Comparatistics India Overseas: FEMNCs and MNCs

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Abstract

Family firms are disproportionately represented among increasingly prominent emerging market multinational corporations (EMNCs). This paper gradually unravels a model for "typical MNC behaviour" based on selected themes from the received literature, shaped largely by the experiences of the openly held and professionally managed industrialized market MNCs. Using the case study of Indian overseas family businesses (OFBs) over the 19th and 20th centuries, it is shown how the internationalization pathways get diverged from the "typical MNC behaviour" model. Gaps in the "typical model" are identified and implications for refining the MNC literature to be more relevant to the EMNCs are suggested.

Key words: *Emerging Multi-Nationals, Family Business, Indian Overseas Family Business, Multinational Corporations.*

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Over the last decade, there has been a rapid growth in the multinational corporations (MNCs) originating from the emerging markets (EMNCs). The received literature on the MNCs has been shaped mostly by the experiences of openly owned and professionally managed enterprises based in the industrialized markets. Recent research suggests that the pathways to the internationalization of the EMNCs are qualitatively different from the normative behaviours of the industrialized MNCs (Gammeltoft, Barnard and Madhok, 2010). This differentiation should be accentuated in the case of the family EMNCs, as the family business research suggests that the family businesses tend to have behaviours different from the non-family businesses, and that even the emerging market family businesses show behaviours and strategies significantly different from those of the industrialized market family businesses (Gupta et al, 2008). The study of the family EMNCs thus can help test the robustness and refine the perspectives built on the experiences of the industrialized market non-family MNCs.

In this paper, we first interpret the typical behaviours of the MNCs, based on the received literature. We then underscore the value of using a case study on the historical rise of Indian overseas family business (OFB) during the 19th and 20th centuries, as a way to identify potentially divergent pathways for the internationalization of the EMNCs. Based on the case study, we analyze the typical behaviour of the Indian OFBs, and discuss the gaps in our "typical MNC behaviour" model. We discuss how these identified gaps can help refine our understanding of the MNC behaviours, and offer additional pathways for the internationalization of the EMNCs.

A Model of Typical MNC Behaviour

The literature on the behaviour of the MNCs is extensive. Main citations can be found in the excellent critical theorizing and reviews by Inkpen and Beamish (1994), Ricart et al (2004), Kendall and Kostova (2003), Buckley and Casson (1998), Dunning (2000), Doz and Prahalad (1991), and Kogutand Zander (1993). To motivate our analysis here, we offer a particular interpretation of the typical behaviour of the MNCs, and refer this interpretation loosely as "typical MNC behaviour" model. The model is based on the major themes found in the MNC research. Specifically, the themes include: (1) motivation to invest abroad, (2) liability/ challenges of foreignness, (3) pathways for market entry, (4) strategies for success, (5) networking of host operations, (6) corporate social responsibility, (7) impact on global competition, and (8) impact on host markets – including how costs are distributed, benefits are captured, and policy challenges are addressed.

Motivation to invest Abroad

The MNCs invest abroad because they wish to accrue added value by better exploiting resources, capabilities and knowledge either of their home-base or of the host markets. Investments overseas usually occur when there are significant transaction costs for trading home-based resources, and/or when the host market resources of interest are not trade-ready. An illustration of the former is when a firm is concerned about the leakage of intellectual property in its processes and/or products. Examples of latter include the un-extracted natural or non-migrating human resources in the local market, or the new knowledge being developed by a cluster of locally based firms that is not well codified to be traded in the global market. An example of both together is insufficient traded knowledge about the local market that makes it difficult and costly to adapt the exploitation and trading of home-based resources – and thus risks loss of opportunity or of competitive advantage. These motivating factors encourage the MNCs to seek to conduct business overseas through a system of activities, which complement or substitute trading with other business functions also.

Liability/Challenges of Foreignness

Investing abroad usually carries higher risks than investing at home, especially because the MNCs tend to be more familiar with their home markets and are seen as foreigners in the local market. Lack of familiarity with the host markets imply that the MNCs have to develop new networks locally, either by recreating or reconstituting their global networks and/or by discovering and cultivating appropriate qualified local networks. Perceived foreignness in the host markets requires the MNCs to compensate by offering additional support / premium to the local partners and other local constituencies, and by using up their social capital to induce the global partners to co-invest. Lacking cultural integration, they also need to be sensitive to not stepping over the local sensitivities.

Pathways for Market Entry

Collaboration with the local partners, and/or with the global partners having local footprints, and/or with the home partners interested in co-investing, is the dominant pathway for most MNCs investing overseas. Collaboration serves several purposes, including pooling of resources, capital, knowledge, networks, risks, and responsibilities. Pooling helps in not only building scale by distributing the obligations, but also generates robustness by mobilizing a diverse scope of assets. Collaborations may be complemented, and to some extent substituted, with hierarchy-based control and market-based exchange. Hierarchy-based control requires establishing appropriate organizational, communication, and workforce systems, in both the home market as well as the host market. Similarly, market-based exchange requires market intelligence and presence in the local and global markets.

Strategies for Success

To accrue greatest value from their host operations, the MNCs strive to connect their host operations with both global as well as local networks. Global integration aids in exploitation and development of home-base resources, while local responsiveness aids in discovery and exploitation of host market resources. Through mobilization of trade-ready world-wide resources and through economies of scale, global integration helps achieve cost-effective configuration of and transfer of learning across the value chain spread in different regions. Local responsiveness, on the other hand, works through economies of scope and mobilization of less traded localized resources and learning, and brings differentiation, uniqueness, and empathy to the activities performed in a region. The MNCs may develop a distinctive balance between global integration and local responsiveness at the level of corporate strategy, country strategy, business strategy, functional strategy, and/or collaboration strategy. The success of the strategy chosen tends to be a function of appropriate matching organizational design, and other factors that influence the benefits and costs of integration versus responsiveness.

Networking of Host Operations

Instead of confining their local operations to a single focused area, the MNCs tend to develop a system of activities in each host market, inter-connected locally and/or globally. The MNCs tend to be more sensitive to the differential comparative advantage of different regions, locally as well as globally, and demonstrate lower levels of escalating and continuing commitment to specific regions. They often specialise the host market in specific activities, and network it with others in the region or internationally for complementary activities. They regularly evaluate the benefits and costs of relocating, eliminating, or adding some of the activities performed in a given market, and create networks of knowledge, funds, talent, and other kinds of flows to facilitate system-wide transitions.

Corporate Social Responsibility

The MNCs are citizens of the host nations they operate in, and are expected by their local and global stakeholders to be conscious of their corporate social responsibility obligations in those nations. Particularly because of their foreignness and their implicit intent to repatriate resources to global investors, the social implications of the MNC behaviours in the host markets tend to be highly visible and monitored. To manage their social case, the MNCs strive to assure social compliance of their organizational and collaboration activities in the host markets. They also strive to support the local community in various ways, and to demonstrate that their business case also serves the interests of the local community. Many MNCs also tend to be sensitive to gender and other forms of diversity, partly because they often face less competition from local organizations for these diverse pools of talent, and are able to push the discourse and frontiers of inclusion in host societies.

Impact on Global Competition

The MNCs help moderate the strength of global competition – sometimes intensifying it, and at other times mitigating it. The markets already dominated by the other MNCs are often attractive for them, because of lower costs of foreignness as well as ease of gaining familiarity as a foreigner. Brokering the relationship between other MNCs and the host organizations/ residents is another attractive area, as they may help cut the transaction costs of that exchange through a stronger commitment to acquiring knowledge about the local market. Many MNCs are able to access low cost financial resources for acquiring core local companies, and/or for supporting their local businesses through intellectual and other assets to obtain a competitive edge over the local companies. In these cases, the MNCs may either completely substitute local businesses, or induce them to move into new niches that are different from or complementary to their own operations. By virtue of their global networks and differentiated cultural endowments, the MNCs also bring innovative opportunities to the host markets – reconfiguring, strengthening and advancing existing activities; and initiating and diffusing new activities. Further, with their outsider perspective, the MNCs are in a unique position to recognize the unique business and cultural endowments of the host communities, and to create new pathways to leverage and sustain the value of these endowments – thereby enabling inclusion of often less privileged and bottom of pyramid groups as players in the national and international economy.

Impact on Host Markets

As foreigners/outsiders, the MNCs strive to maximize the private benefits and minimize the private costs in the host markets. In order to safeguard and to access new and to expand current avenues of private interest, they develop visible and invisible practices of institutional networking and lobbying. They influence host institutional priorities and assessment of social benefits and social costs pertaining to their activities. They may even seek support of their home institutions towards this end, by implicitly committing to bring a greater proportion of benefits to the home market. Institutional activism in general implies preferential policy revisions and/or enforcement in ways that directly benefit the MNCs, and may have less direct benefits for the local communities. Time-sensitive and centralized institutional activism may not offer opportunities for all constituencies of the civil society to voice their perspectives. That may legitimate MNC behaviours that weaken their popular appeal and invite criticisms and even reversals of institutional mandates, especially during the times of economic and political crisis.

Research Methodology

The "typical MNC behaviour" model reviewed above is necessarily a simplification. One finds considerable diversity amongst the MNCs, based on factors such as the country of origin and destination, ownership, size, sector, leadership, and historical evolution. Yet the typical MNC behaviour model offers a useful starting frame of reference for uncovering the idiosyncratic behaviour of the family EMNCs. Siggelkow (2007: 21) notes that the "talking pigs" or less representative cases can usefully "help sharpen existing theory by pointing to gaps and beginning to fill them." Particularly in the context of longitudinal research that seeks to unravel how the idiosyncratic dynamics plays out over time, they inspire "getting closer to constructs and being able to illustrate causal relationships more directly" (Siggelkow, 2007: 22). The idiosyncratic case studies can thus help unravel new development pathways that are not evident in the large-sample analysis and theorizing based on the typical cases alone.

Several cases of the family EMNCs have been prominent over the modern history. Notable ones include Jewish, Lebanese, Chinese, and Indian family businesses that internationalized since at least the 19th century. In each case, the rise of family EMNCs was accompanied with the migration of co-ethnics to specific regions of the world where the family EMNCs invested. In most cases, the family businesses did not have strategic, financial, and operating interests in more than one nation, because the host market was adopted as the home-base through migration. Therefore, the resultant firms are more appropriately referred to as overseas family business (OFBs), some of which were family EMNCs initially or became so subsequently. The case of Indian family OFBs is of particular interest. First, ethnic Indians were the largest group among the overseas migrants during the 19th and the first half of the 20th century (McKeown, 2010), and their collective historical experiences of more than one hundred fifty years can point to diverse pathways. Second, the early Indian family OFBs was among the most international firms, some with networks extending through the Middle East, Africa, Southern Europe, and Central America on the one side, and Southeast Asia and Japan on the other side of the globe (Markovits, 1999). Third, many Indian family OFBs shifted or created their home-base in the overseas nations, taking on the identity of domestic firms in those nations, and subsequently restarted the process of internationalization sometimes after two or three generations. We therefore study the more general case of the Indian OFBs, as a context for uncovering the potentially divergent pathways for the EMNCs.

Indian Overseas Family Business (OFB)

Indian family businesses engagement in international trade and investments in fact dates back to the entire period of recorded history and even pre-history (Markovits, 1999). In the middle of the 19th century, this engagement accelerated and took new forms with the incorporation of India into the British Empire, and involved massive migration. Millions of Indians migrated under the indenture system to Southeast Asia, East Africa, and the West Indies, to work on plantations, roads, railway lines, and ports. Alongside, there occurred voluntary migration – most were impoverished peasants suffering from exorbitant land taxes, but a substantial number were traders who migrated – particularly from mid-1880s onwards – to extend their family businesses overseas (Klein, 1987; Markovits, 1999). Muslims formed adis proportionate – half or more – proportion of the migrants. Most of the traders investing overseas were from a few coastal regions - primarily Gujarat and Tamil Nadu, and secondarily the Punjab, Sind, and Kerala. Business families from "those communities which were in a more precarious position in regard to internal trade and already had a foothold in trade outside India" were more likely to develop overseas interests (Markovits, 1999). Overall, during 1830-1930, about 27 million people migrated overseas from India (primarily South India), of which five percent were family business traders. Because of a higher returnee rate among the labor class, shift of the labor class to small-scale trading, and under-representation of women in working population, official statistics show that by 1930, a sixth of the working Indian diaspora was in business, with proportion as high as half in some East African nations (Markovits, 1999).

The first generation overseas family business founders in Africa started off in the urban centers, as hawkers or proprietors, selling fresh produce and Indian groceries or working as a salesman or a supervisor in a store or doing skilled work such as tailoring. Most had limited history of business success in India, and had limited capital in hand. Initially, many specialized in selling goods to the Indian laborers. However, given the low purchasing power of the Indian laborers, further expansion was predicated on other opportunities. Markovits (1999) notes, "Supplying the Indian labourers was often only the first step in a process. Thus in South Africa Indian traders increasingly specialized in selling goods to the natives, a field in which their low operating costs and knowledge of the market allowed them to make rapid inroads to the detriment of European competitors, mostly Jewish merchants. The same was true of East Africa." Some family businesses even "specialized in the sale of 'European' goods mostly to European customers. This was the case in particular of the Parsis, who often were specialized in the liquor trade and of the Sindworkies who traded in silk and curios" (Markovits, 1999).

The Indian family businesses invested their accumulated capital to buy out established businesses and set up petty shops – clothing, food, and general merchandise. Some became general dealers, engaged in money lending, banking, and/or cotton or grain trade, and created networks linking large coastal Indian wholesale and import houses to one another and to the hundreds of small traders in the regions. In South and East Africa, they took the vacuum left by the fall of Arab traders under the British Empire, but in Southeast Asia, that vacuum was filled mostly by the Chinese. In Africa, Patel (1997: 9) observed that the Indian family businesses "constituted the vital middle class, which served as the connecting link on the eastern side of the [African] continent between the African peoples and the peoples of Europe, America and Asia. They introduced the manufactured goods and technology of the industrial centers of the outside world to the indigenous Africans and they brought many of the natural recourse and agricultural produce of the African interior to the international markets."

Indian family businesses kept low overheads, offered low cost products, and assured fair business dealings, to soon dominate up to 70 percent of the local retail trade, especially in the rural areas of East and South Africa (Hiralal, 2001). The international trading networks of their communities – many dating back several centuries, most specializing in specific industry niches and having community's specialized interest specific industry associations in host nations– played an important role in their success (Markovits, 1999). The Multani Shikarpurishroff families of Sind, for instance, "established a powerful international banking network extending from Astrakhan on the Caspian Sea to the Straits of Malacca," where their hundis (i.e. traveler's checks) were a major trade currency. Similarly, Bhaib and Sindworkies, who specialized in the sale of silk and curious, had an established family business branch network comprising of 5,000 members in the first decade of the 20th century. Their network extended to all major ports along the two main seat routes – India-Japan (via Sri Lanka, Singapore, Indonesia, Vietnam, China, Philippines) and Bombay-Panama (via Sudan, Egypt, Malta, and Spain or alternatively via Mozambique, South Africa and Sierra Leone). In the big Sindworkie firms, telegraph was the main means of communication, yet the principals made regular 'inspection tours' of the branches, which took the many months to complete (Markovits, 1999). The Muslim Memon family businesses from Kutch, Gujarat, specialized in rice trade, particularly in Mauritius and South Africa.

In Southeast Asia, a majority of the Indian family businesses hailed from the South Indian States of Tamil Nadu and Kerala. The Tamilian Nattukottai Chettiar family businesses internationalized from the mid-1880s to become major financiers of commercial agriculture in Southeast Asia, using temples as clearing houses. They were main providers of rural credit to the farmers of Sri Lanka, Myanmar, and Malaysia, with operations extending also to Vietnam, Indonesia, Thailand, and South Africa. The biggest of Nattukottai Chettiar financial houses had more than a hundred overseas branches, controlled from their headquarters in India, although "local managers had a large autonomy inthe day-to-day running of the business" (Markovits, 1999). Also, the Tamilian Chulia-muslim family businesses were general merchants and retail shop-owners in cities, towns, as well as remote villages, of Southeast Asia; though their economic significance was dwarfed by the Chinese family businesses in general wholesale and retail business (Markovits, 1999).

Indian family businesses sent their employees or family members overseas as part of a highly organized process through their community's international business networks. Markovits (1999) notes, "Those who left as employees of commercial firms had contracts for a period of two or three years at most. Others who went on their own just hoped to make good in a few years so as to be able to come back to India in a better economic position." Official surveys indicate that 95 percent of those employed in the Indian diaspora family businesses were male. In the 1920s, women were fewer than half in numbers than men, as businessmen often tended to leave their wife and children in India unless they had become sufficiently successful. The businessmen also visited India at regular intervals to meet their families. After migration, wives and daughters often gave a helping hand in the business, but were generally not recognized as being employed (Markovits, 1999). However, with success, those who had gone overseas invited additional members of their family or village or religion, to manage expansions, and to diversify their investments into real estate and manufacturing.

In Southeast Asia, many Indian family businesses had initially entered to expand their India-based wholesale trading business, operating in textile, fancy goods, and sports businesses for the colonial and elite clientele (Mani, 2006). Both pull and push factors were at work. Their products were popular among the British in India, and they wanted to tap the opportunity in the other colonial markets. Also, the opportunities in India were limited because of colonial pressures and laws (Markovits, 1999). Though sometimes, family members would themselves migrate, usually non-family employee or partner became the manager, supported by clerks and salesmen hired from the family's home region in India (Markovits, 1999). Indian families were also prominent in insurance, banking, and money-lending, as the only source of mid to long term credit. Many Chinese entrepreneurs started their business with a loan from these families, as the colonial banks would lend only against first-rate securities (Sandhu, 2006). New co-ethnics came to work as clerks and salesmen, gradually became vendors by forming relations with the larger firms, and accumulated sufficient wealth to set up new firms in co-ethnic partnership superseding the older firms. In due course, the partnerships broke into smaller firms, or resulted in one buying out the other partners (Mani, 2006). Further, the success stories of those who migrated initially encouraged additional "chain migration" of business families from the same region in India, to start a similar business using credit and networks of the early movers (Markovits, 1999). There was no formal coordination among the family businesses of different Indian ethnicities. However, some were inter-connected. For instance, the Kutchi Memons exported rice grown by Burmese farmers with advances from Chettiar money-lenders; the Burmese farmers discounted the bills from Chettiar firms through Shikarpuribankers, who in turn re-discounted them with bankers in Bombay (Markovits, 1999).

Though initially ignored or even welcomed, Indian family businesses attracted local government restrictions, including commercial and residential segregation and even limiting the rights to maintain family and business relationships in India, when with prosperity they sought to penetrate the commercial and residential arenas predominantly monopolized by local elites (Hiralal, 2001). Many decided to settle in their host nations. After the 1950s, many withdrew from commerce and trading to accommodate the locals, and moved into manufacturing, construction and services, including expansion to neighboring nations (Himbara, 1994). However, local entrepreneurs lacked skills and contacts to succeed in the commercial and trading space, and were able to form mostly micro-enterprises (Janjuha-Jivraj, 2006).

During the 1960s, growing American assistance to the Asian region offered opportunities for the Southeast Asian based Indian family businesses to diversify into import-export and money lending business (Chanda, 2006). A classic success story was a bullock-cart driver rising to position of wealth. Though trading and retailing were most common, many operated in other sectors. For instance, some in textile trading diversified into textile manufacturing, and some started schools teaching English and commercial subjects. Women's involvement was limited to micro enterprises, such as selling cooked food and spices from home or in the local market or through their children (Mani, 2006).

In the 1960s and 1970s, many Indian family businesses in Africa and Southeast Asia – now under second generation leaders –were subject to a forced sale of their business and real estate at throwaway prices. For instance, in the 1960s, many Indian business families migrated to Singapore, when expelled from Indonesia. Similarly, in the 1970s, when expelled from Uganda and facing expropriations in Kenya and Tanzania, several Indian families in Africa migrated to UK of which they still held passport from the colonial era, or sent their children to be educated and then settle in the UK (Janjuha-Jivraj, 2006). This re-migration to the UK was further encouraged by almost simultaneous developments in the UK, where the government forced the Indian immigrant community to commit to establishing a base in the UK, and induced them to invite over their family members to settle (Janjuha-Jivraj, 2006).

Most first generation Indian family businesses lacked financial resources to educate their children through the college (Janjuha-Jivraj, 2006). They also needed their children to assume the top leadership roles in the family businesses, which were reserved only for the family members. Co-ethnic members were offered the less senior but supervisory roles, while the native Africans were offered lower level roles (Janjuha-Jivraj, 2006). In a few cases, Indian family businesses were able to avoid confiscation because of their relationships with the local elites. They acquired large blocks of land, department stores, hotels, wholesale businesses, and factories, and internationalized with the help of Indian diaspora locally and/or globally (Ginwala, 1977; Arkin, 1981). The diversification and internationalization was driven by the availability of trusted managers having the skills to manage the new ventures successfully, rather than by the intimate knowledge of the new sector (Gidoomal and Porter, 1997). In Southeast Asia, the ongoing national economic development offered opportunities to the Indian family businesses to secure overseas know-how, often from India. Many used their intimate knowledge of local trade and market to enter new sectors through joint ventures with Indian firms who provided capital, machinery, and technical know-how. Some formed overseas collaborations to secure technical know-how. These collaborations allowed diversification and entry into even non-traditional areas, such as making films using local talent, shipping industry, furniture making industry, and dairy industry (Mani, 2006).

Women as spouses played an important role in the early development of new businesses in all regions. Because of the patriarchal attitudes, men – of this generation and era – as husbands rarely acknowledged the contribution of the wife, and either consciously moved the business away from her, or otherwise outgrew the business beyond her life balance needs and interests. Her role in the family business resurfaced as their children grew, and found her a knowledgeable and supportive mentor in their formative decisions on whether to join the family business, what opportunities existed for the development or change, and how they might prepare for that (Janjuha-Jivraj, 2006).

In the 1990s, many Indian family businesses in Africa were sending their children to get higher education in the UK or in Western-style local universities, to capitalize on the changed local and global environments, such as the fall of apartheid government in South Africa (Hiralal, 2001). They had sufficient financial resources to offer similar educational opportunities to their daughter also. Consequently, in some cases, daughters also returned to assume leadership roles in the family business (Janjuha-Jivraj, 2006). Similar developments were taking place amongst the Indian family businesses of the UK (Janjuha-Jivraj, 2006).

The educated third generation leaders introduced formalized frameworks for regulating the role of family members in the business, allowing access to external human capital, private equity and debt, and for help raising of public equity and pursuing acquisitions and organic growth. The second generation predecessors created foundations by involving non-family senior managers in strategic discussions involving the entry and roles of the third generation. It was usual for the third generation successors "to undergo a period of apprenticeship… to spend a year working their way around the company being exposed to the full range of activities and processes across all levels of organization" (Janjuha-Jivraj, 2006: 37). Once this happened, they seized to use mothers as their mentors – as they "became more confident of their position within the business and, more importantly, their relationship with the father, they were willing to let go of the apron strings and assert their independence" (Janjuha-Jivraj, 2006: 71).

The third generation leaders had rather limited emotional bonds with co-ethnic community, and were more willing to reward locals with senior management positions for their loyalty. A few Indian family businesses – such as Universal Print Group in South Africa - even embraced missions to empower less privileged indigenous communities, through employment and vendor and distributor partnerships. Those who failed to do so - such as Damjee Jewellers and Mistry's / Dash Super Market – and consequently suffered erosion in their business interests (Hiralal, 2001).

In the 1990s, significant numbers of educated South Asians began migrating to North America also. Several found employment as cashier and other key roles in the retail and hospitality sector – gas stations, motels, fast food franchises, restaurants, and jewelry stores, often owned by the earlier generations of South Asian migrants. As they accumulated experience, they created a profit sharing partnership with their employers to set up a new unit, with an option to buy out the former employer's share. Typically, founders and their wives worked together as a co-preneurial team running all aspects of business; sometimes parents or siblings also joined in as the business grew with the help of the embedded co-ethnic community ties. As the business expanded, women withdrew from the primary business, but looked for the diversification opportunities. Once women established the new business, their husbands sold off the earlier business – usually to siblings or co-ethnic members– or brought in their children as successors to lead further growth. Typically, children were involved in the business from their formative years, such as during school holidays, that created a sense of confidence. After receiving higher education, these children worked in professional organizations, before deciding to join the family business to help with taking on different set of opportunities based on new strategic directions and skills (Janjuha-Jivraj, 2006). Similarly, in the high-tech sector, after accumulating professional experience through employment, some ventured into their own businesses. Angel funding and other support was generated through co-ethnic ties, formed through professional and social activities (Clark, 2000). Often, partnerships, offices, or other support services for these firms were situated in India, as born global firms.

Discussion

The rich history of Indian OFBs can be used to examine how their behaviours diverge from the "typical MNC behaviour" model, in order to identify gaps in the latter and to refine the model.

Motivation to invest Abroad

Some Indian family firms did start operations overseas to leverage their home-base endowments, i.e. as an expansion of their Indian businesses. However, the firms with strongest home-base endowments were usually not the ones to invest overseas – instead, those with more limited success in India were more likely to invest overseas. The firms from the coastal regions of India, and the religious minorities (Muslims) were more likely to invest overseas. Further, in some cases, the start-up investment in the wholesale and retail trade of Indian products and services helped reduce the transaction cost for bilateral international exchange. However, in most cases, the primary investment was in the form of human resources and had limited implications for bilateral international exchange except in a deeper sense of culture embodied in these human resources. Similarly, the start up operations of many Indian entrepreneurs did seek to leverage the host-base endowments, including the local market knowledge, the local language, and the local products and services. These entrepreneurs, however, in most cases decided to permanently settle in the host markets, and did not seek to trade the host-base endowments – at least during the initial generations – to India or other nations. In both cases, a key motivation to invest overseas appears to be the opportunity to make a difference in the lives of the host residents, and an emergent vision – formed usually after the initial migration – of visualizing the family business as an author and a participant in scripting this different and better life in the host markets.

Liability/ Challenges of Foreignness

The Indian family firms investing overseas certainly faced high risks in the host markets, because of their limited familiarity with those markets and perception of being foreigners. However, both established firms as well as individual entrepreneur migrants did not invest in a vacuum. Rather, their entry and development relied actively on the established trade, and later investment, networks of the co-ethnic and inter-ethnic home nationals. They were therefore able to quickly gain sufficient familiarity about the host markets, that allowed them to either completely out-compete the Western MNCs or to situate themselves strategically as brokers between the Western MNCs and the local residents, and to even become traders intermediating among various host residents and sub-regions. Their presence actually reduced the transaction cost premiums for both the Western MNCs as well as the local residents, and forced out those firms who were responsible for higher cost premiums. Being outsiders, the Indian family firms and entrepreneurs were able to recognize the opportunities for reducing the transaction cost premiums. However, once these premiums had been reduced across almost the entire range of trade, the local residents expected the Indian family firms to shift their investments into manufacturing and other services, as a test of their loyalty and commitment to the adopted host nation. In summary, the foreignness appears to be an advantage as long as the Indian family OFBs filled important gaps in the host market, and moved to fill new gaps when the initial gaps were filled. The foreignness appears to be a liability when the Indian family MNCs sought to hold their control over the gaps already filled, and did not help build local resident capacity in assuming leadership in those areas.

Pathways for Market Entry

Collaboration with the local and global players was certainly part of the launch and growth strategy, as were hierarchy-based control and market-based exchange. However, the most proximate pathways to market entry of the Indian family MNCs were family workers, knowledge, contacts, and trust. Members of the extended family, including co-ethnics from the same village, helped lead geographical and product diversification. In some cases, new arrivals took employment with the established co-ethnics, learnt and progressed up, took the financial and know-how support to form new businesses in partnership, and then bought out the share of the established co-ethnics. These new arrivals sometimes competed out the established co-ethnics in specific segments, inducing the established ones to diversify or move into other segments. In other cases, the established co-ethnics maintained distance from the new arrivals, forcing the new arrivals to use minimalist approaches to survive. The established co-ethnics also strengthened their dominant power in specific markets by controlling manufacturing, trading, wholesaling, retailing, financing, as well as logistics. They typically sent their children for schooling and higher education to the major regional centers or to the West, in order to gain modern knowledge and then to apply that to the family business. In some cases, wealthier business families or their children migrated to the Western nations.

Strategies for Success

The established Indian family OFBs tended to connect their host operations globally, while the upstart ones tended to focus more on building the local networks. At some points, these two networks intersected, for instance, the established Indian family OFB bankers financing the retail trade of the upstart Indian family entrepreneurs in the host markets. Thus, the balance between global integration and local responsiveness was often achieved not at the level of individual firm, but at the level of the entire Indian diaspora. Further, the global integration was not always achieved at the level of a corporation. More often, different ethnic groups of family OFBs tended to focus on different product-markets, and the co-ethnics often established similar operations in the other regions. Knowledge and other resource transfers among these co-ethnic enterprises situated in different regions occurred through various co-ethnic networks. In other words, the global integration usually occurred at the level of co-ethnic networks. There were no pan-region co-ethnic associations or coordinating bodies, though such bodies did exist at the local level and may have facilitated some pan-regional interaction also. Global integration through co-ethnic and inter-ethnic networks allowed most Indian family OFBs to focus their priorities on local responsiveness, and to reinforce that by inviting additional members of their family to support the growth and development of their business in the host markets. Over time, they also mentored the next generation of family successors and local managers to sustain the local responsiveness. In addition, as the initial power of the co-ethnic and inter-ethnic networks weakened, they put renewed priorities on forming new connections with those networks locally and globally.

Networking of Host Operations

The leading Indian family OFBs networked their host operations with other regions. They also networked these operations locally, by expanding to different sub-regions and by investing in or acquiring operations in manufacturing and various service domains. They demonstrated very high level of continuing commitment to host regions, shaken only in the face of high levels of institutional backlash through expropriation or other discriminatory risks locally that hindered their ability to continue making a positive difference to their and to the local lives. They also demonstrated high levels of sensitivity to assuring global competitiveness of their operations, by prioritizing on collaborations with other co-ethnics, inter-ethnics, or even other players globally, and by preparing their children through overseas education and experience.

Corporate Social Responsibility

The Indian family OFBs tended to lag behind in the social compliance of their organizational and collaboration activities in the host markets. They gave preferential treatment to their family members and co-ethnics in employment and in leadership roles, as well as in collaborations. They compensated for their weak linkages with the local masses by offering privileged patronage to the local elites, which put them at severe risk when the power of those local elites eroded and shifted to others. A possible explanation for the low priority on gaining local mass support through philanthropic activities may lie in the emphasis of the Indian family OFBs to serve the local communities through their business model. However, as the business model matured, the local communities felt confident of filling the space and did no longer perceive the Indian family OFBs to be generating any additional social benefits. The second generation of family leaders experienced greatest challenges, but the third and later generation of leaders identified more with the local population, than with their co-ethnics. These later generation leaders also had greater resources, education, and will power to identify new avenues through global connections to add value, and to make philanthropic interventions. Moreover, though women played an important role in some of the first generation Indian family OFBs, their role was curtailed with the success of the firm, and not acknowledged due to the patriarchal attitudes. Only by the third and later generation the women began getting education and exposure that allowed them to assume some leadership roles, including around corporate social responsibility.

Impact on Global Competition

The Indian family OFBs had an important influence on global competition. They reduced the power of the Western MNCs, and helped strengthen the power of the Chinese and local firms. Thus, overall, they helped redistribute terms of trade from the European and Arab firms to the Asian and African firms. More recently, Indian family OFBs have been active in sourcing technology and other resources from the international markets using various co-ethnic and other networks, and to make them accessible in their host markets at more favorable terms of trade. They are also securing more favorable terms of trade for the local resources, through overseas alliances, and through various developmental initiatives in wide ranging domains.

Impact on Host Markets

The Indian family OFBs did seek to maximize their private benefit cost ratio through alliances with the local institutional elites. At times, they also sought to lobby with the Indian institutions to take up their case whenever they faced local backlash. However, they lacked a mechanism to coordinate their joint interests with either host or home institutions, and in general, their interests were rather diverse, and so did not perceive a need to even do so. Consequently, they showed a growing sensitivity – especially across successive generations – to maximizing social benefit cost ratio in host markets, and in aligning their private benefit cost ratio with that. In other words, the identity of the Indian family businesses has merged with that of their host markets that they have adopted as their homes.

Overall, the biggest gap in the received literature on the MNCs is about their espoused strategic intent. Based largely on the experiences of the larger publicly held and professionally managed enterprises based in the industrialized nations, the implicit view in the literature on the MNCs is that their strategic intent is to leverage and internalize home and/or host market resources as firm-specific proprietary assets, in order to gain, sustain, and enhance their competitive advantage locally and globally. The case of the Indian family OFBs suggests that this may not generalize to the family businesses from the emerging nations. Core competencies of these OFBs do not necessarily reside at the firm-level – in fact, at the firm-level, the EMNCs may face significant disadvantages, because of not only liability of foreignness but also disadvantage of late internationalization compared to the industrialized MNCs. The family-EMNCs actively rely on the core competencies residing at the level of extended family, co-ethnic, and inter-ethnic networks. Further, they also appear to rely more on the embodied form of overseas investment particularly migration of human resources, rather than disembodied forms of investment. The global market for the embodied investments is comparatively more limited than that for the disembodied investment, and thus they may be able to offset their disadvantages compared to the industrialized MNCs. Also, the family, co-ethnic, and inter-ethnic networks tend to be more enduring, and allow the family EMNCs to rapidly gain epic knowledge about the host markets and to minimize the potential liabilities of foreignness. They also offer a qualitatively different approach to the critical strategic challenges of global integration and local responsiveness. More embodied investments and enduring high touch presence in the host markets, however, brings new sort of challenges – such as managing institutions. These challenges take new shape and form with each successive generation of family, institutional leaders, and host community participants. At the core, the family EMNCs must resolve the balance between cultural integration and cultural differentiation. The process of embodied overseas investments tends to invite institutional demands for cultural integration, which promote massive transformations in the cultures of both host and immigrant communities, and serve to homogenize these cultures (Kuran and Sandholm, 2008). However, cultural integration and homogenization also generates significant "commitment costs," because as the immigrant communities become similar to the host communities, the case for maximizing their private benefit cost ratio also weakens and the society is called upon to make a commitment to give them same privileges as those to the dominant groups. Some level of cultural differentiation is also helpful for the family EMNCs to access and leverage co-ethnic and inter-ethnic networks from their home markets, even after space of several generations.

Conclusions

The "typical MNC behaviour" model is inspired by the experiences primarily of the large openly held firms from the industrialized markets. The case of Indian OFBs suggests potential pathways for the family EMNCs that diverge from the "typical MNC behaviour" model. In particular, human embodied investments, and by extension co-ethnic and inter-ethnic embodied networks, can be an important – and sometimes primary – pathway for the overseas investments of the family EMNCs. The human and ethnic embodied investments generate qualitatively different challenges related to cultural integration versus cultural differentiation. Greater cultural integration may weaken the case for promoting the private benefit cost ratio of the family EMNCs in the host markets. Conversely, greater cultural differentiation may result in community isolation, and may limit the enduring viability of human-embodied investments, and of ethnic networks. The Indian OFBs paradoxically appear to have responded to these twin challenges by attaining greater cultural integration in the host markets, while retaining cultural differentiation, over successive generations. They have sought to align their private interests with the interests of the host nations, and have leveraged their cultural differentiation to identify and expand into new opportunity arenas, often using reconstituted bridges with their co-ethnic and inter-ethnic community networks even after a gap of several generations. Thus, they have been able to continue to make a difference in their own and the host community lives – a core intent of initial overseas expansion and migration of these OFBs.

There are three major limitations of the present research. First, it is based on a particular interpretation of the typical MNC behaviour. There are sure to be other interpretations, and the MNC behaviours are also likely to vary significantly within and across different industrialized MNCs. Second, the research uses a specific interpretation of the history of Indian OFBs, during a specific period and in selected regions. Moreover, most of the Indian OFBs were not MNCs in the sense of having strategic, financial and operating interests across more than one nation. In most cases, the Indian OFBs adopted their host nation as their new home-base. Third, the experiences of the Indian OFBs may differ significantly from the experiences of other contemporary OFBs, such as those from China or Lebanon, and it would be desirable to triangulate the analysis using these alternative experiences. Also, there was a substantial diversity in the experiences of the Indian OFBs also, including in different host nations. Therefore, the analysis discussed here necessarily represents some degree of generalization and theorization, which would need to be refined for any gaps through further in-depth studies.

As for the implications for further research, the emergent body of research on the EMNCs should be sensitive to the family form of business, and the role of family and ethnic networks. Given the disproportionate presence of the family businesses even amongst the largest of the emerging market firms, the non-family EMNCs may be and may need to be more conscious of the strategies and behaviours of the family EMNCs. Ignoring the important role of family and ethnic networks may put non-family EMNCs at a disadvantage, and take away an important potential source of generating advantage compared to the better resourced and early moving industrialized MNCs. The collective resources and historical experiences of the family and ethnic networks may help EMNCs achieve a level playing competitive field in not only local but also global markets.

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