

## Impact of motives of inward FDI on benefits perceived by foreign multinational enterprises investing in India

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### Abstract

*The study aims to determine the principal motives of inward foreign direct investment by foreign multinational companies in India. The study undertakes to find out the impact of motives of inward foreign investment of multinational firms on benefits as perceived by the managers. The paper uses a survey approach to collect data about motives and its impact on benefits. Statistical tools, namely confirmatory factor analysis, structural equation modeling have been used. The study found that principal motive for foreign multinational firms to undertake investment is market-seeking followed by resource-seeking and efficiency-seeking motive. The strategic-asset seeking motive does not significantly influence foreign direct investment in India. The study found a positive impact between perceived benefits and motives of inward foreign direct investment in India.*

**Keywords:** Foreign Direct Investment, Multinational Corporations, Motives, Emerging Economies

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### Introduction

What drives foreign multinational corporations to invest in emerging economies? What are the benefits that accrue to the foreign companies that undertake foreign investment?

Economic theory suggests that multinational corporations (hereinafter MNCs) have clear objectives when investing abroad. FDI of MNCs is motivated by a bundle of factors which are closely connected. To attract higher foreign direct investment (hereinafter FDI), the recipient countries might find it worthwhile to explain differences in FDI inflows among countries. Primary researches on the motivations underlying FDI were developed by J. Dunning, S. Hymer or R. Vernon. The eclectic theory (Dunning, 1980) is the most widely accepted and most comprehensive approach which combines several factors, identifies the conditions which are sufficient or fail to be sufficient for FDI to be profitable, as well as conditions under which FDI is superior to other modes of servicing foreign markets. (Narula and Dunning, 2000) identified the location determinants influencing investment and classified them based on the principal

motivation of multinational corporations to engage in foreign direct investment viz., market-seeking, resource-seeking, efficiency-seeking and strategic-asset seeking. An indispensable part of FDI concerns the motives spurring FDI decision, and the motives should be at the core of FDI decision (Franco et al., 2008).

The pursuit of global profits becomes the key motive of the enterprise (Decken, 1992). A firm may utilize the wholly owned subsidiary entry mode to seek internalization advantages that are difficult to obtain through licensing, export or establishment of an international joint venture (Dunning 1988, 1995, 2000; Henisz 2003). Equity control can provide an MNC with various internalization advantages (Buckley and Casson 1998, Zhao et al. 2004). An MNC's existence and its choice of entry mode can be explained by the acquisition of internalization advantages.

From the internalization perspective, when an MNC internalizes its foreign activities, it gains various benefits (i.e., internalization advantages). For instance, internalizing foreign activities enables an MNC to avoid the transaction and coordination costs (Dunning 1988, 1995, 2000; Buckley and Casson 1976), facilitates the implementation of strategies aimed at gaining certain benefits such as transfer pricing (Dunning 1995). Hence the likelihood of an MNC internalizing its foreign operations increases with the presence of higher perceived advantages (Buckley and Casson 1976, 2009; Rugman 1981; Dunning 1995, 2000; Rugman and Verbeke 1992, 2003).

The study seeks to identify the principal motives of foreign investment in India and measure the relationship between the different motives of FDI investment in India and benefits perceived by managers. A substantial amount of extant literature is available on motive analysis of FDI for emerging economies, transition economies and developing countries via statistical or econometric studies based on aggregated industrial or national data. However, the literature available on motive analysis of managerial perceptions of inward foreign direct investment through primary research is limited; most of the studies are based on the secondary data. Field study undertaken of wholly owned foreign multinational investors in India seeks to explore the motives and perceived benefits closer to the source of decision.

### *1. Literature review*

The process of internationalization and its motives have been researched extensively, and a detailed body of literature is available on these. Hymer (1976), in his seminal work, proposed the industrial organization theory of FDI/MNEs according to which the firms undertake FDI firstly to overcome competition or to eliminate conflicts; secondly, the possession of monopolistic advantages by a firm enables it to overcome the disadvantage of additional costs of doing business abroad. Rugman (1980) propounded that in case the transactions prices are high due to the presence of market imperfections, firms find it beneficial to engage in FDI. These imperfections could be created by government restrictions or by the presence of firm-specific advantages in the form of intangible assets like proprietary technology, marketing and managerial expertise etc. In the 1990s the resource-based view gained prominence; it shifted from industry structure and firms' actions to the nature and quantity of tangible and intangible resources that firms within an industry possess (Amit and Schoemaker, 1993). Dunning (1977, 1980) combined the insights of these theories and proposed an eclectic theory of FDI. Dunning argued that the FDI undertaken by MNEs depend on ownership-specific advantages in a transnational corporation, the presence of

location-specific advantages in a host country and the presence of internalization advantages. The ownership and internalization advantages are firm-specific advantages; however, the country-specific location advantages can influence FDI inflows. Further, these location determinants have been grouped into four principal motivations viz., market-seeking, resource-seeking, efficiency-seeking and strategic-asset seeking. (Dunning & Rojec, 1993) contend that the former two motives characterize the initial investment while the latter two motives denote sequential FDI. The first three motives are asset-exploiting, and the last motive is asset-augmenting, i.e. it seeks to protect or enhance the existing asset by acquiring a new asset. In general, developing countries tend to attract asset-exploiting motives; they rarely attract asset-augmenting FDI (Narula and Dunning, 2000).

(Gabriel R.G. Benito, 2015) demonstrate that motives remain pertinent when analyzing various aspects of the internalization of the firm. Several scholars have researched and analyzed the motives of FDI in different countries of the world, which varied over the different regions of the world. (Coughlin et al., 1991) investigated the relationship between state characteristics and location of foreign firms in manufacturing facilities in the US states. (Kudina, Alina, 1999) surveyed significant foreign investors in Ukraine and established that the dominant motive for investment is market-seeking with the other motives being insignificant. The strategic asset-seeking strategies have become more critical, giving rise to mergers and acquisitions and the strategic alliances (Acs and Preston, 1997; Dunning, 2000; Cantwell and Narula, 2001). (Sethi et al., 2003) have postulated that the liberalization of Western European and Asian regions and improvements in infrastructure have led to a shift in efficiency-seeking US FDI in the area. (Moran, 2006) contended that the developing countries might be better off if they attract efficiency-seeking FDI. (Gorynia et al., 2007) concluded that the main motives for undertaking FDI in Poland fell into market-seeking and efficiency-seeking categories. (Majeed & Ahmad, 2008) evaluated the proposition that the development of human capital can be instrumental in attracting FDI in developing countries. The empirical estimates confirmed the efficiency-seeking behaviour of MNEs in the developing countries. Further, (Chidlow and Young, 2008) findings confirmed that regions within a country differ substantially in attracting foreign capital and that the regional characteristics matter in the selection of primary location choice in Poland.

Strategic asset-seeking has become an important strategic intent motivating FDI (Dunning & Lundan, 2008). (Cui et al., 2014) investigated factors which contributed to the level of strategic-asset seeking purpose in internationalizing emerging economies firms. In their bid to study the motives of internationalization of R&D investments (Ambos, Bjorn, 2005) found that German MNCs invest for the resource as opposed to market-seeking reasons.

A look at the plausible motives of investment in India through the studies undertaken in the Indian context suggests that in the services sector, FDI inflows are attracted by India's endowments of skilled labour and presence of financial and legal institutions fashioned after those in developed countries (AT Kearney report, 2004). (Balasubramanyam & Sapsford 2007) stated that the attraction of India's capital-intensive manufacturing sector to FDI is its endowments of scientific and technical expertise which enables it to assimilate imported know-how. (Rastogi & Sawhney 2014) suggested that aggregate FDI in India was most significant in capital-intensive industries and those with the large market size. (Zheng, 2013) suggested that based on India's resource endowment pattern and the level of economic development, it should aim to attract more efficiency-seeking FDI. (Chopra & Sachdeva 2014) suggested that India has emerged as an attractive destination to FDI in services but has failed to evolve a manufacturing hub which has a

greater economic benefit. This fact was further validated by (AT Kearney Survey 2017). The survey found that India's emerging international competitive advantage and the corresponding opportunities for MNCs lies not in natural resource industries or low-skill labour-intensive manufacturing (as in much Asia), but in skill-intensive tradable services as exemplified by software.

An MNC gains various benefits when it internalizes its foreign activities, it gains various benefits. By internalizing foreign activities, an MNC gains significant control over its foreign operations, and improves its capability to assure operational quality (Dunning 1995, 2000). An MNC can acquire the coordination benefits of common governance (Dunning 2000; Cui and Jiang 2009) such as economies of scale and scope (Dunning 1988, 1995, 2000). Therefore, the higher the perceived advantages, the greater the likelihood that MNC will actively internalize the realization of equity control (Buckley and Casson 1976, 2009).

The study undertakes to identify the primary factors which influence inward FDI in India; additionally, it also aims to assess the impact of motives on the perceived benefits by conducting primary research constituting responses from managers of the foreign multinational firms.

## ***2. Objectives and hypothesis***

**Objective:** To determine the principal motives of inward foreign direct investment by foreign multinational companies in India and its impact on benefits as perceived by managers.

Hypothesis 1; there exist significant positive impact of the market-seeking factor of FDI investment by foreign multinational companies in India on the perceived benefit from a managers perspective.

Hypothesis 2; there exist significant positive impact of the resource-seeking factor of FDI investment by foreign multinational companies in India on the perceived benefit from a managers perspective.

Hypothesis 3; there exist significant positive impact of the efficiency-seeking factor of FDI investment by foreign multinational companies in India on the perceived benefit from a managers perspective.

Hypothesis 4; there exist significant positive impact of strategic-asset seeking factor of FDI investment by foreign multinational companies in India on the perceived benefit from a managers perspective.

## ***3. Research methodology***

The research paper is based on primary data collected via a structured questionnaire. The research objectives were to find the factors influencing foreign investment in India, the benefits perceived by foreign investors from the manager's perspective. We focused on wholly-owned subsidiaries of foreign companies in New Delhi region (which includes Delhi, parts of UP and Haryana) which has attracted 20% of the total foreign equity inflows in India in terms of USD from April 2000 to March 2019. The study also included the companies from the states of Punjab, Haryana, Himachal Pradesh, J&K, Bihar, Uttar Pradesh and Madhya Pradesh, Uttarakhand, Rajasthan.

The primary task was the design of the questionnaire. Our questionnaire was divided into motives of inward FDI, company's details and personal details of the respondents. The questionnaire presented a list of 34 host country location factors and six benefit statements on a seven-point scale which were derived from the prior literature review. The questions relating to host country motives were ex-post measures of managers' perceptions of the relative importance of the locational factors. Respondents were asked: 'How important are the following factors to choose India as a location for the equity venture?' Responses were assessed using seven-point scales (i.e. 1 = 'of no importance', 7 = 'of major importance'). The study involves wholly-owned equity ventures of foreign multinationals in India. Open government data platform 'data.gov.in' records all foreign equity ventures operating in India. The questionnaire was validated with the help of two academicians and two practitioners in the corporate area. The respondents constituted people from the top management, people working in the area of corporate finance and strategy.

**Data collection:** The data for the study derives from on-line questionnaires. The questionnaire was designed to examine benefits and locational determinants of FDI in North India ( covering the states of New Delhi, Punjab, Haryana, Uttar Pradesh, Himachal Pradesh, Jammu & Kashmir, Uttarakhand, Rajasthan and Bihar) since the region is amongst the highest recipient of inward FDI in India. The data collection was undertaken from April 2018 -April 2019. The list of 2720 subsidiaries of foreign companies was derived from Open Government Database platform's Company Master Data for the above mentioned states up to 21<sup>st</sup> April 2018. It included company names, date of registration, principal business activity, registered contact addresses and e-mail addresses. To encourage participation in the survey, a system of four compatible contacts, using the internet, was established with potential respondents (Dillman, 2000; Heberlein and Baumgartner, 1978). First, a brief pre-notice e-mail was sent out to the senior management of all the companies for which the contact details had been verified, prior to sending the questionnaire. The letter aimed to explain the objectives and importance of the study and to request their participation in it. Second, a link to the on-line questionnaire was sent out to the respondents who had expressed interest in participating in the study. Third, the contact via telephone was established with the respondents. In the end, a reminder letter was sent out one week after the link to the questionnaire was delivered. The purpose of this letter was to express appreciation for willingness to fill out the questionnaire, and at the same time to indicate if the respondent has not yet completed the questionnaire to encourage response. After getting the response, all the respondents were mailed a thank you letter after the collection of the results. After one reminder and subsequent follow-up phone calls and faxes 271 usable questionnaires were returned, a response rate of 8 per cent. The respondents mainly included people holding official positions, namely CFO, CEO, Managing Director, Vice President, Directors, and Managers heading finance, strategy and M&A department.

Factor analysis was applied on thirty-four statements of motives and six statements stating the benefits sought after by the investor companies. CFA method was employed to test the construct validity of the scale. The SEM approach is used to examine the relationship between the different motives of FDI on the perceived benefit to the foreign firms investing in India

#### ***4. Data analysis and interpretation***

The FDI undertaken by the company is useful for the growth of the company, and it boosts the economy of the recipient host country. But the question is, why do companies invest in a foreign



country? The literature has explained the different motives of FDI by a company. This research study aims at identifying the various motives of FDI in India by foreign multinational firms from the perspective of senior managers working within the company. In the study, the different statements were identified based on the detailed literature review and discussion with senior managers of the firms having experience of FDI. One of the criteria of the selection of senior managers from multinational firms is that they must be working with the firm for at least five years. The different statements have been framed and included in the questionnaire to understand the different motives of inward FDI by a foreign multinational firm in India. The various factors which are identified as the motives of FDI in a company are namely *Market Seeking, Resource Seeking, Efficiency Seeking and Strategic Asset Seeking*. In addition to these motives of FDI, the perceived benefits of FDI are also measured with the help of different statements mentioning the possible benefits of FDI from the manager's perspective.

This section discusses the results of construct validity (includes the convergent and discriminant validity) of the included different motives of FDI by foreign multinational firms. The measurement model (CFA) is developed to examine the construct validity of the scale. This CFA or measurement model includes all the possible reasons for inward FDI by foreign multinational firms. All the different motives of FDI, as well as the perceived benefits of the FDI investment to the company, are included in the measurement model. Also, the various motives of FDI in case of foreign multinationals are assumed to be reflective in nature.

Further, these mentioned motives of FDI investment are of the first order in nature. The CFA diagram designed in the study indicates the four motives of the FDI along with the perceived benefits of the FDI by foreign multinational firms in India. In the CFA diagram, the four motives of the FDI along with the perceived benefits of FDI investment are indicated by large ellipses; however, the statements indicating the different aspects of FDI investment are indicated by rectangles. All the statements indicating the various categories of motives of the FDI in the rectangles are attached to the constructs signifying different motives. The one-sided straight arrows are used to connect the constructs indicating the four motives of the FDI to the rectangles representing the statements used to measure the constructs. The direction of the one-sided arrows (cause and effect relationship) is from the construct and towards the statements.

Further, in the diagram, the two-sided curved arrows are used to join the different factors explaining the different motives of the FDI by foreign multinational firms in India. The two-sided curved arrows used in the diagram indicate the correlation between the constructs representing the four motives of the FDI. The error terms in the diagram are represented with small circles and attached to all the statements. These error terms indicate the unexplained variance in explaining the statements by the constructs.

The construct validity of the different dimensions representing the four different motives of the inward FDI investments by foreign multinational firms in India is analyzed with the help of CFA method. The construct validity represents the scale validity of the scale, which is used in the study and confirms the presence of convergent validity and discriminant validity. The convergent validity indicates the presence of high correlation among the different statements within a factor. The convergent validity is measured with the help of standardized regression weights (also known as construct loading) of the different statements within the construct, composite reliability (CR) statistics of the different construct in the scale, average variance extracted (AVE) statistics for each construct in the scale. It is expected that in order to fulfil the requirement of convergent validity,

the standardized regression weight of each statement should be more than 0.7. The CR estimate of each construct representing the four different motives of the FDI investments in India is required to be higher than 0.7. Also, AVE statistics of each extracted factor need to be higher than 0.5. The presence of convergent validity indicates that all statements selected to represent the factor are significantly representing it and the presence of discriminant validity indicates that the different constructs representing the four different motives of the FDI investments in India included in the scale do not have significant correlation among them. The discriminant validity indicates that the responses received against the statement of different factors explaining the various motives of the FDI investments in India of different factors are different. The discriminant validity is measured with the help of correlation between different pairs of a construct in the scale. This is expected that the correlation among the construct is not likely to be very high. In CFA analysis, the average correlation between the statement of a construct and the statement of other construct is estimated, and the maximum shared variance (MSV) is calculated. It is expected that the AVE is higher than the MSV for each dimension. The measurement model is shown in the figure number 1 titled CFA results. The construct loadings, along with the correlation coefficients between the different pairs of factors, are also shown in the CFA diagram.

Results of the CFA analysis of measurement model represent the different motives of the FDI investments in India are shown in table number 1: Regression Weights. The construct loadings of all the statements are greater than 0.5, which measures the correlation between the constructs and the statements representing the different motives of the foreign firms FDI investments in India. The high value of construct loading, i.e. standardized beta represents that all the statements included in the study significantly represented the four different motives of the FDI investments by foreign multinational firms' extracted factors. It means that all the items of the four different motives of the FDI investments by foreign multinational firms' have a significant correlation with their respective motive. It can be concluded that each statement representing different motives of the FDI investments in India has a significant correlation to the respective motive of FDI. Therefore, the convergent validity of the scale representing the four different motives of the FDI investments in India by foreign multinational firms is ensured. In the study, the CR statistic, AVE, MSV is also estimated for all the different constructs representing the four different motives of the FDI investments in India by foreign multinational companies. The result indicates that the estimated CR value of each construct representing the four different motives of the inward FDI investments in India is found to be greater than 0.7 and AVE estimated the value of each construct is found to be greater than 0.5. Hence, it can be concluded from the study the convergent validity of the factors is ensured. The table number 2 depicts the square root of the AVE and the correlation of the different motives of the FDI.

In order to observe the discriminant validity in the scale, the MSV estimated values between the different factors are compared with the AVE estimate of the construct. The result indicates that AVE is found to be higher than MSV, which ensures the presence of discriminant validity among the construct representing the four different motives of the inward FDI investments in India by foreign companies. The table indicates the estimates of the square root of AVE and the correlations between the different constructs representing the four different motives of the FDI investments in Indian companies. The diagonal entries in the table are the square root of the AVE estimate, and

the off-diagonals estimate represents the correlation between the different pair of constructs. The above table indicates that the square root of the AVE of each construct is higher than the correlation with all other constructs indicating the presence of discriminant validity in the scale. The outcome of the correlation analysis shows that all the pairs of constructs representing the four different motives of the FDI investments in India by foreign multinational firms included in the study are moderately correlated. Thus it can be interpreted that all the constructs are perceived differently by the respondents, and hence the discriminant validity is ensured. The result in the table indicates that the correlation statistics as measured by the Pearson correlation statistic between the extracted factors are found to be positive but not very high. All the correlation estimates between the factors were found to be less than 0.5, which stipulated the moderate level of correlations exist between the factors. The presence of a moderate correlation between the extracted factors represents the presence of discriminant validity amongst the extracted factors.

### ***5.2 Impact of factors affecting FDI on the perceived benefits***

There are many reasons for FDI in India that the corporate investors, before deciding on foreign investment, have to analyze for the prospective investment from different perspectives. In the study, the reason for FDI investments in India by foreign multinational companies is divided into four different factors, namely market-seeking, resource-seeking, efficiency-seeking & strategic asset-seeking. In case of market-seeking the reasons of market seeking indicates that for the purpose of taking the benefit of Indian market the global investors are interested in investing in India, one of the reasons of FDI in India is the saturation level in global markets, since India is an emerging market there is a lot of scope of the demand of the products and services by Indian consumers. A second possible reason of FDI is resource-seeking which means that the global investors may be interested in taking the benefit of different input resources such as low-cost labour, machines and other resources by investing in India. India is known for having resources such as low-cost skilled labour, natural resources etc. the third reason for FDI investment in India is efficiency-seeking. The efficiency can be achieved through economies of scale, technical collaborations, knowledge and experience sharing etc. the last purpose of FDI investment in India is named as strategic asset seeking which means that the global investor may be interested in acquiring an asset of an Indian firm in order to achieve long term strategic objectives.

In the study, the responses of managers working with foreign multinational firms in India having FDI investments were collected with respect to different possible reasons for FDI investment and its perceived benefit from the company point of view. This study made an effort to examine the relationship between different reasons of FDI investment with the perceived benefit of FDI investment in India by foreign multinational companies lying in the responses. The structural model is developed in the study where all the four reasons for FDI investment by foreign investors are considered as exogenous constructs and perceived benefits as endogenous constructs. In the structural model, all the constructs are first order, reflective in nature and measured with the help of different statements included in the study. The proposed structural model is depicted in figure number 2 and is analyzed with the help of SEM approach.

The results of SEM analysis applied to the structural model are discussed Table number 3: Regression Weights.



The result depicts the estimated values of standardized slope coefficient of the different cause and effect relationship along with regression weights, standard error, critical ratio, p-value and the R-square of the SEM model. The p-value of the critical ratio indicates the significant relationship, i.e. from market-seeking, resource-seeking, efficiency-seeking and strategic asset-seeking on the perceived benefit. Hence significant relationship is concluded between all the four factors affecting FDI investment in India by multinational companies and the perceived benefits of FDI investment from managers' perspective. The standardized slope co-efficient of all the cause and effect relationship is found to be positive. Thus all the factors of FDI investment in India by foreign multinational companies have a significant positive impact on FDI investment. The R square (0.36) of the SEM model represents that 36.6 % of the proportion of variance in perceived benefit of FDI in India from manager's perspective can be explained with the help of SEM model. The standardized slope co-efficient in case of market-seeking is found to be highest followed by resource-seeking, efficiency-seeking and strategic asset-seeking. Thus the most significant factor of FDI investment in the Indian companies is the market-seeking followed by resource-seeking. This was corroborated by (ET Bureau, 2018), which stated that Inbound interest would remain strong since India continues to be a crucial growth market with its billion-plus demographic advantage for investors from US and China. (Ratore, G.S., 2019) suggested that market seeking investment has emerged as the most potent motive behind inward FDI in India.

Furthermore, in (IMF Country Report No. 18/255, 2018) it was stated that the FDI in emerging market economies is being undertaken to cater to the domestic demand of the host country. (Pattayat, Shankar, Shiba 2016, Kaur and Sharma, 2013; Dua and Garg, 2015) in their study in India found that the market size has the strongest influence in attracting foreign capital flow. Also having better market potential ensures profitability for foreign firms and provides them with an incentive to move away from home.

Resource-seeking investors are also attracted in India which is corroborated by AT Kearney (2004) ranking of off-shore locations globally in which India out-ranked China by a wide margin, mainly due to its combined labour-cost advantage and its abundant availability of highly skilled workers. Again in AT Kearney Survey, 2017, it was declared that the foreign investors are most attracted to the low cost of labour in India. The report further went on to add that with its large population and demographic dividend, the foreign investors are assured of the relatively low-cost labour force for many years. Also, many investors pointed to the presence of the skill level of the Indian labour force as a positive characteristic driving the FDI.

GS Rathore, (2009) in his study asserted that the multinational organizations of U.S.A and European countries have resorted to FDI in India, to survive their monopolistic positions in addition to this, availability of cheap and skilled labour is also the reason for inward FDI in India. However, (Nayak & Basu, 2007) suggested that there has been a paradigm shift in the flow of FDI with respect to India. In line with this assertion (Zheng, 2013) studied the motives of investment through three phases viz., before 1995, 1995-2000 and after 2000. The study found that the market-seeking motive is the most prominent in the initial stage. Indian language resource and market growth played an important role than its cheap labour in attracting FDI. During the second phase from 1995-2000, it was found that India attracts more resource-seeking and market-seeking FDI than efficiency-seeking FDI. However, in the third phase, India attracts more efficiency-seeking FDI. This is because of the liberalized trade regime, improved infrastructure and changed attitude and policies toward inward FDI confirming Dunning's (1999) argument that motives of inward

FDI in developing countries have shifted from market-seeking and resource-seeking to efficiency-seeking. However, the study also suggested that India attracts market-seeking FDI in all the three phases though resource-seeking and efficiency-seeking are more prevalent in the later stages. The statistical model fitness of the examined Structural model discussed above is estimated and shown in the table number 4: SEM Estimates.

The results indicate that the examined structural model has CMIN/df statistic which is found to be 2.056 (less than the required value of 5), GFI is 0.8, CFI is 0.9, TLI is 0.874 and RMSEA is 0.063. The results indicate that the goodness of fit indices are in the expected range and suggest that the structural model can be used further for generalization of the results.

### 5. *Conclusions and discussion*

The study focuses on the survey conducted on foreign multinational corporations investing in India. An attempt has been made to identify the principal motives influencing foreign investment in India and the impact of motives of FDI by foreign investors on the perceived benefits of FDI. The statistical tools adopted to analyze the results are Confirmatory Factor analysis and Structural Equation Modeling.

The survey results report that the first ranked motive influencing foreign multinational firm's decision to invest in India is market-seeking. Essentially the potential consumer market in India in terms of size, rising per capita income, changing lifestyles et al. have significantly attracted FDI. The remaining motives are resource-seeking, efficiency-seeking and strategic-asset seeking as per the rank order. The availability of skilled labour, consistently improving physical infrastructure and large volumes of natural resources such as coal, iron-ore, natural gas etc. have made it a favorable destination for foreign investors.

A significant relationship is concluded between all the four factors affecting FDI investment in India by multinational companies and the perceived benefits of FDI investment from managers' perspective. All the factors of FDI investment in India by foreign multinational companies have a significant positive impact on FDI investment.

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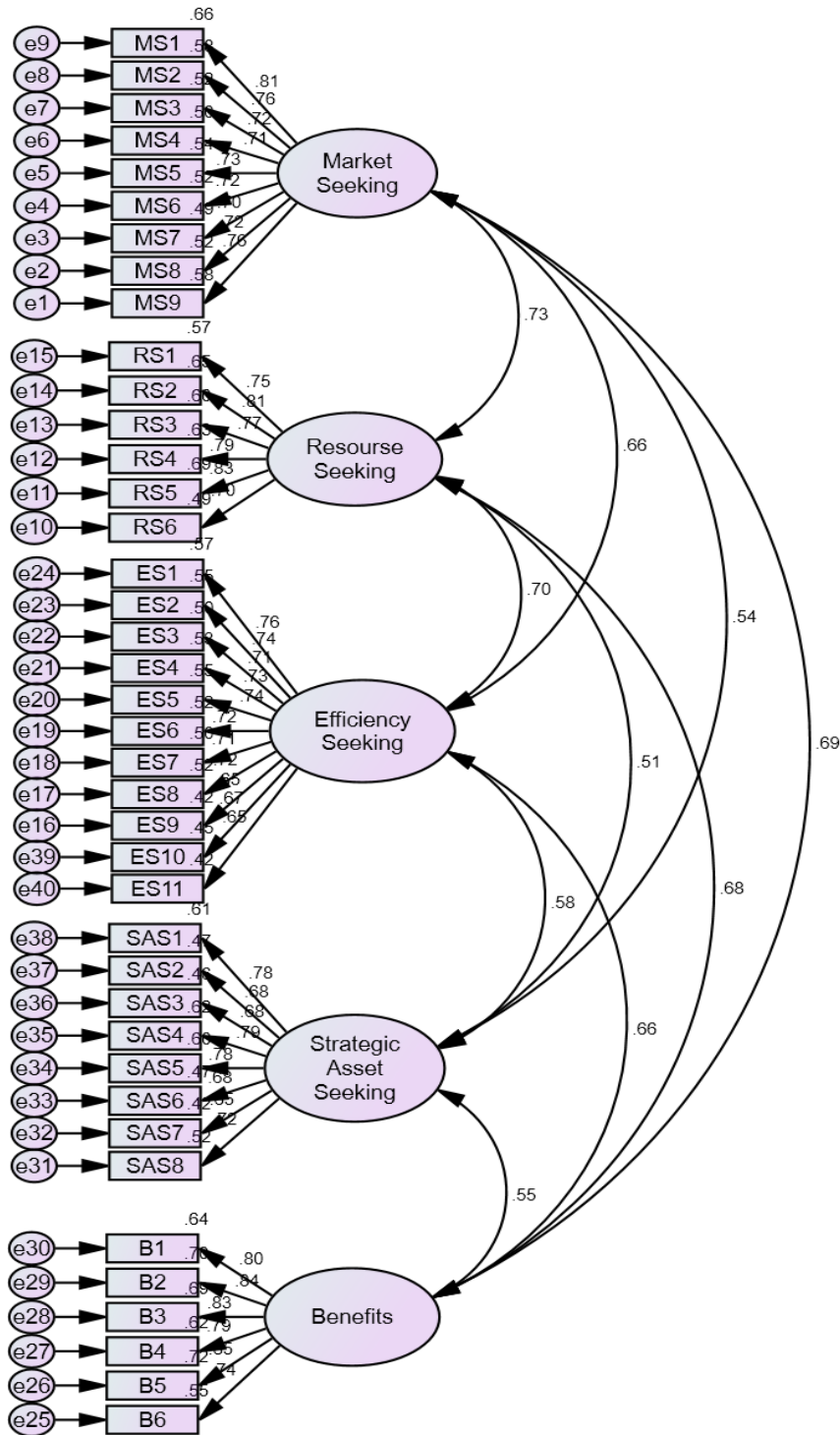


Figure No. 1: CFA results

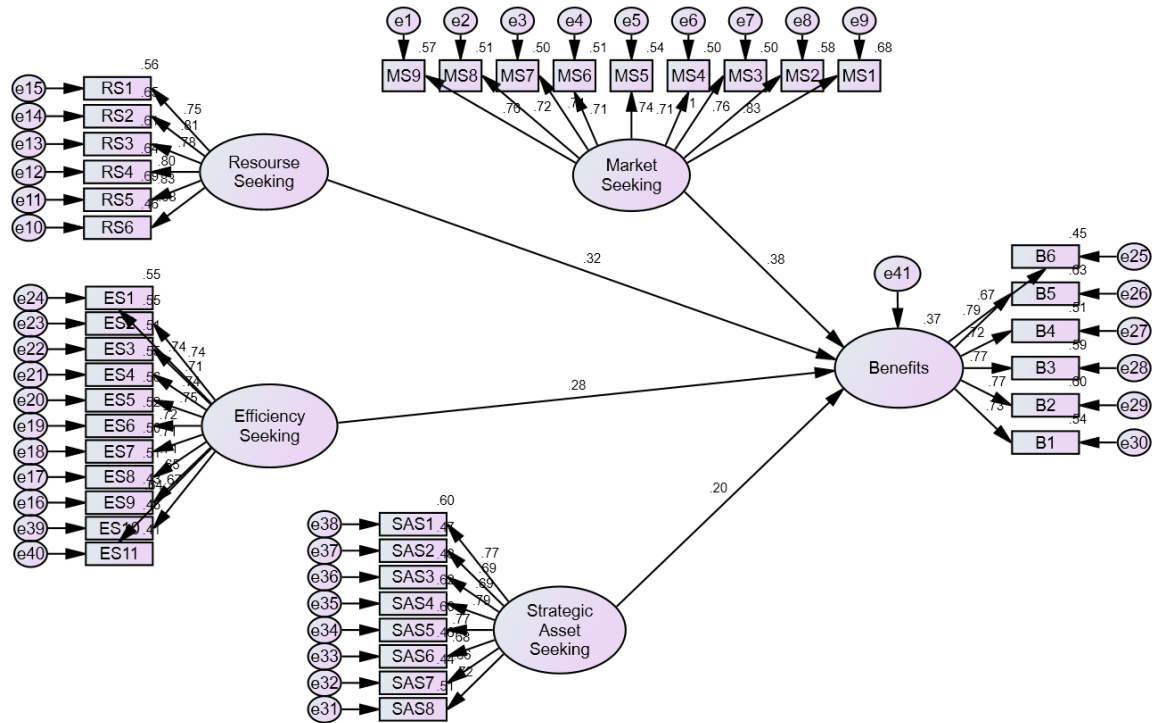


Figure No. 2: SEM Model

			Construct Loadings	CR Estimate	AVE estimate	MSV Estimate	Cronbach Alpha
MS9	<---	Market Seeking	.760	0.915	0.546	0.539	0.913
MS8	<---		.722				
MS7	<---		.701				
MS6	<---		.723				
MS5	<---		.735				
MS4	<---		.707				
MS3	<---		.719				
MS2	<---		.763				
MS1	<---		.814				
RS6	<---	Resource Seeking	.697	0.901	0.603	0.539	0.899
RS5	<---		.831				
RS4	<---		.791				
RS3	<---		.774				
RS2	<---		.807				
RS1	<---		.754				
ES9	<---	Efficiency Seeking	.651	0.917	0.503	0.484	0.915
ES8	<---		.722				
ES7	<---		.706				
ES6	<---		.720				
ES5	<---		.740				
ES4	<---		.730				
ES3	<---		.707				
ES2	<---		.743				
ES1	<---		.757				
B6	<---	Perceived Benefits of FDI	.744	0.919	0.655	0.480	0.917
B5	<---		.850				
B4	<---		.788				
B3	<---		.833				
B2	<---		.835				
B1	<---		.800				
SAS8	<---	Strategic Asset Seeking	.721	0.897	0.521	0.339	0.895
SAS7	<---		.651				
SAS6	<---		.683				
SAS5	<---		.777				
SAS4	<---		.786				
SAS3	<---		.682				
SAS2	<---		.683				
SAS1	<---		.779				
ES10	<---	Efficiency Seeking	.669	1.118	.114	9.767	0.915

			Construct Loadings	CR Estimate	AVE estimate	MSV Estimate	Cronbach Alpha
ES11	<---	Efficiency Seeking	.649	1.016	.107	9.528	0.915

**Table No. 1: Regression Weights**

	Perceived Benefits	Market Seeking	Resource Seeking	Efficiency Seeking	Strategic-asset Seeking
<b>Benefits</b>	<b>0.809</b>				
<b>Market Seeking</b>	0.693	<b>0.739</b>			
<b>Resource Seeking</b>	0.683	0.734	<b>0.777</b>		
<b>Efficiency Seeking</b>	0.660	0.663	0.696	<b>0.709</b>	
<b>Strategic Asset Seeking</b>	0.552	0.541	0.513	0.582	<b>0.722</b>

**Table No. 2: Square root of AVE of the different motives of FDI**

			Standardized beta	Estimate	S.E.	C.R.	P	Label
Benefits	<---	Market Seeking	.377	.325	.056	5.758	***	36.6%
Benefits	<---	Resource Seeking	.323	.312	.063	4.968	***	
Benefits	<---	Efficiency Seeking	.285	.316	.070	4.494	***	
Benefits	<---	Strategic Asset Seeking	.197	.190	.058	3.279	.001	

**Table No. 3: Regression Weights**

S.No.	Variable	Estimate
1	CMIN/df	2.056
2	GFI	0.8
3	CFI	0.9
4	TLI	0.874
5	RMSEA	0.063

**Table No.4: SEM Estimates**