutečně musí být odlišný a já bych dokonce tímhle tím začal, protože od toho se odvedou všechny ostatní věci. Jakýkoliv produkt umístěný na zahraniční trh bude potřebovat adaptaci. Historika Škodovky je taková, že v době okolo 2001 jsme dováželi do Indie zde vyrobená auta, tzv. FBU auta (full-business unit). Tyhle auta podlely neskutečnému clu, tudíž se tam prodávaly pouze v luxusním segmentu. Tímto krokem si Škodovka zajistila pozici prémiové značky. To už máte první ekonomický aspekt, když vstupujete na indický trh, tak je dobré si zajistit nějakou značkovou výjimečnost. Low-cost značek, které se tam tlačí z Asie – typicky z Číny – jsou stovky. Tenkrát to skutečně byl velký úspěch, Škodovka byla vnímána jako prémiová značka. Koncern Volkswagenu se rozhodl, že vstoupí do Indie s plnou výrobou aut – vyrábět lokálně. Tohle nastalo někdy kolem roku 2010. Postavil se tam výrobní závod, kde se vyráběly Volkswageny a Škodovky. To mezidobí mezi rokem 2001 a 2010 bych nazval šťastným obdobím Škodovky, kdy jsme si udělali vlastní polo montážní závod ve městě Aurangabát. Bylo tam tedy přechodné období, které jsme využili. Po tuto dobu jsme získali výhodu nízkých cel na polo rozložené vozy (MKD=middle knocked-down). To znamená, my jsme tam dovezli olakovanou karosérii a veškeré montážní prvky. Ty se tam vlastně sestavily. Tohle bylo zlaté období, kdy máte prémiovou pozici, produkt, který je zajímavý – protože je evropský. A zároveň máte skoro nulová cla. To byla velice dobrá fáze. Mohli jsme si dovolit mít vysoké ceny díky tomu, jakožto prémiová značka. Ted' přišla strategie výroby CKD (completely knocked-down) a byl záměr tady ve vysokých desítkách tisíc vyrábět Volkswageny a Škodovky. Pro to tenkrát byly myslím určeny čtyři produkty.

A tady už nastává první kámen úrazu a chyba, kterou udělal Volkswagen koncern. Dostáváme se k prvnímu, co přestal trh akceptovat. My jsme se chtěli stát masovou značkou, tudíž jsme museli snížit ceny a ustoupit z prémium brandu. Respektivě, Volkswagen v té době neměl žádný brand v Indii a existuje taková nepsaná dohoda

v koncernu, že Volkswagen je pozičně chápaný výš než Škodovka. Tudíž, jestliže si Volkswagen nastavil cenu někde, tak Škodovka musela jít lehce pod s cenami. Tehdy nastal ten problém, že najednou se prémiová značka stala běžnou lepší značkou. Protože ty produkty nebyly nijak adaptovaný na potřeby Indie, respektive potřeby zákazníka – a co je nejhorší, na technické parametry a požadavky trhu. Tak nastalo velké ekonomické zklamání, protože ty produkty byly na vstupech extrémně drahé – část komponentů se dovážela a část se lokálně nakupovala. Lokalizace i dovážení se stále týkalo vlastně pořád evropské techniky a kvality těch produktů. Indové to vyrobili v evropské kvalitě, ale bylo to za draho. Jako příklad, my jsme si sice lisovali plechy lokálně, ale ten plech musel být dovážen z Evropy, protože byla považována evropská kvalita vstupních plechů. Pochopitelně si všichni v Indii ,ťukali na hlavu‘ co blbneme, proč nevyužíváme lokální výrobu. Ale požadavek koncernu byl takový, aby byly parametry z pohledu kvality a technologie zachované evropské parametry. Tudíž produkty byly na vstupech extrémně drahé a na výstupech musely držet hladinu, aby se prodávalo – už ne premium, ale řekněme vyšší lepší třídy. Tudíž tady máme období asi 7 nebo 8 let do roku 2017, kdy jsme vyráběli my a Volkswagen evropské produkty, které nebyly nijak adaptované technologicky, a tudíž jsme na nich prodělávali. Úplně na rovinu to nebyl žádný úspěch, možná objemově, ale ztráty byly neskutečné.

Po roku 2015, kdy se změnilo vedení koncernu a změnilo se výrazně myšlení koncernu z tradiční značky, tak se začalo výrazně diverzifikovat. Protože Škodovka v předchozí době opravdu naplňovala status ,simply clever‘, tak se vedení koncernu rozhodlo to dát nějaké značce, která je ambiciózní. Škodovka má chuť, má drive a umí myslet jednoduše. V roce 2017 se rozhodlo, že koncernovou odpovědnost za celou Indii dostane značka Škoda. Škodovka si na to postavila strukturu, a hlavně přišla s novými produkty. Respektivě, vymysleli jsme úplně nové lokální produkty – s Evropou to nemá nic společného –, tedy indický design pro Indii, s indickou technologií, na úroveň indické kvality a technologie (která není vůbec špatná). Jako příklad, klimatizace v Evropě má být co nejtíšší a aby foukala vzduch. V Indii to musí být přesně naopak, musí být hlasitá a foukat co nejvíce. V Indii není potřeba ladit decibely. Popíšu vám postup, jak jsme to dělali. Ptali jsme se lokálních výrobců, co nám nabídnou a tvrdili jsme jim, že chceme to samé, co chce Hyundai. Hyundai jsme si vzali jako ,benchmark‘. Oni (lokální výrobci) nám říkali: oni (Hyundai) to dělají takhle, ale vy to máte ve vašich požadavcích příliš složitě. Další příklad, co se hodně řešilo, jsou

teplotní testy. Všechny výrobky, které jsme do té doby dodávali do Indie, musely splňovat teplotní test na -30 stupňů. Protože to je požadavek v Evropě. V té době konečně někdo prosadil, že s výjimkou Himalájské oblasti tam prostě zima není. Tudiž je naprosto zbytečné testovat na -30 a stačí na -10 stupňů. Tenhle krok je celkem významný, protože tam pak můžete dávat lokální jiný materiály. Tyhle produkty už byly plně pod patronací Škodovky, dostávaly se tam indické technologie a opravdu se hodně ladilo. Prosadilo se vůči koncernu, že tam budeme mít skutečně lokální technologie, lokální kvalitu, prostě se vším lokálním. Například se velký důraz dával na design interiéru toho vozu. V Evropě to tak není, ale v Indii máte třeba potřebu, aby tam byl chrom. Nebo třeba Indy hodně zajímá, jestli má auto velký display. Takže se kladl důraz na věci, které mají Indové rádi.

Tudiž nastává třetí období v Indii od roku 2017, kdy se produkty připravovaly, v roce 2020 se nasadily. Nyní jsou již na trhu a rozšíření pokračuje. My jsme tam v roce 2017 začali v segmentu (ted' jsme u důležité věci segmentace) A0 – to je úroveň naší evropské Fabie, Scaly, Kamiq. Tenhle trh jsme museli nastavit, protože to je vlastně nejnižší segment, který v Evropě známe. My jsme nemohli vyvíjet nové platformy. Tento segment není nejvyšší z pohledu prodejního objemu, ale je myslím druhý. A00 segment je specifický segment pro Indii, kdy máte vůz dlouhý maximálně čtyři metry. Tudiž na něj máte úlevy – jejich. Bylo nutné na začátku s něčím dobrým začít a bohužel jsme měli k dispozici pouze jen A0 segment – proto tedy ty 4 produkty: Kushaq, Slavia, Volkswagen Taigun a ještě jeden z Volkswagenu. Postupem nám bylo jasné, že se musím posunout do A00 segmentu, na to bylo potřeba trochu času. Nevím, jestli to už proběhlo tiskem, ale asi ano, že už se brzo bude uvádět na trh malé SUV v tomhle objemovém segmentu.“

Poznámka: „Ano proběhlo myslím, od roku 2025 – včera jsem si to hledal. Ještě se neví jméno, ale už to proběhlo.“

Bachtík: „To se bude ladit, to je vždycky nejtajnější věc na světě. Protože ani my ho neznáme, pracujeme s pracovním názvem. Ted' se vám pověděl produktový vývoj pro Indii. Ponaučení pro jakoukoliv evropskou značku: musíte adaptovat na jejich technologie, kvalitu, požadavky, a hlavně na jejich zákaznické požadavky, které jsou odlišné od Evropanů. Je dobré se profilovat na začátku jako prémiová evropská značka, je to pro ně prestižní. Ještě vám povím jiný poznatek z doby 2017/2018, který

*jsem si zapamatoval. Jak jsem vám říkal o adaptaci technologie, třeba adaptace té klimatizace. V Evropě je zvyk mít blinkr nalevo a stěrače napravo. V Indii, protože je volant na druhé straně, je to zvykem dělat obráceně. Všechny lokální značky to mají obráceně. Na workshopech se začalo diskutovat, jak to tedy uděláme pro Indii. Dodavatel nám řekl, že je mu to jedno – co bude na jaké straně, cena je úplně identická. Přišel tam Ind – v té době se velice tyhle témata diskutovala s lokálníma Indý – a řekl: nechte to evropsky, protože potom bude mít to auto ‚punc‘ evropský. Ten, kdo si ho koupí, se bude muset naučit, že to má obráceně. Je to atypické uvažování, ale když se to ten zákazník bude muset naučit, tak to bude chápat jako evropskou kvalitu. To je zajímavý příklad, kdy to není nutné úplně adaptovat.*

*Ted' jsme narazili na lokální technologii, lokální kvalitu a ted' jsme se začali trochu posouvat ke kultuře. Já to vezmu produktově. Na začátku, když jsme byli prémiová značka, jsme nepotřebovali extra reflektovat jejich kulturu. Prodávali jsme málo, v prémiovém segmentu – ti zákazníci, kteří si od nás kupovali byli nejvyšší třída. Všichni měli svého osobního řidiče. Ty rodiny neřídí sami. Kulturní odlišnost jsme tedy nelišili. Ale ukázalo se to v době, kdy jsme se chtěli stát objemovou značkou. Upřímně, v té době vládla koncernová představa: my jsme Volkswagen, nebudeme nikoho poslouchat. V lokální výrobě v Pune byli nasazené desítky Němců i Škodováků, kteří řídili celý závod. Indové tam byli, ale nejvýše na nižších manažerských pozicích. Vedení kompletně Němci. Když přijedou Němci do Asie a nestýkají se s lokální kulturou, tak prostě nemůžou chápat lokální zvyklosti. Když si nepřipustíte do vedení někoho z Indie, tak těžko můžete dělat lokální indický rozhodnutí. Nejde to. Tohle se fakt změnilo, až když to přebrala Škodovka a pochopila to velice rychle – že se musíme ptát Indů. A skutečně se to dělo. V roce 2017 jsme pokorně jezdili do Indie se ptát lokálních Indů, jak to dělají. Jsme zpátky u pochopení technologie, produktu. Ptali jsme se jich: jak to děláte s lokálníma výrobci, lokálními značkami? My jsme se sice orientovali na Hyundai, což není úplně lokální, ale chtěli jsme mít trochu lepší benchmark. Skutečně se do procesu rozhodování začaly pouštět lokálně-externí firmy, které vedli Indové. Know-how se od nich nabíralo a postupně se i v závodě do managementu a vedení dostávali lokální Indové. Kdo byl dobrý, tak tam dnes dělá na opravdu vysoké pozici. Předáváme to vedení hodně té indické straně.“*

*Otázka: „Na to jsem se vás chtěl zrovna zeptat. Některé české firmy mají ve vedení v Indii stále Čecha, ale Škodovka má čtyři ze šesti board members Indý.“*

Bachtík: „Přesně tak, na tom si zakládáme. Ti to tam prostě vedou. Byli to externě nabraní manažéři z lokálních značek. Ti nám to tam vedou. Šéf nákupu je taky lokální Ind, je to velice důležitý parametr – nechat je ať si to vedou.“

Nové téma: firemní kultura

Bachtík: „Když máte vlastní evropskou kulturu, nemůžete jí implementovat kamkoliv jinam. To prostě nejde. Musíte nechat tu lokální značku dýchat vlastní kulturou. Tudiž ty kulturní zvyky, co oni mají, se museli implementovat do indické Volkswagen kultury. Je to velice důležité.“

Téma: změna přístupu k obchodnímu jednání

Bachtík: „Je tu jednoduchá poučka, když někam jedete dělat business, tak se jim musíte přizpůsobit. V Indii musíte například chápat, že stále nelze dát do vedení ženu. Indové s nimi jednat nechtějí, je to trapné, ale nelze to měnit. Můžete se to snažit postupně ovlivňovat, ale ne měnit a vůbec na sílu. Co my vůbec nechápeme – v Indii skutečně ještě existuje kastovní systém, nebyl úplně zrušený a nesmí se reflektovat při obchodních jednání. Indové navzájem své kasty poznají. Jako Evropan se to dá pouze akceptovat. Dále je v Indii spousta vegetariánů, vy nemůžete pozvat Inda do restaurace s hovězím. Takových odlišností je spousta a je dobré se na rovinu Indů zeptat. Ještě tam je asi jedna odlišnost, oni mají přístup, že vše slíbí. Je velice těžké si ověřit, jestli to myslí vážně. Je to komplikované, protože opravdu slíbí cokoliv a nemusí to dodržet.“

Poznámka: „Je dobré, že to říkáte. Já jsem se to dozvěděl nedávno taky, vedoucí zahraniční kanceláře CzechTrade Indie mi řekla úplně to samé.“

Bachtík: „Ano, evidentně je to snad více než kultura, nějaký národní zvyk. Tak, hierarchie, top-down přístup k managementu. Tady vám doporučuji jednu dobrou věc, Hofstedeho indexy.“

Poznámka: „Mám to tady dokonce přesně porovnané.“

Bachtík: „Výborně, tak to zkusme.“

Poznámka: „Indové jsou teda na kolektivní straně a my jsme víc individuální, alespoň podle nejnovější verze, co jsem našel.“

Bachtík: „Teď mě překvapuje výrazně maskulinita. To bych čekal, že bude odlišné. Ohledně hierarchie, já si to teď nedokážu nějak uvědomit, ale asi to tam lokálně funguje.“

Poznámka: „Taky mi bylo řečeno, že hodně v Indii probíhá micromanagement, co se týče těch nižších pozic.“

Bachtík: „To je bohužel pravda. Ale to se změní časem. Oni pochopí, že je potřeba dávat důvěru pracovníkům. Ano, dneska to tam je výrazně. Ale ona se Evropa výrazně v tomto za poslední léta posunula. Takže bůhví, jestli oni jen nezůstali tam, kde jsme byli my před 15 lety.“

Nové téma: nutnost mít decision-maker, lídra ve vedení.

Bachtík: „Souvisí to s tou hierarchií, ano, šéf je tam bůh a ten rozhoduje. Ale neřekl bych, že to je jako v Číně/Japonsku, kde musíte skutečně pochopit kdo rozhoduje. Čecha ve vedení ne – nedoporučuji, zaměstnance z Indie u nás ano. To je velice dobrý prvek, který se stal ve Škodovce. Přitom, když se produkty od roku 2017 začaly vyvíjet, tak mnoho Indů na tom spolupracovalo ve Škodovce tady v ČR. Tímto bylo Škodovácká kultura velice obohacená. Máme tady i teď na oddělení zaměstnance Indy. Toto je v rámci diverzity jeden z prvků.“

Nové téma: SEZs

Bachtík: „Škodovka používá Indii jako ‚hub‘ pro expanzi do rozvíjejících se asijských trhů. Teď byl nedávno odtajněný Vietnam. Vietnam je vlastně prodloužená ruka Indie. Vozy, které se budou prodávat ve Vietnamu budou indické.“

Dodatek:

Bachtík: „Indie se stává a stane se velmocí. Práce s rupií je jeden z těchto aspektů.“



## Interview with doc. Mgr. Martin Fárek, Ph.D. from the TUL

The interview was conducted in person on the 21<sup>st</sup> of March in 2024, lasted around 45 minutes and it was conducted entirely in Czech. Therefore, the transcription is also available in Czech. The purpose of this interview was to broaden horizons regarding culture, and the caste system in India.

Téma: „Zajímalo by mě od vás, jaké máte zkušenosti s kastovním systémem.“

Fárek: *“V zásadě touhle otázkou řežete do hnízda problému. Já vám zkusím vybrat něco, co bude užitečné. Musíme jít v takových třech krocích. První je, že když Britové přišli do Indie, tak tam fungovaly tisíce různých skupin. Je to dlouhý příběh. Evropané se snažili místní kulturu pochopit a zjistili, že tam jsou řady různých skupin a oni nerozumí, jak to vlastně mezi nimi je. Zdálo se, že Britům může pomoci starověké pojetí 4 až 5 skupin, které se do dneška bohužel učí i na středních školách. Spousta skupin se jimjevily, že patří ke starověkému dělení – Bráhmani, Kšatrijové, Vaišjové, Šúdrové a jiní. To je hluboký omyl. Britové si mysleli, že jim toto rozdělení pomůže v koloniální nadvládě. Měli problém, kde jsou Vaišjové, Šúdrové jim někde seděli a někde trochu ne. Ke Kšatrijům se hlásily pouze určité skupiny. Nejvíce dávali smysl v některých částech Indie Bráhmanové. Přesto to tak nechali. Podle správních oblastí britské Indie začali sypat tisíce skupin. Byl problém s jejich identifikací. Bohužel, vytvořili něco, co krystalizovalo až do legislativy, která dostala podobu ve 30. letech v meziválečném období. Toto je důležité, Britové oddělili hinduistické ‚upperclasses‘ od nižších. Britové použili tři sociální kategorie pro kastovní rozdělení spodních kast (utlačovaných) – registrované kasty, kmeny a nějaké třídy. Tím defacto Britové zavádí v legislativě a administrativě zavádí kastovní diskriminaci. To tam dříve nebylo, tak to vůbec nefungovalo. Žádný takový systém nebyl. Britové si mysleli, že je to spojené s náboženstvím – s hinduismem. Pak ale zjistili, že kasty mají i muslimové, sikhové, dokonce i Křesťani. Je vidět, že je to vlastní něco celé té kultuře.*

*Problém je, že indická ústava v roce 1950 specificky zrušila kastovní diskriminaci, ale zavedla další věci, které říkají, že spodku musejí pomoci. A vyšší kasty je nezajímají. Pozitivní diskriminace znamená, že na státní granty si šáhnou pouze lidé z těchto (nejnižších) skupin. Mají je prakticky automaticky, nebo o ně mohou požádat. Znamená to také registrační systém v řadě státních zaměstnání, třeba v policii,*

samosprávě, ministerstvech. Protlačili to dokonce i na státní univerzity, do přijímacího systému. O tom vám skoro nikdo neřekne. My jsme měli indické kolegy, kamarády a učitele, ale trvalo dlouho, než se o tom otevřeně rozpovídali. Oni se za to vlastně stydí. Cítí, že je tam něco špatně, ale nevědí úplně co. Je to citlivé téma. Fakt je ten, že po 15 letech od ústavy to fungovalo dál. Mezi tím vznikly politické hnutí z různých skupin a začali si říkat Dalitové. Dalitové vlastně prosadili, že pozitivní diskriminace jede dál. Já mám osobní zkušenost – na jedné konferenci v Bengaluru se jeden náš učitel (který je indického původu, ale působí řadu let v Evropě) jim to dovolil připomenout. Dva studenti se zvedli a běželi ho udat na policii. Dnes je i v legislativě, že nemůžete znevažovat osobnosti, které stáli za dalickým hnutím. Je to opravdu smutná kapitola, tento vývoj pozitivní diskriminace a ochrany práv. Mnohem více skupin se tlačí do tohoto ‚ranku‘. Na to je legislativní náročný proces, který končí hlasováním v centrálním parlamentu. Napřed to jde na státně místní úrovni. Tento proces trvá několik let. Oni se tlačí k tomu, aby dostali statut utlačovaných. V tu chvíli máte od narození řadu výhod. Je kolem toho korupce, je problém, když tito lidé jdou do škol. V řadě případů se i učitelé bojí na utlačované nasazovat stejné nároky jako na ostatní. O tom Indové neradi mluví. Nepochybně tam v roce 1950 byly velmi chudé skupiny. Výsledek je, že mezi rokem 1950 a dnešním jsou stovky skupin, které se do toho dostaly a jsou velmi rády. Děti jsou zajištěné a dostanou se na školu. Vypadá to tak, že utlačovaným lidem byla laťka dána dolů. Většina univerzit, včetně soukromých, tomu jde vstříc.

Pak je jiná strana této problematiky – co vlastně tyto skupiny jsou. Mně z toho vyplývá, že to jsou větší komunity, které vznikaly různým způsobem. Britové měli různé teorie, náboženské, rasové, i že se tam odráží povolání. Ukázalo se, že většina lidí už dělá úplně jiné povolání než před 50 a více lety. Tyto skupiny (džáti) si hodně pomáhají, pojí je rituály. To je pro Indii hodně důležitá věc. Džáti jsou skupiny lidí, které mají společné historické kořeny a pomáhají si. Je to celkově složitá tematika. Evropané mají tendenci se na to automaticky koukat negativně. My si tím zdaleka po výzkumech jistí nejsme. Byly snahy to srovnávat s feudálním systémem, ten to rozhodně není. Byly snahy tam vidět náboženskou hierarchii, to tam také nefunguje. Evidentně je to spíše konstelace skupin, velmi dynamická. Vůči sobě si čistě ekonomicky, trochu mocensky, i jinak si hledají nově vztahy v regionu. Přežilo to Brity, přežilo to i muslimské nájezdy, naopak je to vstřebalo. Je to zajímavý systém, který absorbuje

nově příchozí, dokáže začlenit cizince. Pozor, to třeba Japonci nikdy neudělají. Tady je velký rozdíl. Jsou způsoby, jak vás do té komunity integrují. Neviděl bych tam jenom negativa. Když tam přicházíte jako cizinec, tak vás to v podstatě nemusí zajímat – pokud tam nechcete žít dlouho. Vy jste host, ‚foreigner‘. Jako host jste v mnoha situacích takové chráněné zvíře. Můžete si leccos dovolit, co domácí ne. Oni vám hodně věcí odpustí, protože jste cizinec. Což je do businessu dobré, mnoho jiných kultur takhle vstřícných není.

Po nějaké době můžete začít cítit, že ta kultura je mnohem starší než naše. O několik tisíc let. Poradili si s Britama, něco si od nich vzali. Indové mnohem více ocení, že jste schopný s respektem sledovat dění. Něco, co nemají rádi je takový ten chytrý západák, který přinesl všechnu moudrost.“

Poznámka: „To byla ta Škodovka na začátku.“

Fárek: „Přesně, ti Němci nebyli schopní přiznat, že možná Indové vědí něco, co oni ne. Moje zkušenost je taková, že když chcete, aby v Indii něco fungovalo, tak potřebujete místní parťáky. Je důležité mluvit s lidmi, kteří v institucích rozhodují. Důležitá otázka je, kdo je můj partner, s kým se mám bavit, aby to fungovalo.“

Indové se naučili, že západáci potřebují podepisovat papíry. Pro ně vůbec nemá význam závazek. To říkám velice ostře, někteří to samozřejmě berou jinak. Ale reálně vzniká závazek úplně jinak. Skutečnost, že Indové podepsali smlouvu, je k ničemu nezavazuje. To je pro nás často nepředstavitelné. Vše začne fungovat až ve chvíli, když mluvíte se správnými lidmi, kteří rozhodují. Mám to potvrzené z firem. Často je vašim protějškem také někdo jiný, který na prvním jednání vůbec nemusí být. Moje další cenná zkušenost je, že nás Indové při různých jednání oťukávají mnohem více, než by si západák myslel. Zkoušejí, jak moc to myslíte vážně. Teprve ve chvíli, kdy si to sami vyhodnotí, tak se dostávají k těm lidem, kteří doopravdy rozhodují.“

Téma: business

Fárek: „My někdy máme představu o duchovním východu. Na této úrovni je to ale tvrdý business. Business znamená čas a peníze. Máte často také signály, že si to vyhodnotí v průběhu. Hodně času a energie přijde jen na první oťukávačky. Pokud se vynoří něco zajímavějšího, tak Indové dále v jednáních nepokračují. Jediné, jak se

tomu dá předejít je budování dlouhodobých opravdických vztahů. Víte, co jsem zjistil, že většina našich lidí to nechce. Já mám do dneška kamarády Indy, plánujeme další výzkum, voláme si – prostě jsme opravdový kamarádi. Když tam přijedu, tak bych je urazil, kdybych nebydlel u nich doma. Řada lidí má náš západní odstup. Řada Evropanů do hlubokých opravdových vztahů jít nechce. Neříkám, že nejsou občasné výjimky. Jestli chcete budovat vztahy, tak je hodně věcí, které musíte překousnout. My máme své evropské představy, jak má vztah fungovat. Hodně našich lidí se nechce Indům otvírat, ale oni to čekají, u nich je to normální. Víte, my zaprvé jejich světu nerozumíme – je to jako přistání na Marsu. Za druhé se nám jeví hodně chaoticky. Počínaje dopravou. Je to jiný systém, má řadu svých specifíků.

Než se o něčem rozhodne, to vám někdy přijde, že se zbláznili. Už se to třikrát rozhodlo, proč se to diskutuje počtvrté. Ale oni v řadě případů budují společný konsensus. Je to jinak dané. Vy tady máte třeba zmíněný, že tam je direktivní přístup shora dolů, ale to je jen jedna část pravdy. Ve skutečnosti řada těchto šéfů (big bosses) hodně řeší věci s ostatními lidmi.“

Poznámka: „Takže co bych si z toho vzal je, že vlastně většina teorie i názorů Čechů je tak, jak to vidíme my. Ne jak to je úplně doopravdy.“

Fárek: „To říkáte moc přesně, to jste vystihl. Líbí se mi, že to zkoušíte kriticky zhodnotit. Je totiž fakt otázka, co vám bude fungovat. Indové jsou velmi pragmatický lidé. Celá kultura je taková. Znamená to, že jsou ochotní s různými věcmi experimentovat mnohem více než my, paradoxně. Hodně se říká, že to je statická náboženská kultura, ale vůbec ne. Vy musíte být také připravený, že to, co vám fungovalo v jedné situaci nemusí fungovat v další. Evropan se v Indii totiž pořád rozčiluje, je frustrovaný. Je to náročné psychicky. Ale je to důležité téma. Byl bych totiž moc rád, aby se nám tam našim lidem dařilo. Československo má totiž historicky v Indii dobré jméno.“