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The University of Strathclyde  
**Department of Marketing**

***The Significance of Ethnic Ties and Entrepreneurial  
Networks in The Internationalization of the Firm - Case  
Study: The Internationalization of UK Indian Enterprises***

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## **Abstract**

This thesis explores the significance of ethnic ties and entrepreneurial/social networks in the internationalization processes of small and medium-sized enterprises. It explores whether such networks can be leveraged in order to enhance the business performance of individual firms, whilst simultaneously enhancing the international competitiveness and performance of the UK at an aggregate level.

The above dimension was explored by focusing the study on UK Indian Enterprise. The reason for this focus was because the UK Indian community constitutes the single largest ethnic minority community in the UK.

The qualitative study was devised by synthesising and integrating a number of pertinent literature streams, i.e. Internationalization, SMEs, Asian Enterprise, Culture, and Networks.

The study revealed that the nature and dynamics of the sample frame support the findings of past studies relating to Asian Enterprise and Asian Entrepreneurship. The findings highlight that deficiencies in formalised planning processes, financing, and professional management practices exist amongst the firms; and similarities can be drawn with the deficiencies and problems recognised to exist for family owned SMEs, and SMEs per se, regardless of ethnicity. A key issue facing the bulk of firms was that of *'diversification'* and *'breakout'*, especially for firms operating in declining industrial sectors such as Textiles.

It emerged that the internationalization process pursued by firms was in line with the internationalization literature relating to *'export development models'*; which suggests that firms develop and grow their international activities in phases/stages, i.e. Pre-engagement, Initial and Advanced.

With regard to *'Ethnic Ties'* and *'Entrepreneurial/Social Networks'*, the study's findings revealed that such networks do play an important role in the dynamics of UK Indian Enterprise. It was also identified that: Indian social networks differ in structure and dynamics in different national settings; the importance attached to Indian Networks over the three (3) internationalization phases diminishes; and the international networks of UK Indians do not necessarily provide them with a significant advantage for internationalization, primarily because of issues relating to the competency, capabilities, and the synergy potential which exists with their international network contacts.

The study's findings suggest that changes in UK Indian cultural norms, which will influence the business practices of future generations, will be increasingly influenced by Western

business practices and ideology, which may well influence the internationalization practices of UK Indian enterprises in the future as shifts in management paradigms surface.

It also materialised that mainstream business support services were ineffective and lacking in both engaging and facilitating the internationalization activities of the participating firms. This supports the findings of past studies in this area. From a international policy perspective, the study reveals that although government advice and guidance services may be of assistance to SMEs per se (in the main firms which are already engaged in international activity), they do not address the needs of many firms which are at the '*pre-internationalization*' stage, seeking to address questions orientated around '*whether*', '*where*' and '*how*' to Internationalize. In addition, this non take-up of services would appear to be more acute for ethnic minority enterprises.



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## Definitions/Glossary of Terms

**Asian:** Individuals of Indian, Pakistani, or Bangladeshi origin. It includes people who might have previously lived in Africa, who's origins were from the Indian sub-continent.

**Asian Firms:** Asian firms are those in which a half or more of the owners, partners or directors are 'Asian'. The term Asian firms exclude Chinese or other East Asian groups<sup>1</sup>.

**Business Formation:** Is taken to mean: All greenfield start-ups where there is no continuity between ownership or type of business that *previously* operated on the site and the *new* business on the site; all acquisitions of going concerns by new owners; all significant changes of business activity on the site by the existing owner to a quite different type of business. This is a wider definition of formation than is used by official sources, which depend on VAT registration definitions (Ganguly, 1982).

**Business Failure:** Is taken to mean: Clearly observed closure of premises where trading has ceased (at least, overtly); transfer of business as a going concern to another owner; a significant change in the type of activity operating on the site (Wilson and Stanworth, 1986).

**Capitalism (Capitalist, Capitalistic)<sup>2</sup>:** Possession of capital or wealth; system in which private capital or wealth is used in production and distribution of goods; In political terms - dominance of private owners of capital and production for profit.

**Closed System:** Closed Systems are those which, for all practical purposes, are completely self supporting, and they do not interact with their environment.

**Culture:** The shared attitudes and values of the members of a country. '*Culture is a learned, shared, compelling, interrelated set of symbols whose meaning provides a set of orientations for members of a society. These orientations, taken together, provide solutions to problems that all societies must solve if they are to remain viable.*' (Terpstra and David, 1985)

**Entrepreneur:** One who undertakes a business or enterprise with chance of profit or loss<sup>3</sup>.

**Ethnic:** The term 'ethnic' refers to membership of an ethnic minority (Ward, 1986) (See 3 below, 'ethnic minorities').

**Ethnic Minorities:** Within the UK ethnic minorities are classified to be individuals who classify their own ethnic origin as to be: West Indian or Guyanese, Indian, Pakistani, Bangladeshi, Chinese, African, Arab, Mixed Origin, or Other. With individuals classifying themselves in the last two groups providing further specification<sup>4</sup>.

Ethnic minority groups are communities who settle in a host nation, differentiated from the indigenous population by skin colour and/or subscription to noticeable different cultural, religious or value norms.

Contemporary discussion of ethnic minority groups in the UK is taken to refer to communities of Asian, Afro-Caribbean or Chinese origin which in 1988 comprised approximately 4.2 % of the population.

<sup>1</sup> Leicester Asian Business Survey (1994).

<sup>2</sup> The Concise Oxford Dictionary (1982).

<sup>3</sup> The Concise Oxford Dictionary (1982).

<sup>4</sup> Labour Force Survey classification. People interviewed were asked to classify their own ethnic origin and that of others in their household by means of the question: "To which of these groups (listed above) do you consider....belongs?"

**Ethnic Ties:** In the context of this study the term refers to personal/emotional bonds, or relationships of kinship and friendship, shared amongst immigrants in the UK who emigrated from the Indian sub-continent and Indians elsewhere in the world.

**Indigenous:** As used in the context of 'UK indigenous ethnic firms' is here meant to signify membership of an established ethnic group in the UK population (Ward, 1986).

**Open System:** Open Systems are those which do interact with their environment, on which they rely for obtaining essential inputs and for the discharge of their system-outputs.

**Psychic Distance:** A firm's degree of uncertainty about a foreign market resulting from cultural differences and other business difficulties that present barriers to learning about the market and operating there (O'Grady and Lane, 1996).

**Small and Medium-sized Enterprises (SME):** There are various definitions for classifying small and medium-size enterprises. The definition is generally one which relates to the number of employees, but others based on turnover also are provided.

Government statistics divide firms in to three categories up to 25, 25-200 and over 200.

Other studies have used a slightly different categorisation scale with small and medium-sized enterprises having less than 500 employees. Small and medium-sized enterprises are then further subdivided with 'micro' having up to 10 employees, 'small' being up to 100 employees, 'medium' up to 200 employees and 'large' up to 500 employees<sup>5</sup>.

**UK Indigenous Asian Firms:** The term is used to signify membership of the Asian Business community in the UK.

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<sup>5</sup> Leicester Asian Business Survey (1994).



## 1.0 The Study's Focus

### 1.1 Introduction - Nature of Study

*"The contribution of ethnic minority firms to the economy as a whole is considerable. They represent a significant and growing part of the small business market."*

- E. George, Governor of the Bank of England (BOE, 1999)

The writer argues that the long-term prosperity of the UK is dependent on improvements in the international performance of all UK enterprises regardless of ethnicity. Consequently, ethnic minority firms should be encouraged and supported in exploring avenues which present genuine opportunities for performance enhancement.

At the time of the study, it was acknowledged in various reports that high on the Government's agenda was the regeneration of disadvantaged communities (BOE, 1999); and the DTI was in the process of reviewing its strategy to ensure that it was addressing the needs of ethnic minority firms throughout the UK. Indeed, earlier in 1999, the Chancellor of the Exchequer, the Rt. Hon. Gordon Brown MP, announced the formation of the '*Small Business Service*' (SBS), and subsequently, the Rt. Hon. Stephen Byers MP, Secretary of State for Trade and Industry, published a formal consultation paper on the proposed SBS. In response, many minority business networks and agencies believed the consultation process as providing ethnic minority business communities, nationally, a unique opportunity to engage with the DTI in terms of the needs and aspirations of the business community prior to the formation of the new nationwide business support agency. Historically, minority business communities' needs have been subject to a lack of support; indeed, the take-up of official business support among ethnic minority firms had been proven low (BOE, 1999; Marlow, 1992; Crick and Chaudhry, 1995; Carter et al, 2000) (see **Section 4.4.4**).

National statistics show that ethnic minorities and ethnic minority enterprises make considerable contributions to the overall economic prosperity of the UK, not only at a macro aggregate level, but also at a micro level (due to localised concentrations) where they make considerable contribution to the economic prosperity of specific regions (Herche and Balasubramaian, 1994; Mulhern and Williams, 1994; Owenbey and Horridge, 1997; Clegg 1996; Timmins, 1995) such as the Midlands. Barclays Bank reports that although statistics on the number of ethnic minority firms, or the contribution of the ethnic minority community to the UK economy, are not collected by any official source (i.e. Office for National Statistics) on a periodic basis, an estimate of a *thirty seven billion pounds (£37B)*



contribution to the UK's GDP has been made<sup>6</sup>. It should also be noted that isolated estimates<sup>7</sup> of the economic activities of the South Asian population (i.e. Indians), the largest ethnic community in the UK - and the focus of the study - suggest their total turnover to have been somewhere in the region of between five billion pounds and eight billion pounds (£5B - £8B) in 1992.

It is estimated that ethnic minority firms represent almost seven percent (7%) of the total small business stock (Barclays Bank, 1997), compared to a demographic population of some five percent (5%). Indeed, Labour Force Surveys and the 1991 Census highlight that ethnic groups have a greater representation in self-employment than Whites. This is supported by statistics which reveal that approximately nine percent (9%) of new business start-ups in 1997 involved entrepreneurs from ethnic minority backgrounds (Barclays Bank, 1997), clearly demonstrating a higher potential contribution to UK competitiveness.

When one looks to the future, ethnic entrepreneurship takes on even greater significance for the UK as entrepreneurial talent is anticipated to increase over time, primarily because the ethnic minority population is expected to double over the next twenty five (25) years (Race for Opportunity, 1997; Clegg, 1996). Indeed, eighty percent (80%) of the ethnic minority population are aged below twenty five (25) years, and over ten percent (10%) of university students are from ethnic minority communities. Consequently, the ethnic community is seen as a growing sector of an increasingly multi-cultural population, a sector which is proportionally better educated and more entrepreneurial than the broader society as a whole (Basu, 1995; Gidoomal 1998). This highlights that there is a growing need to identify and recognise the specific strengths and weaknesses of these communities, whilst simultaneously identifying the specific threats and opportunities they face, in order to determine the precise nature of business support requirements necessary to facilitate their growth and enhance their contribution to the aggregate growth and development of the UK economy in the new Millennium.

The study presented and discussed by the writer focuses on highlighting the significance and the importance of '*ethnic ties*<sup>8</sup>' and '*entrepreneurial/social networks*' as resources which ethnic minority firms could potentially utilise in order to facilitate the internationalization of the firm. It was perceived at the conception stage of the study that such ties and networks present the '*ethnic firm*' with distinct advantages over '*other*' firms in international activity.

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<sup>6</sup> The statistics are taken from the Office of National Statistics. The calculation is an approximation only, and does not take account of other relevant factors, such as unemployment statistics.

<sup>7</sup> South Asian Development Partnership (1992).

<sup>8</sup> The term '*Ethnic Ties*' is defined here as meaning personal/emotional bonds or relationships of kinship and friendship shared



Whilst the literature review regarding '*networks*' suggests that '*networks*' per se are of generic importance to entrepreneurs regardless of ethnicity (Birley, 1985; Aldrich and Zimmer, 1986; Tjosvold and Weicker, 1993; Malecki and Veldhoen, 1993; Perry, 1996; Fletcher, 1997), the literature on Asian Enterprise (introduced and discussed in **Section 4.0**) suggests '*networks*' to be of more significance amongst Asian groups residing in the UK (Ram, 1994; Ward and Randall, 1988; Werbner, 1984; Waldinger et al, 1989; Ward, 1991; Bailey, 1985). Indeed, this was one of the reasons why the writer chose to focus the study on **Indian** enterprises and their entrepreneurs as a case study. This community of entrepreneurs was selected following the understanding and insight gained (by the writer) that there are subtle differences between nationalities grouped as '*Asian*' (Hofstede, 1980) (see **Section 5.0** which discusses cultural differences). This focus served to validate the study's propositions, and investigate if such networks offer genuine opportunities for internationalization. The primary reasons for selecting Indians (i.e. South Asians), as a focus group, were: 1) they represent the largest ethnic minority community in the UK; and, 2) they are the most researched ethnic minority community, enabling the writer to draw upon past study findings as a reference point.

The study sought to investigate the extent to which UK Indian firms had internationalized and the importance placed on ethnic ties and networks in the development and selection of their foreign market entry and development strategies (FMEDS).

Coupled with the above statistics and the research findings presented throughout both volumes, which identified a significant proportion of UK Indian firms are concentrated in traditional and localised industries - industries which are: generally associated with poor working conditions; open to international competition; and generally price competitive and declining sectors (Ram and Jones, 1998; Ram et al, 2000) - the writer suggests that a need exists to assist such firms to '*breakout*' and enter new areas of business opportunity (i.e. diversification) both domestically and internationally (Wilson, 1983; Wilson and Stanworth, 1986; McEvoy and Aldrich, 1986; Ward, Randall and Karisa, 1986; MacMillan and McCaffery, 1982; Deakins, 1996; The Ethnic Minority Business Development Initiative (EMBI), 1991; Ram and Sparrow, 1993; Khan, 1988). As a consequence of such assistance, as stated earlier, the resulting chain reaction can be anticipated to have the positive effect of contributing to rebalancing the UK's industrial portfolio to a more competitive and advantageous position.

In addition, the reported shift in international trade from the Atlantic region to the Pacific

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amongst immigrants in the UK who emigrated from the Indian sub-continent and Indians else where in the world.



region has resulted in genuine opportunities presenting themselves to UK immigrant communities whose ancestral roots are in these new and growing international trade zones (NatWest Bank, 1997). Indeed, the literature identifies that many immigrants who have settled in the UK maintain and value kinship ties with their ancestral motherland and endeavour to maintain their motherland's cultural heritage in the host nation (Desai, 1963; Oakley, 1970; Ballards, 1977; Allen, 1970; Gidoomal, 1997; Reardon et al, 1997). This can be argued to provide them with a unique competitive advantage over similar host nation firms which may lack such ties.

Also, many indigenous UK firms which have the potential to operate internationally experience psychological barriers to internationalization when faced with cross-cultural management issues. This factor intensifies the perceived risk of internationalization and consequently influences the 'go/no go' decision (Hambrick et al, 1989; Sandstrom, 1992; Carlson, 1966; Johanson and Wiedersheim-Paul, 1975; Hallen and Weidersheim-Paul, 1982). It can be argued that the recruitment of a multi-cultural and diverse workforce would overcome national cultural differences and equip the firm with an informed international launch pad. This would result in not only reducing the perceived risk of entering international markets, leading to enhanced long-term business performance, but would also simultaneously, at an aggregate level, enhance the UK's competitiveness at an international level.

At the time the study took place, the behaviour of UK Indian Enterprise in terms of internationalization was a relatively unknown phenomena, hence the proposed methodology for the study was inductive. However, familiarisation with previous empirical and theoretical work on Internationalization, SMEs, Asian Enterprise<sup>9</sup>, Ethnic Minorities<sup>10</sup>, Culture, and Networks per se was deemed to be important prior to the research design outlined in the research methodology presented in **Volume 2, Section 3.0**.

As highlighted throughout the thesis, the study had a strong exploratory component concerning the extent to which UK Indian enterprises viewed internationalization and had internationalized, clearly identifying barriers to the internationalization process. Information was gathered through qualitative research via in-depth guided interviews which allowed the

<sup>9</sup> Individuals of Indian, Pakistani, or Bangladeshi origin. It includes people who might have previously lived in Africa, whose origins were from the Indian sub-continent

<sup>10</sup> Within the UK ethnic minorities are classified to be individuals who classify their own ethnic origin as to be: West Indian or Guyanese, Indian, Pakistani, Bangladeshi, Chinese, African, Arab, Mixed Origin, or Other, with individuals classifying themselves in the last two groups providing further specification. Ethnic minority groups are communities who settle in a host nation, differentiated from the indigenous population by skin colour and/or subscription to noticeable different cultural, religious or value norms. Ethnic minorities are drawn to the host nation by prospects of employment, the possibility of a higher standard of living and for some, a necessary move from repressive conditions in their home land. Contemporary discussion of ethnic minority groups in the UK is taken to refer to communities of Asian, Afro-Caribbean or Chinese origin which in 1988 comprised approximately 4.2 % of the population.



opportunity to explore pertinent issues. The writer argues that the type of information which the study sought and gathered, concerning the process of internationalization adopted by UK Indian firms, could not have been uncovered as thoroughly through utilizing other survey instruments, for example, a postal survey. This dimension is discussed in detail in the study's methodology.

The outputs of the study provide: a contribution to improvements in the internationalization business practices of UK Indian enterprises; a contribution towards the development of models of internationalization, in particular identifying the important role which ethnic ties and entrepreneurial/social networks have; and a contribution towards support agency policies (public and private) along with other appropriate organisations. Indeed, the research methodology devised for the study was structured to ensure these outputs were attained.

The reader should recognise that throughout the study the writer constantly asked himself the question, '*Should firms Internationalize?*' The question is based on Piercy's (1982) conclusion that: "*the great bulk of what has been written, said and taught about exporting is founded on the assumption that companies are (or should be) internationally active committed, problem-solving exporters. It has been shown that this assumption is descriptively false and indeed may be normatively questionable*".

## **1.2 Research Objectives**

In order to satisfy the research objectives of the study outlined below, an integrative framework of the internationalization of the firm - utilizing ideas and concepts derived from the contingency theory, resource-based perspective and strategic management literature, similar to that proposed by Bell and Young (1997) - was adopted as a plausible research framework and point of reference for the study. By considering internationalization within the holistic context of firm strategy and growth, the study aimed to provide insight which can assist in taking the research field forward. Indeed, Young, Bell and Crick (1998) argue that by adopting such an approach the researcher can get closer to the actual nature of decision-making within firms, since a firm is unlikely to make individual international business decisions independently of each other and of other strategic and business management decisions within the enterprise; i.e. decisions are made based on the outcomes of historical decisions, the organisation's current objectives/priorities, and the prevailing external business climate. Consequently, firms reach a **state** of internationalization (see **Section 3.3** for discussion).

The reader should note that since the thesis is submitted in fulfilment of the requirements of the degree of '*Doctor of Business Administration*' (DBA) (Hayer, 1997; Hayer, 2001), the outputs of the study stress the policy implications, both business policy (various aspects but particularly international business policy) and public policy (see **Volume 2**).

The overall governing objective of the study was: ***To investigate the significance of ethnic ties and entrepreneurial/social networks in the internationalization of the firm.*** This objective was to be achieved by focusing the study on '*the internationalization of UK Indian enterprises*' as a case example.

In order to satisfy the governing objective, the following research sub-objectives which relate to market screening and selection, foreign market entry and development strategies (FMEDS), and policy issues, were also addressed by the study:

- SO1. To identify the methods and techniques adopted by UK Indian firms in the country screening and selection process in order to evaluate suitable international markets;
- SO2. To identify how UK Indian firms perceive overseas markets, their attractiveness, the barriers (tangible and intangible), and their perceptions regarding the assistance required (at both sides) to improve and enhance effective and efficient entry into overseas markets;
- SO3. To identify the foreign market entry and development strategies (FMEDS) adopted by UK Indian firms and the management strategies pursued;
- SO4. To investigate how cross-cultural ethnic links influence the internationalization of UK Indian firms (outward from the UK and inward to the UK), and establish whether ethnic ties become less or more important as the firm grows (domestically and internationally) over time;
- SO5. To identify the extent to which past studies have enhanced our understanding and research focus in the area of the internationalization of UK Indian entrepreneurs and their firms;
- SO6. To evaluate the usefulness of support agencies (public and private), in particular with regard to the level of assistance available for internationalization as perceived by UK Indian entrepreneurs and their firms; and finally
- SO7. To provide sound recommendations based on research which will be of value to:
  - ◆ UK Indian entrepreneurs and their firms;
  - ◆ business support agencies (public and private);
  - ◆ international business academics, and others with interests in entrepreneurship and Indian enterprise, and internationalization per se; and
  - ◆ to make a distinctive contribution to research in the field of internationalization.



### 1.3 *Underlying Assumptions of the Study*

The underlying assumptions at the outset of the study were as follows:

- ◇ The majority of UK Indian firms are passive in nature when it comes to internationalization. They do not actively seek international opportunities and when internationalization is considered and investigated, it is a reactive action in response to their changing business environment, i.e. they operate in self defined vacuums as closed systems;
- ◇ The mechanism by which internationalization occurs is via relationships which exist with the family, the extended family and the Asian community at large, i.e. ethnic ties and social networks provide the conduit for international activities. This assumption implies that international exchange is primarily restricted to nations with which Indians have blood or ethnic ties; and
- ◇ The culture of the '*nation*' with which Indian entrepreneurs and their firms engage in exchange internationally, or the '*parties*' with which they engage in exchange internationally, have a significant impact on the internationalization process of UK Indian firms.

### 1.4 *Researching Indian Enterprise*

*"With some areas of the UK having relatively high levels of ethnic minority-owned firms operating within them, it is surprising that so little has been written about these firms."*

**- Crick and Chaudhry (1995)**

The reasons presented to explain the limited amount of research into the growth potential and problems of ethnic-owned firms (Marlow, 1992) are related to issues such as: overcoming language barriers, locating firms which operate in marginal, informal sectors and gaining access to SMEs where time is a scarce commodity. Krcmar (1987) encountered problems obtaining interviews with Asian entrepreneurs and, in some cases, faced language difficulties. Also, Brown and Gay (1986) suggest that institutional racism in contemporary society acts as a barrier to White researchers gaining the trust of ethnic entrepreneurs.

With such issues hindering '*Asian Entrepreneurship*' and '*Asian Enterprise*' research, it is not surprising that so little has been undertaken and, consequently, written about these entrepreneurs and their firms in comparison to SMEs per se. However, the writer suggests

that there is a need to overcome these issues which act as barriers, and genuine effort requires to be made from both sides, i.e. the researcher and the Asian business community (see Volume 2, Section 11.4.2).

With growing competition, not just from domestic competitors but from international ones also, it can be argued that a new partnership needs to be established which will enable firms and support agencies (public and private) to benefit from research findings whilst simultaneously participating in the studies themselves.

### **1.5 Academic Reasons For Undertaking The Study**

As stated earlier, a particular aim of the study was to contribute to the literature in the area of *'the internationalization of the firm'* by establishing whether or not *'ethnic ties'* and *'social networks'* - which can be regarded as *Entrepreneurial Networks* - influence the internationalization of the firm.

The literature review undertaken by the writer, and presented in this volume on: the Internationalization of the Firm (in particular Psychic Distance and Network Theory); Small and Medium-sized Enterprises (SMEs); Export Development Models; Ethnic Minorities; Asian Entrepreneurs and Asian Enterprise; Culture and Cross Cultural Management; and South East Asian Networks - all of which were relevant in the context of the study. It identified the following summarised<sup>11</sup> issues which enabled the writer to derive propositions (see Section 1.6) which contribute to both practitioner and academic audiences:

#### **◆ Internationalization**

1. The literature on internationalization is constantly evolving. There is scope for contribution to the development of models of internationalization, particularly in the area of the importance of ethnic ties and social networks to internationalization; and
2. Certain sectors of business activity will feel a far greater need to internationalize than others as a result of intensifying international competition and changing world order. This will especially affect those firms which operate in marginal price competitive sectors where factor costs are of critical importance to survival.

<sup>11</sup> Issues have emerged following the literature review. Evidence and references are provided in the relevant sections of this volume.



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**◆ Networks**

1. When attempting to reconcile networks in a Western context with networks in an Asian context, it is apparent that the two (2) are fundamentally different. This is explained by the different ideologies which have led to their creation and sustainability;
2. It would appear that Asian networks are structured hierarchically, all networks being ultimately subordinate to the Asian community's '*social network*';
3. Asian social networks have established themselves as a way of life over many generations, and as such they are integrated into the fabric of Asian society. They are a cultural trait. Asians develop and exploit social networks and ethnic ties for the accomplishment of a number of ends. These networks are sources of competitive advantage as well as competitive disadvantage. In Asian networks, there is a stronger emphasis placed on 'personal trust', as opposed to that of 'systems trust' which is prevalent in Western societies. In the Asian context, networks provide an infrastructure for doing business and establishing relationships. Networking is seen to come naturally to Asians and is an integral part of the cultural fabric of their motherland, and consequently will inevitably influence '*Asian*' business practices both domestically and internationally; and
4. Western business networks are established as a means to support the capitalistic society of which they are a part. Westerners view the need to develop business networks from a perspective which will enable them to develop and execute business. They are regarded as a necessary means to this end and are not deep rooted in the cultural fabric of Western capitalistic societies.

**◆ Culture**

1. The way in which people behave and interact with the wider environment differs according to their country of origin. The literature shows that Westerners are considered to be more individualistic, whereas Asians are considered to be more collectivist in orientation. These social differences influence the business behaviour and practices of individuals from different nations. The literature on Asian networks suggests that '*networks*' are a cultural characteristic of Asian communities, the roots of which are embedded in aspects of religion, duty, community, and honour;
2. The ideology of a child's parents (which is a manifestation of culture), and the community within which they grow up during their formative years of socialisation, have a life lasting impact on a child's behaviour. Although children may consciously choose to adopt, at a superficial level, certain norms of behaviour associated with their host nations culture, they will still maintain at their core the cultural values and ideology of their parents. This implies that continuity of culture within immigrant groups will exist in a host nation (i.e. sub-cultures will exist). However, the degree to which this is diluted over the

generations, due to the diffusion of a host nation's national culture over generations of immigrant groups, is an important issue for future research; and

3. Individuals would prefer to engage in exchange with individuals who share similar cultural norms, approaching those with different cultural norms with caution and reservation. A 'cultural-gap' may exist between parties from different societies which can lead to misunderstandings, generating noise which surrounds the communication process, in both encoding and decoding of messages, between the parties concerned.

#### ◆ Asian Entrepreneurs and Asian Enterprise

1. Firms are predominantly concentrated in the small end of the spectrum of the definition of SMEs (i.e. micro-businesses);
2. Entrepreneurs are predominately concentrated in declining marginal areas of business activity where competition is significantly based on price (for example: retail, textile, and food sectors);
3. Businesses predominantly serve their own ethnic enclaves;
4. Entrepreneurs do not actively seek international opportunities;
5. Enterprises operate as family businesses which are financially ill-equipped, lacking in management skills and professional knowledge, and sceptical of outsiders, i.e. they lack resources;
6. Entrepreneurs are reluctant to participate in government agency business support schemes;
7. Firms are not integrated into the mainstream and an issue regarding 'breakout' from ethnic markets exists;
8. The UK Asian community demonstrates a higher level of entrepreneurship than other communities;
9. Ethnic minority entrepreneurs have been disadvantaged by discrimination; and
10. Entrepreneurs maintain contact with relatives and friends on the Indian sub-continent and throughout the world.

### 1.6 Research Propositions

*"The purpose of exploratory research is to discover new ideas and insights; these are better attained via proposition formulation than hypotheses formulation."*

- Selltiz et al (1976)

When embarking on a research study, a key research issue for the researcher is to



establish whether it is appropriate to make '*hypotheses*' or propose '*propositions*'.

In the case of this study, the writer believed it more appropriate to propose propositions as opposed to hypotheses. As stated in **Section 1.2**, the primary focus of the study was to '*explore the significance of ethnic ties and entrepreneurial networks in the internationalization of the firm*', which influences whether to make '*hypotheses*' or suggest '*propositions*'. Indeed the primary reasons for posing propositions were:

- ◇ There is general convergence of agreement in the literature that, all things being equal, firms begin to export as a result of the interaction between external and internal attention-evoking factors, governed by the '*mind-set*' of the key decision-maker(s) (Wiedersheim-Paul et al, 1978; Olson and Wiedersheim-Paul, 1978; Maignan and Lukas, 1997). Consequently, individuals make different decisions in similar situations grounded in their perceptions of balancing opportunity and risk (Eriksson et al, 1997). As a result, given the highly '*behavioural*' nature of this process, hypothesis testing was rejected by the writer; and
- ◇ The nature of the qualitative data to be collected during the field work via in-depth interviews would not lead to appropriate hypothesis testing. The behavioural nature of the study, combined with the size of the sample frame, precluded the use of hypotheses.

In summary, the writer believed that propositions posed at the outset of the study would be more appropriate to explore the complex internationalization processes and patterns, and would lead to a higher degree of understanding of attitudinal and situation-specific factors.

In addition, it should be noted that Van Maanen (1983) and Hart (1987) have highlighted concerns regarding the use of hypotheses to investigate historical data. They argue that information provided by respondents may not be accurate for various reasons including:

- ◆ Events may have occurred before the individual joined the firm or attained their present position; and
- ◆ Even if they were directly involved, their recollection of events and behaviour may be blurred or distorted by post-hoc rationalization.

Consequently, it can be argued that the use of complex data analysis techniques to test hypotheses, on self-reported past internationalization dimensions, is methodologically suspect.

It should be noted the following ***propositions*** relating to the context of this study were derived and justified based on the issues which materialised through the literature review

(see Sections 3.7, 4.6, 5.7, and 6.7 for detail). It is these propositions which influenced this study's research design which is discussed and presented in detail in Volume 2, Section 3.0. The reader should also note that the study's findings were compared where possible vis-à-vis the findings relating to SMEs per se, in order to highlight ethnic enterprise idiosyncrasies and derive the focused conclusions and recommendations presented in Volume 2.

### 1.6.1 Propositions: Internationalization

- P1.1 The management paradigm which exists within UK Indian firms is one which is orientated around '*strategic fit*' as opposed to '*strategic intent*'. This will restrict the pursuit of international opportunities;
- P1.2 The international growth of UK Indian firms is restricted due to lack of appropriate international management skills. Internal deficiencies exist which restrict internationalization (Crick & Chaudhry, 1995);
- P1.3 UK Indian firms will predominately be involved in export/import activities as opposed to other modes of international business, i.e. licensing, franchising, joint ventures, FDI, management contracts, etc., primarily because of issues relating to risk, control and background factors (Crick & Chaudhry, 1995); and
- P1.4 The support strategies adopted by support agencies are ineffective in encouraging UK Indian firms to internationalize. The supporting network of resources on which UK Indian firms may draw for advice and information regarding aspects of internationalization are inadequate (Marlow, 1992; Crick & Chaudhry, 1995).

### 1.6.2 Propositions: Ethnic Ties and Social Networks

- P2.1 Networks are a way of life in an Indian context which can restrict the effective and efficient internationalization of UK Indian firms; these are a source of competitive disadvantage as well as competitive advantage (Ram, 1994; Hamilton, 1996);
- P2.2 Wherever Indians live and work, the social networks that they create are similar in structure and in mode of operation with social networks shaping the way Indians do business in all settings (Hamilton, 1996);
- P2.3 The importance attached to ethnic ties and social networks over the duration of international activities does not diminish over time (Hamilton, 1996);
- P2.4 Where business partners based in other nations are necessary, great emphasis is placed on similarities in culture and the exploitation of '*social networks*'. This becomes



critical to the internationalization 'go' or 'no go' decision. For UK Indians, international social networks and ethnic ties provide a ready means for internationalization;

- P2.5 Amongst the range of personal relations used by Indian entrepreneurs to maintain business trust, the family and regional ties are of particular importance. This will influence the personal networks of Indians in relation to network density and diversity, thus restricting internationalization activities; and
- P2.6 Within Indian business networks there is, it can be argued, a sense of mutual suspicion and an absence of sincerity which may restrict internationalization (Hamilton, 1996). It is uncertain as to whether trust or suspicion are the major issues. The literature is divided as to whether network bonds would rest on trust or suspicion. Within networks, the writer suggests that possibly trust and mutual orientation exists, with suspicion existing between competing networks.

### 1.6.3 Propositions: Culture

- P3.1 The cultural factors associated with Indians are unlikely to diminish to a level which will significantly change UK Indian Enterprise behaviour, i.e. the degree of cultural contamination will be restricted (Tayeb, 1988; Child, 1982);
- P3.2 Indian firms will exploit both systems trust and personal trust to enter international markets; the fact that *systems trust* exists in the UK does not diminish the vigour of *personal trust* in Indian business life (Hamilton, 1996); and
- P3.3 Indian entrepreneurs have to invest considerable time and resource in order to personalise economic relations and to undertake diffused mediating functions. This will restrict internationalization activities (Hamilton, 1996).

## 2.0 Organisation and Structure of Volume 1

Both volumes of this thesis have been structured in a manner which makes each volume self standing. This volume focuses on the development of research issues and questions, and **Volume 2** focuses on the investigation of these and the outputs of the investigation.

This volume presents the findings of the literature review and synthesis of the relevant streams of literature, and the derived research propositions for the study, whereas **Volume 2** presents: the research methodology; the research design; the sample frame; the findings of the field work; the conclusions and recommendations; the limitations of the study; and suggests areas for future research.

This volume has been structured in a manner to enable the reader to follow the writer's argument and gain an appreciation for the overall research objective: **Section 3.0** outlines the scope of past and current thinking, and the limitations of the literature on the internationalization of the firm. The section focuses on areas (i.e. gaps in the literature) where contributions are possible in order to take the research agenda forward; **Section 4.0** discusses the context of this study, i.e. UK Indian Enterprise, and provides the reader with textualisation and a feel as to the nature, dynamics and history of such firms. The section highlights that Asian firms rely heavily on ethnic ties and social networks for a host of reasons and that they are culturally significant; **Section 5.0** develops further this insight in to the cultural dimension of Indians and the cultural significance of networks to Indian enterprises and their entrepreneurs; **Section 6.0** further develops the issue of Asian Networks and focuses on the dynamics of such networks. The section debates the possibility of utilising networks as strategies to enhance and provide opportunities to contribute to the internationalization of UK Indian firms.

A review of the contents page (page 3) provides the reader with a detailed break-down of the structure of the volume. The volume comprises six (6) sections with the key literature streams being synthesised, separated, and presented as distinct sections, i.e.

Internationalization, UK Indian Enterprise, Culture, and Indian Networks. Cross referencing across the literature streams is made throughout the volume so as to present a meaningful and integrated review of the literature streams in the context of the study, and also identify meaningful research issues and questions.

Each section follows on logically from the previous section in a coherent manner, with



sections being sub-divided into relevant sub-sections in order to derive meaningful research issues for the study. Indeed, each section concludes with a sub-section which outlines the emergent issues from which the study's research propositions were derived and investigated through primary research as detailed in **Volume 2**.

### 3.0 The Internationalization of The Firm

*"The global, high-tech economy has brought with it a whole new range of business dynamics, with enterprises, technologies and governments interacting within a global marketing and production arena. More than ever before the issue of how to enter and develop international markets is a crucial dimension in competitive advantage internationally."*

- Young et al (1989)

#### 3.1 Introduction

This section of the volume focuses on Internationalization per se and small and medium-size enterprises (SMEs), and establishes the rationale for the study, i.e. clarification of the significance of ethnic ties and social networks in internationalization processes. The section provides the reader with a comprehensive and systematic review of the internationalization literature and concludes by highlighting specific emergent areas where research attention was directed, i.e. gaps in the internationalization literature which were addressed through probing the internationalization processes of UK Indian enterprises.

The section provides a review of the contributions made by the three (3) schools of thought to enhancing our understanding of the internationalization of the firm - i.e. behaviourists, economists, and strategists. In addition, the section debates the significance of the notion of 'psychic distance' to the international market screening and selection processes of firms; and also (given that the demographic profile of the sample frame (see **Volume 2, Section 4.0**) was shown to be SMEs) provides a detailed review of the internationalization literature relating to the internationalization practices of SMEs per se and those of Asian enterprises.

#### 3.2 Internationalization per se

The term '*internationalization*<sup>12</sup>' has been used by Welch and Luostarinen (1988) to refer to 'the process of increasing involvement in international operations' and highlights the variety in firms' *Foreign Market Entry and Development Strategies (FMEDS)*<sup>13</sup>. The literature suggests that a firm's international involvement can best be described as an evolutionary

<sup>12</sup> Young et al (1987) define '*internationalization*' as including 'the whole range of methods of undertaking business across national frontiers, some of which involve flow of goods and services between countries, some of which do not'.

<sup>13</sup> FMEDS: Exporting, Licensing, Franchising, Management Contracts, Turnkey Contracts, Contract Manufacturing/International Sub-contracting, Industrial Co-operation Agreements, Contractual Joint Ventures, Equity Joint Ventures, Wholly Owned Subsidiaries - see Young et al (1987) for detailed discussion.



and ongoing process, and in internationalizing “firms will need to be flexible enough and have the capabilities to operate a range of methods of foreign operations” (Young et al, 1989). Indeed, “the exchange of goods and services on an arm’s-length and ad hoc basis, i.e. ‘trade’ in a textbook sense, between independent firms in two different countries, is becoming the exception rather than the rule. Contractual relationships between links in the ‘chain of value added’ are becoming an essential feature of the modern economy” (Commission of the European Communities, 1988). This suggests that the internationalization process per se is a dynamic and evolving one, and one which this writer suggests in Sections 5.5 and 6.4 can be influenced culturally.

The effect of the ongoing liberalisation of global trade, and the integration of national economies in general, is that firms are experiencing increasing global competition which will require them to continuously reassess their FMEDS in order to remain competitive (Bonaccorsi, 1992; Erramilli and D’Souza, 1993; Haahti, Hall and Donckels, 1998). It is in this context of ‘global’ change that over the past twenty (20) years there has been an increasing level of research focusing on the ‘internationalization of the firm’<sup>14</sup>. Johanson and Vahlne (1990) suggest that it is increasingly evident that this research focus is a reflection of the growing internationalization of firms and industries with the internationalization process (i.e. FMEDS) manifesting itself in numerous ways.

However, it should also be recognised that only a segment of international business activity has traditionally been included within the topic. The literature suggests that: the Uppsala Internationalization Model (Johanson and Wiedersheim-Paul, 1975) is chiefly applicable to market seeking international activity, as opposed to operations motivated by natural resource seeking, efficiency seeking and strategic asset seeking (Dunning, 1993); there is an implicit assumption of organic evolution in the literature on the internationalization of the firm, rather than expansion through mergers, acquisitions and alliances (MMAs)<sup>15</sup>; the internationalization concepts have less relevance to the established multinational firm, either as investor or as exporter<sup>16</sup>; and emerging evidence of subsidiaries developing somewhat independently of parent strategies is another emerging dimension (White and Poynter, 1984; Birkinshaw and Morrison, 1995; Bartlett and Ghoshal, 1989; Hedlund, 1986).

<sup>14</sup> This refers to the way firms internationalize from their first contact with markets abroad until they become multinational companies.

<sup>15</sup> According to UNCTAD (1994), worldwide cross-border acquisitions and mergers accounted for seventy per cent (70%) of the FDI inflows to developed countries in the years 1986-90. As in domestic business strategy, mergers and acquisitions may provide a faster route in to internationalization; while international strategic alliances may not only have a variety of motivations but may also utilise different (non-equity) modes of operating and involve a variety of elements in the value chain.

<sup>16</sup> Numerous researchers report that new MNEs are emerging all the time - perhaps at a rate of 4,000 to 5,000 a year (Dunning, 1994) but this initial investment is relatively small in comparison with sequential investment undertaken by established MNEs. The latter probably accounts for seventy to ninety per cent (70-90%) of worldwide FDI. There has been relatively little systematic study of the motivations or patterns of this sequential investment.



The literature on internationalization identifies that research on the subject has been forthcoming from a variety of stand-points, with three (3) schools of thought emerging in the area. Each school is discussed in **Section 3.3** in more detail. Indeed, the writer suggests that it is important to recognise that the various schools of thought address the same issue, i.e. internationalization per se but from different view points, with each presenting different perspectives of the internationalization process, and each making a valuable contribution to the evolving subject area (Coviello and McAuley, 1999).

### **3.3 Schools of Thought**

#### **3.3.1 Introduction**

Scholars have adopted a variety of approaches to the analysis of the internationalization process and the FMEDS adopted by firms. Contributions have been forthcoming from '*economists*', stressing the interrelationships between ownership, locational and internalisation variables; '*behaviourists*' suggesting an incremental, evolutionary approach to foreign markets; and '*business-strategists*' focusing upon the nature of decision-making in organisations and the role of corporate planning. The writer suggests that it is important to recognise that only when the various approaches are brought together does a holistic picture emerge, illustrating the dynamic and complex nature of the internationalization process. Indeed, today, the internationalization processes of firms are more heterogeneous than they were decades ago. The literature suggests that developing simplistic and deterministic models regarding the internationalization processes of firms should now be questioned (see **Section 3.3.4**).

Indeed, Sullivan (1994) suggests the validation of theories of international business have not matched the robustness of their development. Estimating the degree of internationalization (DOI) of a firm remains arbitrary, with many scholars suggesting it to be a unidirectional evolutionary process relative to domestic circumstances (Johanson and Vahlne, 1977; Forsgren, 1989; Welch and Luostarinen, 1988), a process which is difficult to clearly define since reconstructing the often idiographic sequence of internationalization requires establishing many events and relationships. This fact alone clearly explains why so many theories and models present contradictory reports regarding the sequence of internationalization per se (Johanson and Vahlne, 1977; Cavusgil and Godiwalla, 1982; Millington and Bayliss, 1990; Sullivan and Bauerschmidt, 1990; Turnbull, 1987).



### 3.3.2 Contribution From The Behavioural School of Thought

#### 3.3.2.1 Stage Theories

A number of studies researching internationalization processes resulted in the development of the framework which has come to be known as '*stage theory*' (although the precise number of stages is contested by scholars), where many scholars have focused on the relationship between an aspect which has become to be known as '*psychic distance*' (discussed in **Section 3.4** in more detail) and the firms' target market coupled with their FMEDS. This literature has its roots in two (2) pioneering articles (Johanson and Wiedersheim-Paul, 1975; Johanson and Vahlne, 1977) which describe firms' international development processes as a series of stages. These studies present the most quoted model conducted within the framework of the *stage theory*, referred to as the '*Uppsala Internationalization Model*' (Johanson and Vahlne, 1977), inspired by Cyert and March (1963) and Penrose (1959).

Overall, '*stage theories*' have gained strong support in studies from a wide spectrum of nations and situations (Johanson and Vahlne, 1990), with empirical research confirming that the factors of commitment and experience are important in explaining international business behaviour. Indeed, the theory has received strong support from the findings of studies on export behaviour (discussed in **Sections 3.3.2.1.1** and **3.5** in more depth). The issues relating to the importance of *psychic* or *cultural distance* factors have also been supported.

The literature review identifies that '*stage theories*' and their accompanying models proliferate in the internationalization and broader international business literature, with such theories suggesting that the process of '*going abroad*' involves a (logical) sequence of international development steps. The internationalization of the firm<sup>17</sup> is seen as a process in which the firm gradually increases its international involvement. This process evolves through an interplay between the development of knowledge about foreign markets and operations on the one hand, and an increasing commitment of resources to foreign markets on the other (Johanson and Vahlne, 1990). The writer suggests that the problem with such conceptualisations is that their attempts to simplify the complexity of internationalization has generated perspectives in the minds of practitioners, academics and researchers that are based on their acceptance, almost without question, that such theories are a true reflection of reality. Consequently, it can be argued that this myopic view restricts many researchers from exploring the '*actual processes*' undertaken in internationalization.

<sup>17</sup> Which has its theoretical base in the behavioural theory of the firm (Cyert and March, 1963; Aharoini, 1966) and Penrose's (1959) theory of the growth of the firm.

The Uppsala Internationalization Model regards the internationalization process once it has started to proceed regardless of whether strategic decisions in that direction are made or not. The model assumes that the internationalization process approximates a learning curve which can explain a number of patterns. Firstly, according to Johanson and Vahlne (1990), *“a firm’s engagement in a specific foreign market develops according to an establishment chain, i.e. at the start no regular export activities are performed in the market, then export takes place via independent representatives, later through a sales subsidiary, and, eventually manufacturing may follow”*. These ‘stages’ indicate increased commitment of resources to the market as a result of greater knowledge and experience.

The second pattern explained is that firms enter new markets with successively greater psychic distance<sup>18</sup>, in terms of factors such as differences in language, cultures, political systems, geographical proximity, etc. (Vahlne and Wiedersheim-Paul, 1973). Thus, firms will begin internationalization by entering those markets they can most easily understand, where they see opportunities, and where the perceived market uncertainty is low. Indeed, Carlson (1975) argues that the selection of ‘*psychically proximate*’ markets is a particular feature of SMEs outward operations. The notion of ‘*Psychic Distance*’ is discussed in more detail in **Section 3.4**.

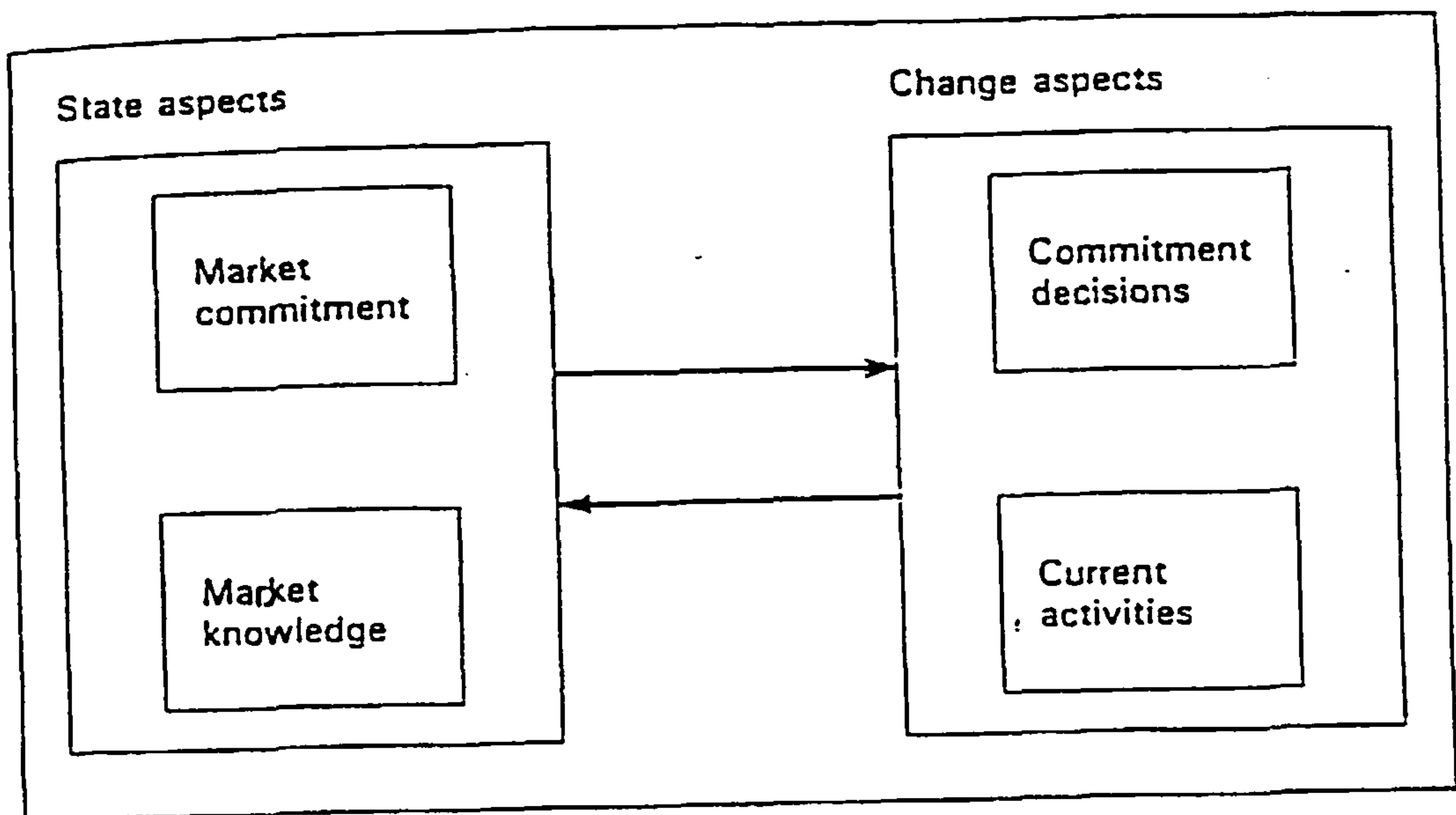
Johanson and Vahlne (1990) draw attention to the fact that these patterns are manifestations of the internationalization process of the firm. The process is a theoretical model based on assumptions about the relations between the concepts of market commitment, market knowledge, current business activities, and commitment decisions (as illustrated in **Figure 3.1**). Thus, the process can be seen as causal cycles which cycles endeavor to explain the incremental nature of internationalization. The patterns can be seen as operationalisations of the process model with the stages and the psychic distance between home and host nations as possible indicators.

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<sup>18</sup> This concept is based on Burenstam-Linder’s (1961) observations that trade is favoured between countries of roughly the same level of economic development and which have similar cultures.



**Figure 3.1 The Internationalization Process of the Firm**



Source: Johanson and Vahlne (1977)

The model makes a distinction between state and change aspects of internationalization:

- ◆ The state aspects of internationalization are market commitment and market knowledge; and
- ◆ The change aspects are current business activities and commitment decisions.

The model assumes that market knowledge and commitment affect the degree of commitment and the nature of current decision-making patterns, which, in turn, change levels of knowledge and commitment and modify the basis for future decisions. Thus, outcomes from one cycle of events constitute the inputs to the next.

The Uppsala Internationalization Model argues that the notion of market commitment involves two (2) elements;

- ◆ The amount of resources allocated to the market which can be operationalised by the size of the marketing, organisational or personal investment; and
- ◆ The degree of commitment which relates to the level of difficulty in finding alternative uses for such resources.

International activities require both general and specific knowledge. Market-specific knowledge is gained mainly through experience in a given market, whereas knowledge of international operations can be transferred from one market to another and may facilitate lateral growth, as implied by Langhoffs (1997) inter-cultural competencies framework discussed in **Section 3.4**. Indeed, knowledge can also be seen as a resource from a resource-based theory (RBT) perspective as outlined in **Section 3.3.4.1**. Consequently, the greater the knowledge of a market the more valuable are the resources and the stronger the commitment. This is assumed to be particularly true of experiential knowledge.

The Uppsala Model implies that additional market commitment will be made in small steps with the following three (3) exceptions (Johanson and Vahlne, 1990):

- ◇ When firms have large resources, the consequences of commitments are small. Thus, larger firms or firms with surplus resources can be expected to take larger internationalization steps;
- ◇ When market conditions are stable and homogeneous, relevant market knowledge can be gained in ways other than through experience; and
- ◇ When the firm has considerable experience from markets with similar conditions, it may be possible to generalise this experience to the specific market.

Although '*stage theories*' have gained a considerable following, with many studies supporting this view, they have not escaped considerable criticism challenging their basic propositions. Indeed, Johanson and Vahlne (1990) identify the following criticisms of the Uppsala Model:

- ◆ The model is too deterministic (Reid, 1983; Reid, 1987; Turnbull, 1987; Rosson, 1987);
- ◆ It has also been argued that the process model says something important only about the early stages of internationalization when lack of market knowledge and market resources are still constraining factors (Forsgren, 1989);
- ◆ Nordstrom (1990) argues that the world has become much more homogeneous and that consequently *psychic distance* has decreased. The explanatory value of psychic distance would in that case have decreased;
- ◆ Other environmental changes such as improved information supply and more efficient means of transmitting information, less fragmented markets (Nordstrom and Vahlne, 1985), increased emphasis on R&D, all have an impact on the internationalization process;
- ◆ It has also been argued that the model does not take into account interdependencies between different country markets (Johanson and Mattsson, 1986); and
- ◆ Studies have shown that the Uppsala Model is not valid for service industries (Engwall



and Wallenstal, 1988; Sharma and Johanson, 1987; Buckley et al, 1992).

Other writers have provided the following criticisms, generally, criticising the framework for being too simplistic and deterministic:

- ◇ Firms do not necessarily develop their domestic market before initiating exports;
- ◇ Firms do not necessarily resist becoming involved in export activities (Johanson and Wiedersheim-Paul, 1975);
- ◇ Firms do not necessarily begin by exporting to psychologically '*close*' countries before moving to more '*distant*' markets;
- ◇ The proposed logical, linear sequence whereby firms begin by exporting before considering alternative market entry modes (with the ultimate stage being overseas production) is not necessarily true for all firms; and
- ◇ The whole process is not unidirectional and (to some extent) inevitable once the first tentative steps have been taken.

Even though the roots of stage theories lie in the behavioural theory of the firm, the linkages and core assumptions generally lack clarification. In view of these criticisms, Bell and Young (1998) argue that there is a need for further deliberation on the internationalization process, especially in the light of the emergence of alternative paradigms, such as the resource-based theory of the firm, contingency theories and the interaction/network perspectives (all of which are discussed later in this section).

The writer also draws attention to the fact that little focus has been placed on the analysis and clarity of the notion of '*psychic distance*' (Langhoff, 1997), which turned out to be an important dimension of the study (discussed in **Section 3.4** in more detail). However the notion of '*psychic distance*<sup>19</sup>' is argued by Czinkota and Ursic (1987) and Nordstrom (1990) to be much less relevant as global communications and transportation infrastructures improve and markets become increasingly homogeneous, although the debate as to whether markets are becoming culturally homogeneous is still being argued and debated. Indeed, Hofstede's (1980) work (which is discussed in **Section 5.4** in more detail) identified that organisations are culture-bound and suggests that this applies to the behaviour of people within organisations and to the functioning of organisations as a whole. Consequently, there are no universal solutions to internationalization issues. Different nations have different cultural heritages which are largely invisible (i.e. values, collectively held by a majority of the population - but possibly differentiated by social class), and which are transferred from generation to generation through education and early life experience in

<sup>19</sup> The notion of '*psychic distance*' can be argued to be implicit or explicit in most of the '*stage*' models.

family and schools and via socialisation in organisations and institutions. Such values grow into societal norms which in turn determine to a large extent the political and organisational solutions which are feasible within that particular national culture. The issue of cultural influences are discussed in **Section 5.0** in more detail since culture per se also emerged as an important dimension for the study.

Models such as stage theories, which involve life-cycle theories, actually suffer from limitations concerning timescales. Andersen (1993) adds that their ability to clearly define boundaries between stages, or adequately explain the processes which lead to movement between stages, is rather limited. In retrospect, Johanson and Vahlne (1990) accept that the Uppsala Model is too deterministic in its prediction of sequences, suggesting that the controversial part of the Uppsala Model, the assertion that firms in general will display a pattern of incremental international commitment, is subject to criticism. However, Johanson and Wiedersheim-Paul (1975) suggest that the Uppsala Model can explain two (2) characteristics in the internationalization of the firm: 1) the establishment chain; and 2) psychic distance, presenting a framework which seeks to explain and predict the mode and pattern of the internationalization process whereby domestic firms are transformed into being multinational (Johanson and Vahlne, 1990).

However, Bell and Young (1998) contend that such approaches can no longer be accepted, as many of their fundamental tenets (as highlighted earlier) are fatally flawed. They place less emphasis on the development of alternative FMEDS, rather they highlight firms' increased dependence on exports and greater commitment to a growing number of foreign markets (**Section 3.3.2.1.1** discusses export development models in more detail). Indeed, Young (1987) contends that alternative FMEDS such as licensing and joint ventures (see Demirbag and Mirza (2000)) are being adopted more widely by SMEs as initial FMEDS. Also, Hedlund and Kverneland (1985) provide evidence of a speeding up of the whole process of internationalization, stating that "*the establishment and growth strategies on foreign markets are changing towards more direct and rapid entry modes than those implied by theories of gradual and slow internationalization processes*", i.e. stage theories.

#### **3.3.2.1.1 Export Development Models**

It is important to recognise that many of the *Export Development Models* (EDM) which have emerged draw considerable support from the *stage theories* (predominately because both emerge from the same fundamental roots) as well as *Innovation theory*. Indeed, they see exporting as the '*first*' stage of the internationalization process. In the context of this study, it emerged to be important to gain an understanding of EDMs as they may shed some light on



understanding the FMEDS adopted by UK Indian firms (discussed in **Section 3.5.4**). The content of the models which have emerged over the last two (2) decades are summarised in **Table 3.1**, and **Table 3.2** summarises the structural characteristics of each model.

Leonidou and Katsikeas (1996) conclude that despite differences between the various models as to the number, nature and content of the stages, the export development process can be divided in to the following three (3) broad phases:

- ◆ The ***pre-engagement phase*** - This includes three (3) types of firm: those selling their goods solely in the domestic market and not interested in exporting; those involved in the domestic market but seriously considering export activity; and, those that used to export in the past but no longer do so;
- ◆ The ***initial phase*** - The firm is involved in sporadic export activity and considers various options. Firms can be classified as having the potential to increase their overseas involvement, and as being unable to cope with the demands of exporting, leading to marginal export behaviour or withdrawal from selling abroad altogether; and
- ◆ The ***advanced phase*** - Firms are regular exporters with extensive overseas experience, and frequently consider more committed forms of international business.

Jonanson & Wiederheim-Paul [1975]	STAGE I No interest in exporting/Not even filling an unsolicited order	STAGE II Passive exploration of exporting/ Possible filling of an unsolicited order	STAGE III Management actively explores the feasibility to export	STAGE IV Experimental exporting to some psychologically close country	STAGE V Experienced exporter/ Optimal export adjustment to environmental factors	STAGE VI Exporting to additional countries psychologically distant countries/ Establishment of sales subsidiaries		
Wiederheim-Paul et al [1978]	STAGE I Domestic oriented firm No willingness to start exporting/ Limited information collection and transmission	STAGE II Passive nonexporter/ Moderate willingness to start exporting/ Moderate information collection and transmission	STAGE III Active nonexporter High willingness to start exporting/Relatively high information collection and transmission	STAGE I Importer pull/ Foreign customer orders	STAGE II Basic production capacity marketing	STAGE III Advanced production capacity marketing	STAGE IV Product marketing channel push	STAGE V Product marketing channel pull
Bliley & Tesar [1977]	STAGE I No interest in exporting/Not even filling an unsolicited order	STAGE II Passive exploration of exporting/ Possible filling of an unsolicited order	STAGE III Management actively explores the feasibility to export	STAGE IV Experimental exporting to some psychologically close country	STAGE V Experienced exporter/ Optimal export adjustment to environmental factors	STAGE VI Exporting to additional countries psychologically distant countries/ Establishment of sales subsidiaries		
Wortzel & Wortzel [1981]				STAGE I Limited, experimental involvement/ Limited exporting to psychologically close countries	STAGE II Active involvement/ Systematic exporting to new countries using direct distribution methods	STAGE III Committed involvement/ Allocating resources between domestic and foreign markets		
Cavuegl [1982a]	STAGE I Pro-involvement/ Selling only in the home market/No interest in export related information	STAGE II Reactive involvement/ Evaluation of feasibility to export/Deliberate search for export related information	STAGE III Limited, experimental involvement/ Limited exporting to psychologically close countries	STAGE IV Active involvement/ Systematic exporting to new countries using direct distribution methods	STAGE V Committed involvement/ Allocating resources between domestic and foreign markets			
Czinkota [1982]	STAGE I Completely uninterested firm/NO exploration of feasibility to export	STAGE II Partially interested firm/Exporting is desirable but uncertain activity	STAGE III Exploring firm/Planning for export and actively exploring export possibilities	STAGE IV Experimenting exporter/ Favorable export attitude but little exploitation of export possibilities	STAGE V Semi-experienced small exporter/ Favorable attitude and active involvement in exporting	STAGE VI Experienced large exporter/Very favorable export attitudes and future export plans		
Barrett & Wilkinson [1986]	STAGE I No exporters considered exporting	STAGE II-III Nonexporters who investigated exporting, and previous exporters	STAGE IV Current exporters with no direct investment abroad	STAGE I Lower stage of export involvement	STAGE II Middle stage of export involvement	STAGE III Higher stage of export involvement		
Moon & Lee [1990]				STAGE I Lower stage of export involvement	STAGE II Middle stage of export involvement	STAGE III Higher stage of export involvement		
Lim et al [1991]		STAGE I Awareness/recognition of exporting as an opportunity	STAGE II Interest in selecting exporting as a viable strategy	STAGE III Intention to initiate exports	STAGE IV Trial and adoption of exporting			
Rao & Naidu [1992]	STAGE I Nonexporters indicating no current level of export nor any future interest in exporting	STAGE II Nonexporters who would like to explore export opportunities	STAGE III Sporadic involvement in exporting activities	STAGE IV Regular involvement in exporting activities	STAGE V Experienced small exporter	STAGE VI Experienced larger exporter		
Crack [1995]	STAGE I Completely uninterested firm	STAGE II Partially interested firm	STAGE III Exporting firm	STAGE IV Experimental exporter	STAGE V Experienced small exporter	STAGE VI Experienced larger exporter		

Table 3.1 Content Review of Export Development Models

Source: Leonidou and Katsikeas (1996)



Research Study

Structural Characteristic	Johanson & Wiedersheim-Paul [1975]	Bilkey & Tesar [1977]	Wiedersheim-Paul et al. [1978]	Wortzel & Wortzel [1981]	Cavusgil [1982a]	Czinkota [1982]	Barrett & Wilkinson [1986]	Moon & Lee [1990]	Lim et al. [1991]	Rao & Naidu [1992]	Crick [1995]
<b>Conceptualization base</b>	International trade theory/ Learning theory	Management theory/ Learning theory/ Innovation adoption theory	Organization theory/ Management theory/ Location theory	Relationship marketing	Innovation adoption theory/ Management theory	Innovation adoption theory/ Management theory	Management theory/ Learning theory	Previous export models	Innovation adoption theory	Previous export models	Previous export models
<b>Activity range</b>	Exporting/ (Foreign direct investment)	Pre-exporting/ Exporting	Pre-exporting	Exporting	Pre-exporting/ Exporting	Pre-exporting/ Exporting	Pre-exporting/ Exporting	Exporting	Pre-exporting/ Exporting	Pre-exporting/ Exporting	Pre-exporting/ Exporting
<b>Operating mode</b>	Incremental resource commitment	Gradual gain of experience	Gradual increase information collection/ transmission activity	Gradual internalization of marketing resources	Incremental resource commitment/ Gradual experience	Incremental resource commitment/ Gradual experience	Incremental interest/resource commitment	Gradual resource commitment/ Internalization of marketing	Gradual adoption of innovation	Incremental resource commitment	Incremental resource commitment/ Gradual experience
<b>Developmental pattern</b>	Stages (3+)	Stages (6+)	Stages (3)	Stages (5)	Stages (5)	Stages (6)	Stages (5)	Stages (3)	Stages (4)	Stages (4)	Stages (6)
<b>Focus phase</b>	Initial/ Advanced/ (Post-exporting)	Pre-engagement/ Initial/Advanced	Pre-engagement/ Static	Initial/ Advanced	Pre-engagement/ Initial/ Advanced	Pre-engagement/ Initial/ Advanced	Pre-engagement/ Initial/ Advanced	Initial/ (Middle)/ Advanced	Pre-engagement/ Initial	Pre-engagement/ Initial/ Advanced	Pre-engagement/ Initial/ Advanced
<b>Structural dynamics</b>	Static	Static	Static	Static	Static	Static	Static	Static	Static	Static	Static
<b>Segmentation variables</b>	Export distribution method	Export ratio/ Export experience	Export willingness/ Information collection/ Information transmission	Degree of control over marketing mix elements	Interest in gathering export-related information/ Export intensity	Export sales/ Export ratio/ Number of customers/ Number of transactions/ Export personnel	Export interest/ Export ratio	Export ratio/ Export sales/ Price control/ Channel commitment/ Product development	Awareness/ Interest/ Intention/ Adoption of exporting	A priori assignment of firms to stage based upon management perceptions	Export volume (past-present-future)/Years of export experience/ Types of countries exported/ Number of export customers/ Number of export transactions
<b>Explanatory variables</b>	Resource commitment/ Information availability/ Type of foreign markets	Managerial attitudes/ Goal aspirations/ Management quality/ Export barriers/ Firm size/ Competitive advantages/ External intervention	Decision maker characteristics/ Firm location/ Goals of the firm/ Product line/ Expansion Attention evokes/ Information activities	Product characteristics/ Price setting/ Promotional activity/ Physical distribution	Firm size/ Differential advantages/ Information gathering/ Managerial characteristics/ Managerial attitudes	Managerial attitudes/ Export barriers/ Goal expectations/ Export stimuli	Managerial characteristics/ Executive position/ Managerial attitudes/ Planning orientation	Firm size/ Export experience/ Management characteristics/ Differential advantages/ Export barriers/ Goal expectations/ Export stimuli	Information collection ability/ Managerial attitudes	Firm characteristics/ Export marketing organization/ Managerial attitudes	Stimuli/ Barriers/ Government assistance needs/ Marketing strategy requirements

Table 3.2 Structural Characteristics of Export Development Models

Source: Leonidou and Katsikeas (1996)

The authors indicate that research relating to EDMs is one of the most pioneering, established and mature streams of the export literature, basically because of the critical questions which researchers (Bilkey, 1978; Cavusgil and Nevin, 1981; Ford and Leonidas, 1991; Andersen, 1993; Albaum et al, 1994; Strandkov, 1994) have been seeking to answer, questions such as:

- ◇ What is the operating mechanism in the export expansion process?
- ◇ What stages are involved in this process?
- ◇ What types of company profiles are associated with specific export stages?
- ◇ What constitutes a typical export expansion pattern?
- ◇ What determines the progression of the firm along the export development path?
- ◇ What changes in structures, operations and strategies this progression involves?

Indeed, the writer draws the readers attention to the fact that these were important questions for this study. However, it should be noted that Ibeh and Young (2001) and Samiee et al (1993) highlight that the export behaviour literature is lacking in empirical studies which explore exporting from an explicitly entrepreneurial perspective, suggesting that such exploration would make a valuable contribution to the debate.

The literature identifies that this stream of research is amongst the most frequently cited in the international business literature; indeed, the writer suggests that it is worthwhile noting that EDMs have offered the following assistance to governments, practitioners and researchers (Thomas and Araujo, 1985; Miesenbock, 1988; Andersen, 1993):

- ◆ **Governmental perspective** - they have provided profiles of firms at varying degrees of export engagement that could be used by policy-makers as inputs into the design of national export promotion programs. Clearly, the models imply that government assistance should be tailored to meet the differing requirements and aspirations of non-exporters, early exporters, and advanced exporters.
- ◆ **Managerial perspective** - this stream of research has alerted business practitioners to the key factors affecting their firm's export development, specifically in relation to such issues as facilitators, inhibitors, stimuli, barriers, and information. Appropriate guidance, training and support would enable managers to minimise the effect of disincentives and effectively use incentives to export.
- ◆ **Research perspective** - this stream of empirical inquiry has synthesised various disaggregated concepts developed within the sphere of export literature and offered valuable insights into the mechanics and constituent parts of the export expansion process.



Based on the work of Dichtl et al (1983), Thomas and Araujo (1986), Young et al (1989) and Sullivan and Bauerschmidt (1990), Leonidou and Katsikeas conclude that existing models provide only a partial, and sometimes misleading, explanation of the export development process, thus limiting theoretical advancement in this field of international business. Despite its merits, Reid (1983), Ford and Leonidou (1991) and Strandkov (1994) have criticised research on the subject on structural, methodological and conceptual grounds. Leonidou and Katsikeas suggest that there is a need to draw attention to theory building in the area by moving toward frameworks and conceptualisations that would portray the export development behaviour of firms in a more cogent and pluralistic manner (Dichtl et al, 1984; Andersen 1993; Axinn 1994; Young, Bell and Crick, 1998; Bell and Young, 1998; Oviatt and McDougall, 1994; Reuber and Fischer, 1997; Strandkov; 1993; Sullivan and Bauerschmidt, 1990; Turnbull, 1987; Jones, 1999; Coviello and McAuley, 1999). They suggest a possible avenue for improvement might lie in widening the scope of EDMs which currently examine exporting regardless of other forms of FMEDS. One possible alternative would be to investigate export development within an overall model covering the whole spectrum of FMEDS as proposed by Chang and Grub (1992) and Bell and Young (1998). Such an approach would offer a broader view of the growth alternatives open to the firm in foreign markets and reveal differences characterising corporate behaviour across different phases of the internationalization process.

Many researchers suggest that the strategic management paradigm (outlined in **Section 3.3.4**) could also provide a pragmatic stance for understanding export related organisational decisions. This paradigm links objectives and plans in various enterprise areas with comparable activities in both domestic and foreign markets, highlighting the role of strategic business options open to the firm (Maignan and Lukas, 1997; Berry, 1998). Kammath et al (1987) suggest that the adoption of such paradigmatic pluralism would undoubtedly provide greater impetus into research on the subject.

### **3.3.2.2 The Network Approach**

Another developing field of work in the area of internationalization has emerged from international industrial marketing. The approach focuses upon interactions, relationships and networks and has begun to be known as the '*industrial network approach*<sup>20</sup>'.

The concept of networking is not new (Granovetter, 1973/1982; Mitchell, 1973; Rogers and Kinkaid, 1981; Knone and Kuklinski, 1982) and is especially prevalent in SME research

which is discussed in **Section 3.5** in more detail (Johannisson and Peterson, 1984; Von Hippel, 1985; Aldrich et al, 1989; Szarka, 1990; Birley, 1985; Aldrich and Zimmer, 1986; Tjosvold and Weicker, 1993). Indeed, Mitchell (1973) identifies three (3) types of networks:

- ◆ **Exchange networks** - defined as companies and organisations with which the firm has commercial transactions;
- ◆ **Communications networks** - the collection of those organisations and individuals with which the firm has non-trading links that inform its business activities; and
- ◆ **Social networks** - which are formed by family and friendship ties (i.e. the personal networks of the decision-maker).

Johannisson (1987) identifies a fourth type, '*symbolic networks*', which are formed by social bonds based on community ties and conformity to collective values derived from cultural norms. The writer suggests that it is these types of networks which are implied as being important in Asian Enterprise by Ram (1994) and Crick and Chaudhry (1995). Such networks are discussed in **Section 6.0** which focuses on Indian Networks per se in more detail. Indeed, the literature review presented in **Section 4.0** relating to Indian Enterprise suggests that social and symbolic networks have a significant impact on the nature and dynamics of Indian Enterprise, a finding which was found to be important in the context of the study.

Many scholars agree that within SMEs there is often a considerable overlap between the decision-maker's personal networks and those of the firm (Scott, 1985; Melin, 1987). Thus, the decision-maker's friends and business acquaintances are often important sources of information and expertise with their advice frequently influencing the firms strategies. The writer terms such networks as '*entrepreneurial networks*' which have the potential to stimulate entrepreneurial activity.

In addition to providing invaluable information and knowledge, networks allow SMEs to gain access to resources at limited cost (Johannisson and Peterson, 1984; Hakansson, 1989; Malecki and Veldhoen, 1993). They also provide major input into innovation and creativity which enables decision-makers to resolve marketing problems, identify new products/services and exploit potential new market opportunities (Von Hippel, 1985; Hauschildt, 1992).

As there is no logical reason to preclude such networks from transcending national boundaries, the notion of firms initiating and expanding international operations through the

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<sup>20</sup> From here on the term '*network approach*' will be used to refer to this approach.



development of international networks is entirely plausible. Indeed, this was an important assumption in the design of this study. Such theories do not refute the basic assumption of incremental internationalization. Rather, they confirm that the direction, pace and outcomes of the process are influenced by corporate and personal relationships established between firms and decision-makers within these networks (Bell, 1994). Moreover, they are consistent with the findings of existing export studies which suggest SMEs rely on their own information and support networks in preference to government or other sources (Anderson, 1999; Carter et al, 2000). However, as Birley et al (1989) observe, because each network is a set of unique interconnections which are often highly situation-specific, analysing them can be problematic, as suggested in **Section 6.0**.

Johanson and Vahlne (1990) suggest that firms in industrial markets establish, develop, and maintain lasting business relationships with other business actors leading to the development of '*industrial networks*' (Hakansson, 1982; Turnbull and Valla, 1986; Hallen et al, 1987). These develop as a consequence of interaction between firms where mutual orientation and knowledge leads to strong commitment to the relationships and exchange (Ford, 1979; Buckley and Casson, 1988; Parkhe, 1991; Demirbag and Mirza, 2000). Any specific firm will be engaged in a network of business relationships comprising a number of different firms - customers, customers' customers, competitors, supplementary suppliers, suppliers, distributors, agents and consultants as well as regulatory and other public agencies. They point out that industries can be regarded as networks of business relationships comprising a number of different business actors and that in any specific nation different industrial networks can be distinguished. Such different industrial networks may be more or less international to the extent that the connections between networks in different nations are more or less extensive. This is an area which can clearly be probed through undertaking an exploratory study investigating the networks of ethnic minority entrepreneurs.

Such approaches postulate that interconnected exchange relationships evolve in a dynamic less structured manner and that increased mutual knowledge and trust lead to greater commitment between international market actors (Turnbull and Valla, 1986; Johanson and Mattson, 1988; Nordstrom, 1990; Blankenberg and Johanson, 1992). Consequently, the process is not solely dependent on the behaviour of the focal firm. It is important to note that these *network theories* question the notion of '*psychic distance*' and challenge the incremental nature of internationalization as posed by earlier '*stage*' theories. Indeed, Johanson and Vahlne (1990, 1992) in defence of their thesis acknowledge that networks do influence the internationalization process.



Scholars have remarked that business relationships, and consequently industrial networks, are subtle phenomena, which cannot easily be observed by an outside observer, i.e. a potential entrant. The actors are tied to each other through a number of different bonds: technical, social, cognitive, administrative, legal, economic, etc. As a result, outsiders only gain a very superficial comprehension of the complex and fluid nature of any specific network. Consequently, the relationships and the networks can only be understood through experience from interaction from inside, which the writer suggests is increasingly important if there is a *cultural distance*<sup>21</sup> between the actors. Johanson and Vahlne (1990) comment that in defence of the Uppsala Model it can be assumed that market (i.e. network) knowledge is based on experience from current business activities or current business interaction.

The *network approach* implies that all actors in a network are more or less active and that the establishment of new relationships and the development of old is a result of interaction between active parties. This implies that in order to enter an existing network other actors have to be motivated to engage in interaction with the potential new entrant. This may require resources and possible adaptations in the way the incumbent network firms perform business. Johanson and Vahlne (1990) point out that foreign market or network entry of the firm may be the result of interaction initiatives taken by other firms which are insiders in the network in a specific nation, with the chances of being the object of such initiatives being much greater for an insider, arguing that '*switching costs*' (Porter, 1980) make it expensive for a customer to change supplier. The higher the associated switching costs, the more difficult it will be for a potential alternative supplier to convince the buyer to change supplier and consequently the network structure.

From a '*network*' perspective, internationalization means that the firm develops business relationships with networks in other nations (Johanson and Mattsson, 1988) via:

1. The establishment of relationships in country networks that are new to the firm, i.e. international extension;
2. The development of relationships in those networks, i.e. penetration; and
3. Connecting networks in different nations, i.e. international integration.

All of these issues are shown to be important in the context of this study exploring the internationalization processes of a specific ethnic minority business community, i.e. can the relationships/networks of UK Indian entrepreneurs be utilised as bridges to other Indian networks throughout the world? (Johanson and Sharma, 1987). Generally, it can be assumed that direct or indirect bridges exist between firms and different country networks. Such bridges can be important both in the initial steps abroad and in the subsequent entry

<sup>21</sup> '*Cultural Distance*' is defined and discussed in detail in Section 3.4.



of new markets (Johanson and Vahlne, 1990).

Indeed, Johanson and Vahlne suggest that internationalization is to a large extent a matter of establishing relationships in foreign markets, i.e. they recognise that networks do influence the internationalization process. The writer draws attention to Johanson and Vahlne's (1992) finding that interplay between actors in a foreign market and a local firm has resulted in many new firms entering foreign markets almost blindly, citing 'social' exchange processes as being key factors to the internationalization process.

This implies that it is important to recognise that the nature of the bonds in a network are relationship dependent, i.e. bonds (social and cognitive) are formed between the persons engaged in the business relationship. Although industries as well as nations may differ with regard to the relative importance of firm and person relationships, it can be expected that the personal influence on relationships is strongest in the early establishment of relationships (Simmonds and Smith, 1968; Laage-Heflman, 1989; Lindqvist, 1988) with routines and systems becoming more important later in the process.

Young, Bell and Crick (1998) argue that there is no question that network relationships with partners (both direct and indirect) provide helpful new insights and need to be incorporated into models or frameworks of SME internationalization. However, the cause and effect relationships are not yet clearly defined. For example, Coviello and Munro's (1997) findings could suggest that networks represent a mechanism to overcome resource deficiencies (see Resource Dependency Theory (Pfeffer and Salancik, 1978)), rather than being the driver of internationalization per se. This would suggest that this area requires further research.

### 3.3.3 Contribution From Economists

The '*eclectic paradigm*' (Dunning, 1988), combining economic theories of monopolistic competition, location and transaction costs, has emerged as a prominent theory from scholars in this field. It is regarded as the most widely accepted framework within the area of foreign direct investment (FDI) theory.

The paradigm sets out to explain '*the extent, form and pattern of international production*' which is stated to rely on the following three (3) distinct sets of advantages (Dunning, 1988):

◇ Ownership-specific advantages<sup>22</sup>;

<sup>22</sup> Dunning makes the distinction between advantages stemming out of structural and transactional market imperfections. The former relate to the company's possession of, for example, superior technology or a characteristic such as multinationality. The transaction type advantage implies that the multinational organisation, as compared with the market mechanism, can enjoy



- ◇ Internalisation advantages<sup>23</sup>; and
- ◇ Locational advantages<sup>24</sup>.

The term '*pattern*' suggests a choice in location with the eclectic paradigm predicting that production will be established where economic advantages can be enjoyed. This conflicts with the Uppsala Model (discussed earlier in **Section 3.3.2**) which focuses on *psychic distance* implying that firms will start by developing '*neighbouring*' (in the cultural sense) markets and later, as experience grows, more distant markets.

Dunning's '*Eclectic theory of international production*' suggests that the decision to engage in international business, and the chosen FMEDS, is dependent on the relationship between the ownership (O), internalisation (I) and location (L) advantages mentioned earlier. Young et al (1989) suggest that for a firm to adopt FDI as an FMEDS the following sets of conditions require to be satisfied:

- ◆ The firm must possess net ownership advantages over firms of other nationalities. These advantages must be sufficient to offset the additional costs of operating in a foreign environment.
- ◆ It must be more profitable for the firm possessing these unique assets to utilise them itself through FDI rather than to sell the rights to their use to other parties, through licensing agreements, management contracts, etc. (i.e. it must be more beneficial to use an internal market, taking account of both the costs and returns from internalisation, than to externalise the property rights).
- ◆ Assuming the first two (2) conditions are satisfied, it must be advantageous for the firm to exploit its unique assets through production outside its home country rather than through exports. This condition is satisfied when there are either positive (for example, lower labour costs) or negative (for example, trade barriers) factors deterring production at home or encouraging production abroad.

The underlying mechanism of the framework according to Williamson (1981) is that transaction costs are affected by uncertainty, bounded rationality and opportunism. When transaction costs reach a certain size it pays to internalise. For example, application of the paradigm to the early internationalization stages by Anderson and Coughlan (1987)

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lower transaction costs.

<sup>23</sup> These refer to the multinational enterprise's (MNE's) ability to transfer ownership-specific advantages across national borders within its own organisation rather than exploiting the advantage by selling it. Again, imperfect markets explain why the company, for example, prefers to exploit technology by using it as an input in its own foreign manufacturing unit, rather than to sell the right to use that technology to an indigenous firm in that same market.

<sup>24</sup> Structural and transactional. The former relates, for example, to differences in factor costs while the latter refers to '*enhanced arbitrage and leverage opportunities*'. "*It is then the juxtaposition of the ownership-specific advantages of firms contemplating foreign production, or an increase in foreign production, the propensity to internalise the cross-border markets for these, and the attractions of a foreign location for production which is the gist of the eclectic paradigm of international production*" (Dunning, 1988).



identified that the integration of marketing and distribution functions were preferred by firms which possessed specialised knowledge and where agents were difficult to identify.

However, McDougall et al (1994) established that in some international new ventures (INV) firms were reluctant to make internalisation decisions on the basis of lowest cost locations; neither did they attempt to internalise activities to the point where the benefits of further internalisation were outweighed by the costs. Indeed, strategic alliances were identified to be prevalent for INVs even though this placed firms in a higher risk category, i.e. they ran the risk of losing proprietary know-how through opportunistic partner behaviour (Anderson, 1990; Buckley and Casson, 1988; Parkhe, 1991; Beamish, 1988; Connolly, 1984; D'Souza and McDougall, 1989; Oman, 1984; Demirbag, Mirza and Weir, 1993; Hladik, 1985; Morris and Hergert, 1987; Mohr and Spekman, 1994; Zahra and Elhagrasy, 1994; Killing, 1993; Hyder and Ghauri, 1989, 1993; Geringer and Hebert, 1989, 1991; Demirbag and Mirza, 2000).

The explanatory value of the eclectic paradigm is generally regarded as being high for '*Multinational Enterprises (MNEs)*' (in the sense of having experience from many regions of the world), with the theoretical underpinnings of the eclectic paradigm assuming that the decision-makers are rational, well informed, have access to perfect information, and adopt macro-economic theory principles<sup>25</sup>. It should be noted that the eclectic paradigm is generally associated with static one-off decisions.

Macro-economic reasoning has been applied by Horst (1974) and Buckley and Casson (1985) in the context of FMEDS. In their model of the optimal timing of an FDI, it is favorable, in terms of total costs, to enter the foreign market via an intermediary and then, later on, to switch to a subsidiary. In the case where it becomes advantageous to locate production in the foreign market, a license arrangement may appear as the most cost-effective servicing mode (bridging the intermediary mode and the FDI mode). The literature suggests the main point about economic models is that they relate primarily to MNEs and not SMEs.

As with '*stage theories*', a number of scholars have criticised the *eclectic paradigm* and other mainstream internalisation contributions for their static nature, although this has not prevented a number of recent applications of the eclectic paradigm to the topic of FMEDS (Hill, Hwang and Kim, 1990; Agarwal and Ramaswami, 1992; Kim and Hwang, 1992; Hennart and Park, 1994).

<sup>25</sup> Basic macro-economic theory suggests that an intermediary (*in casu* a foreign intermediary) because of their accrued scope economies will be more cost effective in marketing and distribution than a producer (*in casu* an exporting firm). But as the sales of the individual product line reach a certain volume, the producer may reap scale economies, at which point the producer integrates the marketing and distribution function in to their firm when scale economies exceed the scope economies



### 3.3.4 Contribution From Strategists

A review of the literature from the behaviourist and economic schools of thought identifies that the economics viewpoint focuses on rational choice, with an emphasis on the costs and benefits of using internal markets (and achieving control), and recently on the ability to achieve the advantages of internalisation through joint ventures and other collaborative arrangements<sup>26</sup> (see Section 3.3.3); whereas on the other hand the behaviourists view point focuses upon the evolution to more direct forms of FMEDS over time, almost on an inevitable basis (see Section 3.3.2). Consequently, one can conclude that the weakness of the former is its static nature, and the weakness of the latter is its lack of explanation.

The writer suggests that the pros and cons of such approaches imply that a more pragmatic stance focusing on the nature of decision-making within firms is necessary. Young et al (1990) suggest such an approach should acknowledge that firms follow variations of the conventional strategic or corporate planning model (Johnson and Scholes, 1993), i.e. a contingency approach to internationalization (Johanson and Vahlne, 1990) with the assumption that decision-makers adopt a '*rational-analytical*' approach to business policy.

Indeed, Andersen (1993) argues that "*[The Uppsala Model] seems to lean on assumptions about the firm's behaviour that dominated the literature in the 1960s ... while later theories ... to a higher degree incorporate the influence of the market side and regard the decision-maker as strategically more conscious*", opening the door to developments of a *strategic approach* to internationalization.

It can be argued that adopting such a perspective<sup>27</sup> adds a new dimension to researching the '*internationalization of the firm*', a perspective which overcomes much of the criticism levied at other perspectives. Scholars suggest that internal environmental factors would include: organisational structure and capacity; administrative co-ordination inside the firm; management culture and attitudes; and management and human resources. External environmental factors would include: country risk (political instability, economic fluctuations, currency changes); and the strategies of competitors (including market-servicing strategies). By introducing such factors, it is possible to explain both cautious risk-minimising behaviour

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of the intermediary (Petersen and Pedersen, 1997).

<sup>26</sup> For example, see Madhok (1997) who more recently compared the transaction cost/internalisation perspective with an organisational capability perspective, which Young, Bell and Crick (1998) liken to a shift from cost to value in the analysis of market entry decisions - the dynamic, future-oriented nature of the capabilities perspective, which places an emphasis on learning suggests a more positive attitude towards, and a greater tendency to form, collaborations.

<sup>27</sup> A perspective which brings in additional elements of both internal and external environments, which requires consideration of risk and perceptions of risk.



and abrupt shifts in FMEDS.

It should be noted that in trying to take a more *dynamic approach* to FMEDS, the work of some economists has been moving in this direction (Nicholas, 1986; Casson, 1986). By relaxing some of the '*neo-classical*' assumptions and using the concepts of strategic planning, scholars can go some way to '*dynamise*' the *eclectic paradigm* and make it useful to explain states and changes in the early phases of the internationalization process.

The literature review identifies that more recently researchers have been turning to the area of strategic management in an attempt to explain international development (Chi and McGuire, 1996; Madhok, 1996; Meyer, 1996; Yeoh and Jeong, 1995; Calof and Beamish, 1995) suggesting these approaches come closer to the reality of decision-making in firms where a wide variety of influences may come in to play. Such approaches fall into the category of partial frameworks or models rather than theories which identify the need to consider a range of determining factors in internationalization, hence the revival of interest in '*contingency models*'. However, the writer argues that from a business perspective, strategic and corporate planning decision-makers, by adopting appropriate strategic planning tools and techniques, would take into account the whole range of variables (internal and external as suggested earlier) which impact the firm at any given moment in time. Therefore, there is actually very little (if at all) to distinguish between strategic planning frameworks and contingency approaches.

Indeed, Reid, as long ago as 1983, proposed a '*contingency*' approach to internationalization, wherein a firm's initial reaction to foreign market opportunities (and subsequent strategy development) reflected prevailing circumstances and its existing resource capabilities. Bell and Young (1998) have considerable sympathy for Reid's contingency view and suggest '*contingency*' and '*interaction*' (for example, network) approaches have considerable merit, insofar as they suggest that the whole process is much more complex and less structured than earlier theories and models imply. Indeed, Woodcock et al (1994), Yeoh and Jeong (1995), Kumar and Subramaniam (1997) amongst others have developed contingency frameworks in the international business and exporting fields. Unlike '*stage*' models where internationalization tends to be driven by decisions taken within the firm, they recognise that environmental factors (as outlined earlier), including relationships with other firms, play a major part in the process. In consequence, both offer more dynamic perspectives of internationalization in which "*structural or contextual characteristics define the boundaries within which managerial responses are made ... (and where) commitment decisions (are) primarily dependent on firm idiosyncratic factors*" (Reid, 1981).

In justifying a contingency approach, Kumar and Subramaniam (1997) argue that the existing literature has not devoted much attention to evaluating market selection and mode of entry as inter-dependent decisions. Indeed, many scholars (Jones, 1999; Coviello and McAuley, 1999; Young, Bell and Crick, 1998; Bell and Young, 1998; Oviatt and McDougall, 1994; Reuber and Fischer, 1997; Strandkov, 1993; Sullivan and Bauerschmidt, 1990; Turnbull, 1987) go further to suggest that the range of the firms' internationalization decisions, incorporating inward-outward connections as well as products, markets and entry modes, are made in a holistic way (a notion which was initially presented by Luostarinen (1979)).

However, it can also be argued that no approach on its own offers a full explanation of the internationalization process. This is especially the case with *interaction* and *network* perspectives, which scholars argue fail to explain how certain firms begin to internationalize in (what would appear to be) the absence of any network connections. The writer suggests that this may possibly be because network theory scholars have suggested that it is only possible to identify network connections from inside.

Acknowledging that internationalization is an evolutionary process, Bell and Young (1998) suggest that the nature and patterns of this process are contingent upon many environmental factors, including the potential networks of the decision-maker and the focal firm. They also contend that firms typically, although not inevitably, initiate export activity in an *ad hoc* intuitive manner, because of key decision-maker attitudes, attributes and behaviour. Thereafter, although not invariably firms may become more structured in their approaches to international marketing decision-making. Bell and Young argue that these decisions are also contingent upon firms' prevailing circumstances, industry or sectoral considerations and other external environment factors. The conclusion is that firms reach a 'state' of internationalization which will not necessarily remain unaltered, due to backward or forward momentum. Indeed, researchers have begun to argue the importance of the resource-based theory of the firm (RBT) in the internationalization of the firm.

#### **3.3.4.1 The Resource-Based Theory of The Firm (RBT)**

Young, Bell and Crick (1998) argue that the resource-based perspective provides an underlying theory within which contingency frameworks can be rooted, a perspective which has attracted considerable attention in the strategic management and organisational behaviour literature in the recent past.



Although there has been little application of the RBT to internationalization and SMEs per se, Andersen and Kheam (1998), Oviatt and McDougall (1994), McDougall et al (1994), and Jensen (1996) have begun to provide a contribution in this area. Indeed, the findings of Young et al (1998) support the exploratory work of McDougall et al (1994) on international new ventures (INV), by identifying that internationalization is shown to assist in the process of building and/or leveraging competences.

Although the resource-based perspective has a similar theoretical base (Cyert and March, 1963; Aharoni, 1966; Penrose, 1959) to that of the Uppsala Model (Johanson and Vahlne, 1977, 1990), the two (2) approaches are fundamentally different. Johanson and Vahlne emphasise that commitment of resources to foreign markets is an outcome of growing market commitment and market knowledge. The resource-based perspective on the other hand suggests that a firm's commitment internationally is derived from a bundle of resources and capabilities. The firm's selected FMEDS is based on utilising its resources and capabilities to maximum advantage.

Petersen and Pedersen (1997) argue that too much attention has been paid by Johanson and Vahlne themselves (as well as by researchers testing the Uppsala Model) to the assumed outcomes (i.e. a firm's involvement in any specific foreign market develops according to an establishment chain; and firms enter new markets with successively greater psychic distance) as opposed to the underlying explanation.

The resource-based perspective of the firm focuses upon the ability to acquire and maintain resources as the key to competitive advantage and organisational survival. Applied in the field of strategy (Wernerfelt, 1984; Rumelt, 1984), it highlights the importance of firm-specific factors in explaining performance, and suggests a wide variety of ways in which a firm can obtain the supply of resources critical for its survival and growth.

The theory is not a single or integrated perspective. It is regarded as a set of contributions published mainly since the early 1980s. Indeed, Foss (1997) identifies terminological confusion, with scholars using concepts such as '*resources*', '*competences*', '*capabilities*', '*assets*' etc., for the same aspect. However, the concepts of '*core business*' and '*core competences*' are important in highlighting critical capabilities and in providing a bridge between resources and strategies (Teece, 1986; Prahalad and Hamel, 1990; Lewis and Gregory, 1996). In distinguishing between resources and capabilities, Grant (1991) comments that "*while resources are the source of a firm's capabilities, capabilities are the main source of its competitive advantage*" (also see Barney, 1991). Sanchez et al (1996) argue that the key characteristics of core competences/capabilities include the fact that

they:

- ◆ Span businesses and products within a corporation;
- ◆ Have temporal dominance over products; and
- ◆ Arise through the collective learning of the firm.

Young et al (1998) highlight that one important feature of resource-based theory and competence-based competition is its dynamic nature which distinguishes it from earlier static approaches. Sanchez et al (1996) suggest that there is an emphasis on organisational learning and the *Learning Organisation* in order to build new competences and leverage existing competences more effectively.

Firms' resources and capabilities may derive from either inside or outside the firm. Indeed, it can be argued that ethnic ties and social networks, which exist both internally and externally for UK ethnic minority firms (analogous to strategic alliances) present a plausible mechanism for competence leveraging or competence building (Coviello and Munro, 1997), through accessing the expertise or attributes/resources possessed by linked firms (as suggested in **Section 6.0** on Indian Networks), reducing risks, achieving economies of scale, or learning through joint R&D, etc. Indeed, Easton and Araujo (1996) have argued the significant role of the industrial network approach in enriching the resource-based perspective.

As one would expect with a reborn perspective, there are a number of problem areas associated with the resource-based perspective. Foss (1997) identifies that a major issue is that *"there is no clear conceptual model of the endogenous creation of new resources"*. This leads researchers to suggest that:

- ◇ The nature of resources and especially competences (and their differences) requires further investigation; and
- ◇ The environment and environmental influences have not yet been treated in detail.

Indeed, there are a number of key features of the resource-based perspective which are relevant to the growth and internationalization of the SME:

- ◆ Firm survival and growth is achieved by the accumulation of resources and the utilisation of these to generate capabilities or competences;
- ◆ The resource-based perspective presents a holistic view of the firm, with the co-ordinated deployment of assets and capabilities in creating, producing and marketing products. Technologies, product strategies, markets and marketing, and competitive environments are interdependent in this model and form a positive feedback system;



- ◆ The resource-based perspective views the firm as a learning organisation which learns by doing. This means that the organisation learns from the experiences of others, inside and outside the firm, and learns from its mistakes; and
- ◆ In respect of internationalization specifically, there would be an expectation that initial decisions taken would, on the one hand, be designed to exploit available competences/resources; and, on the other, aim to economise on scarce resources and overcome missing competences. The subsequent internationalization process will be influenced by the creation or leveraging of new generations of competences within different value adding areas of firm activities, and by building capabilities from international business operations specifically. The outcome of these various interrelationships could be very different to the predictions of the '*internationalization process*' type models.

### 3.4 *Psychic Distance*

#### 3.4.1 Introduction and Definitions

It can be argued that a firm's internationalization starts when the domestic market is close to saturation (a point at which it begins to seek new alternatives, i.e. the firm is pushed to internationalize) where it is confronted by considerably more uncertainty. The Uppsala Model (discussed earlier in **Section 3.3.2**) assumes that the firm will seek alternatives that resemble its present markets as much as possible. The uncertainty will encourage the firm to first exploit those opportunities where the degree of '*foreignness*' is least. Only later will alternatives with a higher degree of *foreignness* be exploited when the perceived uncertainty is reduced, due to increasing experience with international operations and sufficient generative learning having taken place (Sanchez et al, 1996).

Langhoff (1997) suggests that the degree of *foreignness* a firm may experience with regard to international markets alludes to the fact that a lack of knowledge about local business methods, patterns of consumption, etc. creates uncertainty and risk. This implies that activities undertaken outside the firm's home base are perceived as more uncertain than similar activities carried out in their domestic market. This degree of *foreignness* between a firm and its markets is conceptualised throughout the internationalization literature and presented as '*psychic distance*<sup>28</sup>', a concept which is fundamental to the Uppsala Model.

<sup>28</sup> '*Psychic distance*' has its roots in research conducted by Beckermann (1956) and Linnemann (1966). However, Andersen (1993) points out that more recent studies conducted by Johanson and Vahlne (1977), Johanson and Wiedersheim-Paul (1975), and Hornell, Vahlne and Wiedersheim-Paul (1973) are taken as the starting point in discussions and research on the concept and the *internationalization of the firm*.

Johanson and Vahlne (1977) postulate that when establishing international operations, a firm needs accurate market knowledge, which comes from direct experience in the foreign market and an understanding of its internal relationship; rather than more objective, factual, general market information that is easily transmitted and learned without the need for experience in interpreting it. *Psychic distance* was seen as an important variable in understanding the dynamics of the internationalization process. It was defined initially as 'factors preventing or disturbing the flow of information between firm and market' (Johanson and Wiedersheim-Paul, 1975; Hornell, Vahlne and Wiederheim-Paul, 1973), and then, 'factors preventing or disturbing the flow of information between potential or actual suppliers and customers' (Nordstrom and Vahlne, 1992). The concept is loosely described as a *cultural variable* (cultural variables are discussed in **Section 5.0** in more detail). The assumption is that national cultural differences (Hofstede, 1980<sup>29</sup>) create a distance between a firm and its proposed international target markets which consequently will influence the firm's internationalization process. However, O'Grady and Lane (1996) identify that the definition of *psychic distance* varies greatly within the literature depending upon the way in which the concept is operationalised. For example, Vahlne and Wiedersheim-Paul (1973) operationalised *psychic distance* using the following indicators<sup>30</sup>:

- ◆ Level of economic development in the importing countries;
- ◆ Difference in the level of economic development between Sweden and the host countries;
- ◆ Level of education in the importing countries;
- ◆ Difference in the level of education between Sweden and the host countries;
- ◆ Difference in 'business language';
- ◆ Difference in culture and local language; and
- ◆ Existence of previous trading channels between Sweden and the host countries.

Relying primarily on Hofstede's (1980) work, Kogut and Singh (1988) and Benito and Gripsrud (1992) presented frameworks which quantified the *cultural distance* between nations, using 'cultural distance' as a synonym and proxy for 'psychic distance', viewing *psychic distance* as "the degree to which a firm is uncertain about a foreign market" (Kogut and Singh, 1988).

Nordstrom and Vahlne (1992) developed a *cultural distance* index (using adjusted Hofstede data) and suggest that *cultural distance* and *psychic distance* captured "different but overlapping phenomena", and that *psychic distance* included a component of business difficulty, as well as *cultural distance*. *Psychic distance*, in their view, is comprised of

<sup>29</sup> Hofstede's contribution is discussed in **Section 5.4.3** in more detail.



*“cultural (such as those dimensions defined by Hofstede (1980)), structural (such as legal and administrative systems) and language differences”*. This leads them to update the original definition of psychic distance as *“factors preventing or disturbing firms learning about and understanding a foreign environment”*. O’Grady and Lane support an expanded definition of psychic distance and suggest including other business factors such as industry structure and the competitive environment (as supported by Strategists discussed in **Section 3.3.4**) as well as cultural differences, defining psychic distance as *“a firm’s degree of uncertainty about a foreign market resulting from cultural differences and other business difficulties that present barriers to learning about the market and operating there”*. They suggest that this re-definition emphasises and affirms the view of internationalization as a dynamic, learning process, where an inability to learn about important differences hinders adaptation and affects performance outcomes, a view which would be shared by the resource-based perspective.

As stated earlier, the assumption that *‘firms begin by exporting to psychologically ‘close’<sup>31</sup> countries’* is heavily supported by the behaviourist literature, especially in the literature relating to *‘stage’* theories. However, more recent findings are now beginning to question this historically *‘written in stone’* and taken for granted assumption. Indeed, *push and pull* factors overlaid by cultural considerations (discussed in **Section 5.0**) play an important part in the internationalization processes of firms (Benito and Gripstud, 1992).

Reviewing the literature, Petersen and Pedersen (1997) indicate that firms, in general, do not enter foreign markets in accordance with successively increasing *psychic distance* as predicted by the Uppsala Model. Their findings lead them to suggest that these discrepancies with the operational level of the Uppsala Model may be erroneous for two (2) reasons:

- ◆ The studies include international operations not motivated by market seeking; and
- ◆ The studies are based on *psychic distance* indices reflecting a national aggregate, instead of gauging psychic distance specifically for the individual firm or decision-maker.

It is also suggested that in addition to the general internationalization of markets since the mid 1970’s, the following influences on choice of initial export market should be considered:

- ◇ Firms are likely to gravitate towards markets which present the greatest opportunities for their products irrespective of whether they are psychologically *‘close’* or not, i.e. they are industry driven (Bell, 1994; Young, 1987);

<sup>30</sup> These indicators were measured using publicly available statistics and data from the Swedish Export Board.

<sup>31</sup> Petersen and Pedersen (1997) comment that most studies testing the geographical sequence predicted by the Uppsala Model are using *psychic distance* measures reflecting a national aggregate, such as the Kogut and Singh index (Kogut and Singh, 1988).

- ◇ Receipt of an unsolicited order or enquiry can lead to export initiation (Bilkey and Tesar, 1977; Miesenbock, 1988; Barker and Kaynak, 1992);
- ◇ Firms may follow domestic clients into international markets (Sharma and Johanson, 1987; Johanson and Mattson, 1988; Bell, 1994); and
- ◇ In a European context, there is some evidence that EU programmes - such as SPRINT and Europartenariat - have begun to break down '*psychic distance*' barriers because they encourage collaboration between SMEs from member states, notably those located at the periphery of the community.

Consequently, it emerges that while '*psychic distance*' might have had a bearing on the internationalization patterns of some firms in the past, and may still influence the behaviour of others, it can no longer be accepted as a core assumption pertaining to the internationalization process. The level of foreign market demand, industry-specific factors, relationships with current or potential clients, and even policy-intervention, all exert much stronger influences on market selection and FMEDS decisions.

Indeed, Andersen and Strandsov (1996) propose a cognitive mapping approach to international market selection. They argue for the need to uncover the subtle and tacit assumptions of decision-makers, enabling the identification of rational and irrational procedures adopted in the market screening and selection process, for example, the importance, role, and significance of social networks, ethnic ties, and cultural norms in devising FMEDS.

It is important to recognise that no one has considered the *psychic distance* concept in detail. The literature clearly identifies the concept of *psychic distance* as playing an important role in the internationalization process, with the concept forming the main way of dealing with the significance of *cultural differences* on firms' internationalization processes (Johanson and Vahlne, 1992; Benito and Gripsrud, 1992; Nordstrom and Vahlne, 1992; Johanson and Wiedersheim-Paul, 1975; Luostarinen, 1979; Puxty, 1979; Kogut and Singh, 1988). Scholars who subscribe to this notion suggest that psychically close countries are more easily understood than distant ones and offer more familiar operating environments, implying that there is a link between sequence of entry to performance<sup>32</sup>. Langhoff presents evidence which shows *psychic distance* is not appropriate because it leads to confusion rather than solving the problems related to the understanding of a firm's behaviour in cross-

<sup>32</sup> It should also be noted that although the literature is not prescriptive, it does link the sequence of entry to performance, implying that psychically close countries are more similar, and that similarity is easier for firms to manage than dissimilarity, thereby making it more likely that they will succeed in similar markets (O'Grady and Lane, 1996). The purpose of O'Grady and Lane's (1996) paper was to use the experience of Canadian retailers entering the United States to analyse the *psychic distance* concept in greater detail and to suggest some possible qualifications that could improve its use in research and practice. Their results suggest that the *psychic distance* concept is more complex than is generally recognised in the literature



cultural contexts. The concept itself should relate more to *individual cognitive thinking* (i.e. the decision-maker) than to the behaviour of the entire firm as suggested by other researchers.

In addition, O'Grady and Lane present findings which would suggest that starting the internationalization process by entering a country psychically close to home may result in poor performance or even failure. They refer to this as the '*psychic distance paradox*', in so much as operations in psychically close nations are not necessarily easy to manage, because assumptions of similarity can prevent executives from learning about critical differences<sup>33</sup>. They argue that instead of psychically close nations being easy to enter and do business in, the perceived similarities can cause decision-makers to fail because they do not prepare for the differences.

The authors conclude that modifications to improve the *psychic distance* concept are required because the notion of '*psychic distance*' in its originally derived way are no longer valid and outdated in the debate of *the internationalization of the firm*. They believe that one limitation of this literature is that it does not address how the perceived *psychic distance*<sup>34</sup> between nations affects the *decision-maker's* choice of country or the firm's ultimate performance in the new market.

Langhoff points out that the concept of *psychic distance* (Nordstrom and Vahlne, 1992) is a *cultural concept* which deals with a distance between a firm and its markets, i.e. the firm and its markets are the units of analysis which in essence is incorrect. The author suggests that *psychic distance* is caused by a *individual* decision-maker's perceived uncertainty relating to the present and future characteristics of different international markets as a result of their perceived degree of '*foreignness*' to them *personally* (Johanson and Vahlne, 1977).

Consequently, *the notion of psychic distance should not be applied to the firm level as the unit of analysis, but the individual level, i.e. it is attitudinal.*

Indeed, attempts by scholars to measure the *attitudinal* attribute of degree of internationalization (DOI)<sup>35</sup>, which it can be argued directly influence perceptions of psychic distance, has presented many difficulties. For example, archival data does not record the psychometric attributes of managers or firms at any given moment in time (Sullivan, 1994).

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and should be explored more fully.

<sup>33</sup> This statement is supported by O'Grady and Lane's (1996) empirical findings based on information provided by 271 CEOs confirming greater cultural differences between Canada and the US than assumed previously.

<sup>34</sup> Psychic distance is defined by O'Grady and Lane (1996) as a firm's degree of uncertainty about a foreign market resulting from cultural differences and other business difficulties that present barriers to learning about the market and operating there.

<sup>35</sup> Sullivan (1994) identifies that the literature suggests that the DOI of a firm has three (3) attributes:

- ◆ *performance* - what goes on overseas (Vernon, 1971),
- ◆ *structural* - what resources are overseas (Stopford and Wells, 1972), and

Consequently, scholars have proposed proxies. For example, Perlmutter (1969) and Maisonrouge (1983) argue that a top manager's international orientation correlates positively with the extent of his or her international experience.

Another attitudinal measure tries to estimate the psychic dispersion of the international operations of a firm. Johanson and Vahlne (1977) suggest that the scope of interaction between home and host nationals, in terms of the degree of psychic distance, correlates positively with the internationalization of the firm. Sullivan and Bauerschmidt (1989) operationalised psychic distance by estimating the geographical dispersion of the overseas subsidiaries of a firm. Indeed, Sullivan (1994) follows the same logic, but estimates the Psychic Dispersion of International Operations (PDIO) by calibrating the dispersion of the subsidiaries of a firm among the ten (10) psychic zones of the world as identified by Ronen and Shenkar (1985)<sup>36</sup>. Each zone has, as Hofstede (1993) and Adler, Doktor and Redding (1986) suggest, a unique '*cognitive map*' of the principles of management, i.e. distinctly different management paradigms permeate each zone (discussed in **Section 5.4.2**). This is used by Sullivan as a base to argue that the greater the dispersion of a firm's operations/subsidiaries across these ten (10) zones, the greater the psychic dispersion of its international operations. Indeed, Langhoff (1997) would argue that this demonstrates a high degree of inter-cultural competency on the part of the firm, a view which scholars of the RBT (discussed in **Section 3.3.4.1**) would argue provides the firm with a source of distinct competitive advantage vis-à-vis other international competitors with regard to *inter-cultural competencies*. Indeed, Buckley and Casson (1988) highlight the importance of the inter-cultural dimension and suggest that more focus should to be placed on inter-partner relations than on other dimensions (such as administrative procedures and contractual obligations) in nurturing effective international performance.

**Figure 3.2** illustrates Langhoff's inter-cultural competency framework based on his *inter-cultural approach*<sup>37</sup>. The framework, an alternative to the *psychic distance* concept used in the field of anthropology based on semiotics<sup>38</sup>, has been successfully applied to international marketing and consumer behaviour<sup>39</sup>. The upper part of the **Figure 3.2** shows that

♦ *attitudinal* - what is top management's international orientation (Perlmutter, 1969).

<sup>36</sup> Ronen and Shenkar's (1985) meta-analysis of cross-cultural studies decomposed the world into ten (10) psychological zones - "Anglo, Germanic, Nordic, Near Eastern, Arab, Far Eastern, Latin American, Latin European, Independent, and Other". Sullivan (1994) used these categories as a template to assess the psychic distribution of various MNC's subsidiaries.

<sup>37</sup> An *inter-cultural approach* differs from a *cross-cultural approach*. In a *cross-cultural approach* one compares two (2) or more groups of people belonging to particular cultures, i.e. the study is comparative in nature, whereas in an *inter-cultural approach* one is analysing the encounter between people belonging to different cultures (Graham and Adler, 1989). This means that in an *inter-cultural approach* the analysis includes the totally new relationships which arise as a result of the interaction.

<sup>38</sup> A semiotic perspective on culture is based on the EMIC school of thought which focuses on understanding the meaning systems in different cultural contexts. It is argued that common to all cultures is the assignment of meaning, i.e. humans' creation of meaning of the world, which is analysed by semiotics. Geertz (1973) states that a semiotic perspective on culture implies that culture is seen as a network of significations which defines reality as it represents itself to people.

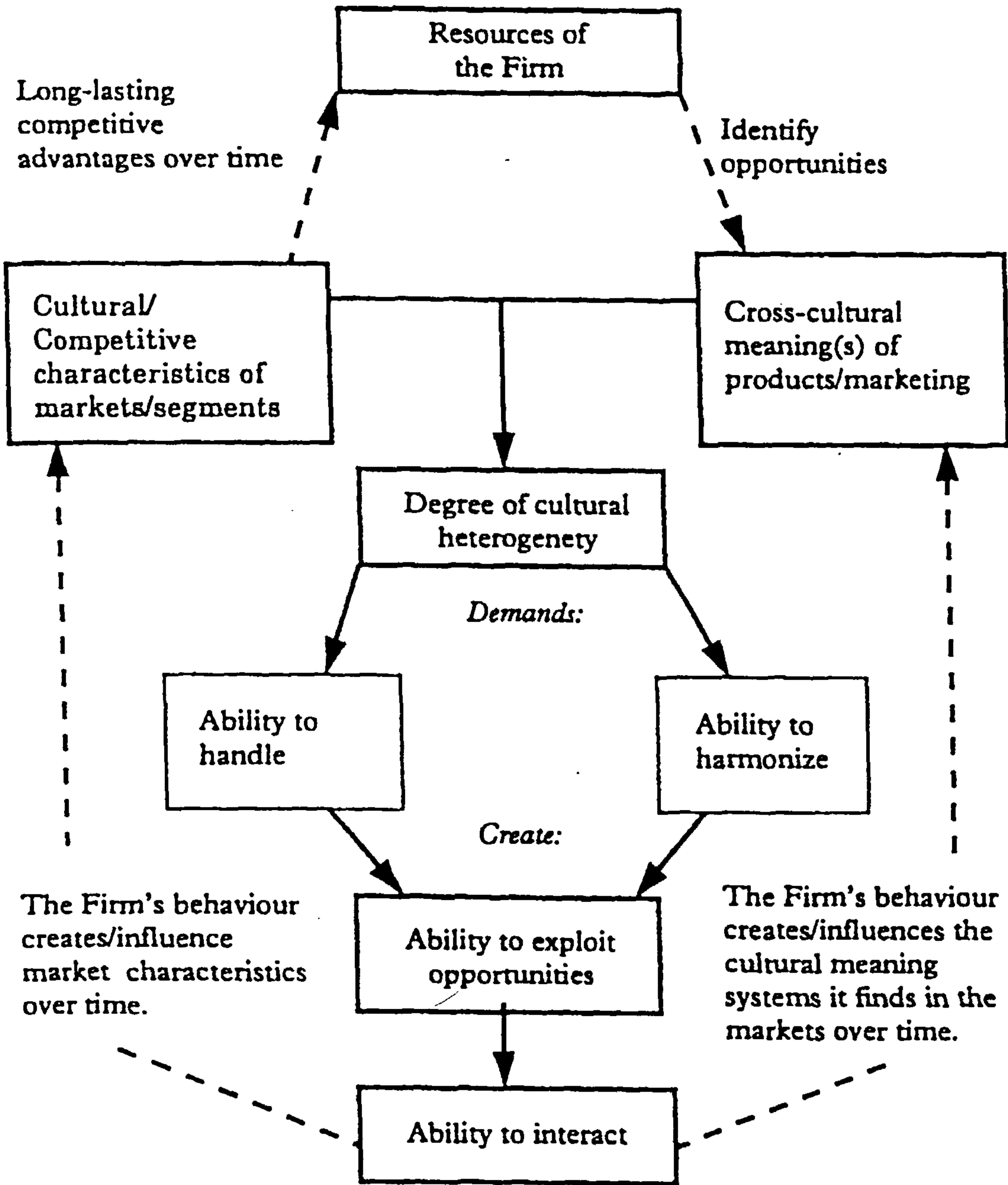
<sup>39</sup> Langhoff comments that in semiotics, cultural differences are analysed as communication barriers. Cultural barriers exist because the firm and its markets '*are living*' in different '*meaning systems*'. Where these different meaning systems may create



opportunities are identified based on the firm's resources. The existence of real opportunities depends on whether they fit the cross-cultural meaning systems of products and marketing concepts the users may demand.

With regard to ethnic minority firms residing in the UK, one would expect to observe a low degree of psychic dispersion with regard to their international markets in relation to their cultural background. Where psychic dispersion is observed to be high between home and target nations (for example, for Indian firm between India and the UK), the psychic distance between the parties/individuals engaged in exchange can also be anticipated to be low, since it can be assumed that internationalization will be via the exploitation of the entrepreneur's ethnic ties and social networks.

**Figure 3.2 Inter-cultural Competence as the Firm's Interaction With Its Defined Markets**



Source: Langhoff (1997)



### 3.4.2 Psychic Distance Analysed

The literature suggests the concept of '*psychic distance*' is poorly defined and measured, clearly illustrating that methods used in estimating a *psychic* or *cultural* distance between nations are problematic when probing the internationalization processes of firms.

It is important to recognise (Langhoff, 1997) that a fundamental characteristic of the Uppsala Model is that it is the individual decision-maker's *cognitive perceptions* of a firm's capabilities, and the perceived opportunities and threats associated with the markets, which determines corporate behaviour (these are highlighted in **Section 5.4.2**). It is therefore expected that decisions to begin operations in a foreign market partly depend on already *acquired experiences* within the firm, and partly on the relationship of the new venture to the firm's present business activities. In doing so, the model is operating at the *cognitive level*.

Johanson and Vahlne's (1977) perspective is based on the assumption that high international involvement (in terms of number of markets served) and high international commitment (in terms of resources committed to international operations, for example, in subsidiaries) indicates a high degree of internationalization. However, this may not be the case as a firm may be able to interact with many foreign cultural contexts, i.e. possess a high international and inter-cultural orientation, without committing itself to numerous geographically defined markets, and without operating through subsidiaries in particular international markets, i.e. the firm possesses a strong *inter-cultural* core competency. Johanson and Vahlne suggest that a firm may have a high international and inter-cultural orientation if it is able to interact closely with a variety of cultural contexts in various parts of the world market. Consequently, a firm is able to innovate and market products, even though the use and meaning of particular products vary across borders, and hence are closely bound to different cultural contexts and traditions around the world.

Langhoff (1997) suggests that "*psychic distance is not an objective factor that exists between a firm and its markets... the distance cannot be seen as an independent variable which influences all firms in the same way. It is a distance that exists in the minds of individuals and the perceived distance depends on the way these individuals see the world - the individual's perception of reality. As such, the term 'psychic' refers to something in the mind of each individual*".

The author identifies several problems with the *psychic distance* concept and consequently the Uppsala Model:

- ◆ The model assumes that all firms at a given stage of internationalization are influenced by cultural differences in the same direction and by the same intensity. This implies that firms are only influenced by cultural differences (or psychic distance) as long as they are in the beginning of their internationalization process, i.e. they have not penetrated the entire world market; and
- ◆ It may be problematic to use the country as the unit of analysis when dealing with *psychic* or *cultural* distances. Madsen (1990) concluded from his research on cultural biases that what really matters in a relationship, between individuals from different cultures, is the gap between actual and expected behaviour of the sales person and of the buyer.

These issues lead Langoff to conclude that the concept of *psychic distance* is estimated by an unusual method and is based on an arbitrary definition with no clear connection between definition and method.

The writer suggests that this implies that the psychic distance literature (and the generic term '*psychic distance*') is limited when it comes to defining/prescribing genuine dimensions which actually do influence the internationalization decision-making processes within firms. Consequently, the writer concludes that the term *psychic distance* is extremely vague and unhelpful in furthering the research agenda. Indeed, it can be argued that the term and notion has assisted many researchers in escaping from actually exploring the underlying processes taking place, opting to label deviations from the expectations of research studies to the '*black hole*' known as '*psychic distance*'.

Indeed, scholars (as outlined above) have presented research evidence which shows that this is no longer appropriate because it leads to confusion rather than solving the problems, suggesting that the concept itself should relate more to *individual cognitive thinking* (i.e. the decision-maker) than to the behaviour of the entire firm. Indeed, there is still very little known regarding how cultural heterogeneity influences a firm's process of internationalization. Consequently, modifications to improve the *psychic distance* concept are required because the notion of '*psychic distance*', in its originally contrived way, is no longer valid and outdated in the debate of *the internationalization of the firm*.

### **3.5 *Exporting and the Small and Medium-Size Enterprise (SME)***

#### **3.5.1 Introduction**

At the outset of the study, it was postulated that the bulk of ethnic minority firms could be categorised as SMEs, and that they would adopt either export and/or import activities as



initial FMEDS. Consequently, it emerged to be important that the writer gain a deeper cognitive understanding of SMEs per se (see Carter et al, 2000; Carter and Jones-Evans, 2000; Barrow, 1993) and the pertinent streams of the internationalization literature relating to SMEs, primarily in order to identify appropriate research design implications. This section focuses on these two (2) dimensions.

Numerous scholars and policy agencies have recognised the significant importance of SMEs to UK competitiveness, economic growth and prosperity at an international level (Reynolds, 1997). Many recognise that SMEs are increasingly involved in international activities with numerous international markets (Bonaccorsi, 1992; Erramilli and D'Souza, 1993; Haahti, Hall, and Donckels, 1998). Indeed, Coviello and Martin (1999) reinforce the notion that the activities and processes surrounding SME internationalization are important dimensions to gain cognisance of in order to enhance the research, practitioner, and policy perspectives. This is especially true since O'Farrell and Hitchins (1988) suggest that SMEs differ from larger firms on a multitude of dimensions; for example, management style, independence, ownership, capabilities, etc. Buckley (1989), Erramilli and D'Souza (1993), and Shuman and Seeger (1986) also highlight differential issues such as managerial processes, organisation and structure, financial limitations, human resource and skills as dimensions by which SMEs and larger firms can be differentiated. Consequently, this draws attention to the need for researchers exploring the internationalization of the firm to be sensitive and alert to the idiosyncrasies of SMEs and larger firms.

As stated in **Section 3.3**, the process of initial internationalization, for firms of all sizes, may be considered as an incrementally staged process (Johannson and Vahlne, 1975), the consequence of '*strategic opportunism*' (Melin, 1992), or a more rational outcome of strategic market development (Cavusgil, 1980). For many SMEs, the path to international activity begins with exporting<sup>40</sup> or the initiation of a licensing agreement. This activity may then develop over time, potentially through franchising or joint ventures<sup>41</sup>, through to the establishment of agency offices or subsidiary companies (Dudley and Martens, 1993; Schmidt, 1996; Terpstra and Yu, 1988).

The stages outlined above would appear as natural progressions from low commitment to international markets to a high degree of commitment as the firm gets to grips with any specific international market's dynamics and begins to feel more comfortable. However,

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<sup>40</sup> The World Bank has reported a substantial increase in the proportion of world trade represented by exporting.

<sup>41</sup> International Joint Ventures (IJV's) have been noted by many researchers to be a growing FMEDS being adopted by Western firms. Especially in targeting less developed countries (see: Beamish, 1988; Connolly, 1984; D'Souza and McDougall, 1989; Oman, 1984; Demirbag, Mirza and Weir, 1993; Hladik, 1985; Morris and Hergert, 1987).

Anderson (1999) suggests the process of *'going international'* begins well before this as SME managers begin to consider *'whether'*, *'where'* and *'how'* to operate overseas. This supports Reid's (1981) process of export development in SMEs, which he characterised as incorporating: *'export awareness'* and *'export intention'* prior to *'export trial'*; *'export evaluation'*; and finally *'export acceptance'* (where exporting is accepted and integrated in to what the firm does). Indeed, as the consideration broadens to incorporate other FMEDS, this emergent process can be characterised as moving from a period of *'pre-involvement'*, or *'reactive involvement'*, prior to becoming fully committed and active within selected international markets (Schmidt, 1996).

### 3.5.2 SME's are Different

*"With so much attention being given in research and writing to multinational corporations, global strategies and strategic alliances between oligopolistic rivals in the triad markets of North America, Europe and Japan, there is an increasing requirement to focus research attention on the concept of internationalization within the context of smaller firms, recent entrants, and difficult markets."*

- Young (1990)

Jones (1998) suggests that generally SMEs face not only barriers to growth per se, but in particular, potential barriers to growth through innovation and internationalization. In comparison to larger firms, SMEs are less able to exploit economies of scale and scope, with many relying instead on spin-off and spill-over effects from large business innovation or on niche marketing which may be difficult if, for example, the niche is small but spread internationally.

The literature on SMEs identifies a number of barriers to SME growth (Carter et al, 2000). Bosworth and Jacobs (1989), in their discussion regarding the influence of management attitudes on growth, suggest that SME managers experience major problems in making the expansion decision. Boswell (1973) provides evidence which suggests that problems stem from personal, attitudinal and management inadequacies. Other studies have identified that limitations of management skills exist, specifically in the area of forward financial planning (Scase and Goffee, 1980; Boswell, 1973; Berry, 1998; O'Farrell and Hitchins, 1988; Buckley, 1989; Erramilli and D'Souza, 1993; Shuman and Seeger, 1986). Indeed, the literature on Ethnic Minority Enterprise (Indian Enterprise is discussed in Section 4.0) suggests that these firms share similar characteristics per se to SMEs in general, regardless of ethnicity (Ram and Jones, 1998; Barrow, 1993; Carter et al, 2000; Carter and Jones-



Evans, 2000).

McGee (1989) concludes that the most pervasive problems facing SMEs are internal and resource related; for example, lack of technical and management skills or appropriate organisation structure. The limited resources and assets available within SMEs are likely to restrict expansion both in the technical and marketing sense.

In addition, SMEs face particular problems in entering international markets, in particular a lack of '*international orientation*' amongst managers (Dichtl et al, 1990; Maignan and Lukas, 1997). Problems relate to aspects such as: language and availability of qualified personnel; problems with distribution arrangements, financial arrangements; risk financing; availability of external market research; and other constraints under the general heading of '*lack of know-how*'. Jones suggests, specifically, that a lack of knowledge of international markets and operations is a constraint on effective internationalization decision-making, issues which Crick and Chaudhry (1995) suggest are common for Asian firms also. These areas of concern represent both a mix of internal and external deficiencies, and again they reflect underlying deficiencies in internal resources and abilities. This suggests that firms which seek to grow and expand internationally would follow the '*stages*' model of internationalization as discussed in **Section 3.3.2**, whereby SMEs are assumed, and recommended, to begin the process with low commitment and through indirect entry modes (Bilkey, 1978; Root, 1987; Terpstra and Yu, 1988) which implies, at least in the early market entry stages, that development difficulties arise as the opportunity to gain experiential knowledge is less than where direct entry modes are deployed (Eriksson et al, 1997).

Scholars and practitioners alike suggest a revival of the sector requires active policy-maker support for SMEs and significant research effort in to SME issues (Birch, 1979; Bannock, 1981; Curran and Stanworth, 1986; Storey and Johnson, 1987; Bannock and Peacock, 1989; Stanworth and Gray, 1991). In the context of this study, the writer suggests that research into the characteristics of ethnic minority firms, and their entrepreneurs, are important issues for the UK. This is because, firstly, these factors impact on their domestic and international behaviour and performance; and secondly, because expansion into international markets should not be considered as a separate and distinct activity. Ansoff (1957) and Luostarinen (1980) suggest that it must be regarded as a complementary strategy for growth and survival. Indeed, critics of export research argue that failure to take cognisance of this fact is a major weakness in many studies (Reid, 1983).

Given the above views, some exploration of the characteristics of Ethnic Minority Enterprise, i.e. Indian Enterprise, and the attributes and attitudes of Indian owner/managers, is

presented in **Section 5.5** and **6.4**, and should be reviewed in conjunction with this section.

### 3.5.2.1 Characteristics of SMEs

Mendham and Bannock (1982) observe that *"the most significant difference between big and small firms is not their size"*, but rather, differences concerning their objectives, management style and operational competence, issues which were identified earlier as being of importance. Indeed, Schuman and Seeger (1986) state that *"smaller firms are not smaller versions of big business... smaller businesses deal with unique size-related issues as well, and they behave differently in their analysis of, and interaction with, their environment"*. Their statement highlights the need for the internationalization literature to be cognisant of SME idiosyncrasies vis-à-vis larger firms. The five (5) major qualitative attributes of SMEs as identified by Schollhammer and Kuriloff (1979) are as follows (the literature suggesting that these attributes do not vary significantly for ethnic minority SMEs):

- ◆ **Scope of operations** - SMEs operate predominantly in a local or regional market, rather than a national or international market;
- ◆ **Scale of operations** - SMEs tend to have a limited share of any given market and are relatively small in a given industry;
- ◆ **Ownership** - Equity is generally owned by one (1) person, or at most, a small number of people. The firm tends to be managed directly by its owner(s);
- ◆ **Independence** - SMEs are independent, inasmuch as they are not part of a complex organisation. This means that firms owner managers have ultimate authority and effective control over the business, though freedom may be constrained by obligations to financial institutions; and
- ◆ **Management style** - SMEs are generally managed in a highly personalised fashion. The owner/manager tends to know the employees personally and participates in all aspects of managing the business. There is no general sharing of the decision-making process.

Bell (1994) suggests that quantitative definitions which classify SMEs according to size by whichever preferred measure(s) employed (for example: total assets, number of employees, sales turnover, etc.) not only vary from nation to nation, within a nation, and between industries, but they also fail to reflect Schollhammer and Kuriloff's (1979) attributes accurately. The author concludes that, given their impact on business success or failure, wider understanding of these qualitative aspects is imperative. The decision-maker's attributes, calibre, experience, expertise and motivation are especially important, insofar as (s)he is widely regarded as the most significant influence on SME development in general (Bamberger, 1982; Johannisson, 1984; Berry, 1998) and exporting in particular (Reid, 1983; Cavusgil, 1984; Axinn, 1988; Aaby and Slater, 1989; Crick and Chaudhry, 1995; Ibeh and



Young, 2001). Indeed, Berryman's (1982) review of the literature identifies the following six (6) main causes of SME failure which again, the writer argues and the literature suggests (see Section 4.0), do not vary significantly for ethnic minority SMEs:

- ◇ **Accounting** - Inadequate, or a total absence of, systems to monitor credit management or to control accounts payable, inventory and operating expenses, manage cash flow and budget for growth;
- ◇ **Marketing** - Inadequate sales, marketing weaknesses or poor location decisions;
- ◇ **Finance** - Lack of start-up and/or working capital and insufficient funds to finance expansion;
- ◇ **Endogenous reasons** - Competitive weaknesses, operating problems, excessive drawings, poor forecasting and tax planning, deficiency in accounting knowledge, lack of managerial experience, personnel problems and absence or inadequacy of board of directors functions;
- ◇ **Exogenous factors** - Economic conditions, seasonality of demand, personal problems, client insolvency or fraud; and
- ◇ **Behavioural aspects** - Inability to delegate, reluctance to seek help or advice, inability to manage change and lack of management talent.

Excluding exogenous factors, it is suggested that most of these causes are management related. Indeed, Broom and Longenecker (1979) draw attention to managerial inexperience or incompetence for over 90% of SME failure, and Wheelen and Hunger (1995) conclude that *"the underlying problem (with SMEs) appears to be an overall lack of strategic management... beginning with an inability to formulate strategy to reach the customer and ending with a failure to develop a system of evaluation and control to keep track of performance"*.

The literature suggests ownership and control issues and the entrepreneur's jealously guarded independence compound these limitations. SME owners may resist opportunities for growth through partnerships or venture capital injection because they fear a loss of control. They are also less likely to seek or accept external advice and often regard government support as intrusive (Bell, 1994; Marlow, 1992). Indeed, from an Ethnic Minority Enterprise perspective, both these factors are highlighted in the Asian Enterprise literature as significant for Asian SMEs (these are discussed in Section 4.4).

In seeking to classify SME entrepreneurs, Ettinger (1982) suggests two (2) stereotypes<sup>42</sup>: 1) the independent, and 2) the organisational member. The former, needing to be independent

<sup>42</sup> The writer suggests that Indian entrepreneurs fall into the former of the entrepreneurial styles suggested by Ettinger (1982).

and creative, may only have a few people working for them and delegate ancillary and peripheral tasks. They do not want the firm to grow beyond their control and are therefore unlikely to actively seek new opportunities. The latter, on the contrary, wants to wield power of an ever-increasing scope over a growing business and thus improve their standing in the community. These styles are argued by culture specialists such as Hofstede (1980) and Tayeb (1984, 1988) to be culturally significant (see **Section 5.0**).

Since the Asian Enterprise literature suggests that many UK Indian SMEs are family owned, with control being retained within this circle (for example, Crick and Chaudhry, 1995), the writer suggests that a number of detrimental issues emerge (issues which can be argued as common to any family owned firm per se (see Fletcher (2000))). For example:

- ◆ Key management positions may be held by relatives rather than more able internal or external appointments;
- ◆ If the owner has no (suitable) successor, his/her motivation to develop the firm will be limited. Rather than reinvest the profits, these will be taken out of the firm and used to enhance his/her life-style; and
- ◆ Even if the firm can be passed down, the successor may not have the commitment, motivation or talent of his predecessor. Consequently, the long-term future of the firm may often not be assured. The writer suggests that cultural shifts in second and third generation UK ethnic minorities may compound this factor (see **Section 5.5**).

Given the above, the writer suggests that Mitchell and Bradley's (1986) assertion that the typical "*export behaviour of small firms is often, at best, unplanned, reactive and opportunistic*" should come as no real surprise (Berry, 1998).

Despite the research on Asian Enterprise, which frequently and consistently presents documented evidence - citing the above resource limitations and inadequacies in planning (particularly strategic) and marketing (Pardesi, 1992) - many Asian (and other) SMEs survive and grow. MacMillan (1975) suggests the following five (5) reasons for the survival and growth of SMEs per se; however, additional factors as identified in the literature and presented in **Section 4.0** also contribute to UK Indian enterprise survival and growth (for example, strong social networks):

- ◇ **Unanimity** - Since SMEs have a single owner/manager (or, at most, a small number of managers) decisions are made by one individual or are virtually unanimous;
- ◇ **Mobility** - The speed of this decision-making process enables such firms to respond quickly to change and shift direction;
- ◇ **Innovation potential** - SMEs can be far more innovative due to their unanimity and



mobility;

- ◇ **Small size of investment and scale of fixed costs** - Smaller investments mean that break-even can be achieved at lower volumes. Thus, niche markets can be exploited profitably before market saturation occurs; and
- ◇ **Commitment** - Owner/managers are totally committed to the firm and devote their attention to finding new market opportunities.

In the context of SME internationalization (Bonnaccorsi, 1992; Erramilli and D'Souza, 1993; Haahti, Hall and Donckels, 1998), these qualities are significant: flexibility means that SMEs can respond quickly to any export opportunities identified or presented; the volume of such business need not be large to make it viable; initial investment of time and resources will be relatively low compared to those expended by larger firms; and the limited presence of an SME in a new market may not alarm existing players, enabling the entrant to gain an initial foothold and become established.

Despite the acknowledged influence of internal and external resource-based constraints<sup>43</sup> (Andersen and Kheam, 1998) (Section 3.3.4.1 discusses the RBT of the firm in more detail) on the strategic behaviour and growth of SMEs (Barber et al, 1989; Storey, 1994), it is not implausible that they could be encouraged to pursue more adventurous and successful FMEDS. For example, UK ethnic minority firms could be encouraged and supported to exploit global ethnic ties and social networks if they were identified and proved to be a source of potential competitive advantage. This dimension is discussed in Section 6.0.

The SME literature provides evidence that the major obstacles to SME growth can be attributed to their inherent human and financial resource constraints and inadequacies in planning (for example, see Carter and Rosa (1998) and Berry (1998)). This suggests that their ability to survive and expand is highly dependent on a capacity to be flexible and innovative. It is also clear that the success or failure of such firms is essentially determined by the attributes, attitudes and competencies of key decision-makers. Obviously, firm and decision-maker characteristics do not merely influence domestic marketing but also impact on international activities in environments which are more dynamic, complex and competitive (Bradley, 1987). They should, therefore, be accepted as underlying factors which impact on SMEs' internationalization behaviour and performance in either a positive or negative manner and to a lesser or greater extent.

<sup>43</sup> Researchers suggest that these constraints may be internal and/or external: the former concern a lack of management and other personnel resources and the inability to manage resources effectively; the external environment is important because SMEs survive by accessing resources from this environment, from such sources as customers, suppliers, competitors, governments etc. However, the inability to manage the external environment may be another constraint inhibiting the search for, access to, or use of the external resource.

The writer also draws attention to 'cultural differences' which influence issues such as company ownership and control. The literature suggests that there is a close historical link between capitalism and individualism. The modern capitalist system based on self-interest and the market mechanism was 'invented' in the UK, which on Hofstede's individualism scale (please refer to **Section 5.4.3.2**) is identified as a highly individualistic nation. It should be noted that in an individualist value pattern the relationship between the individual and the organisation is *calculative*; it is based on enlightened self-interest. In more collectivist societies (such as Asian societies), the link between individuals and their work organisations is *moral* by tradition (please refer to **Section 6.4.3.1** which discusses the notion of trust). This presupposes individuals' loyalty toward their in-groups in exchange for protection. In such societies, free-market capitalism with the supremacy of the profit motive and which considers the labor contract between employer and employee as a calculative bargain can be viewed as an alien element. Indeed, **Section 4.0** identifies this to be the case for Indians. Although a change in orientation can be imposed, it is likely to have strong disruptive effects on such societies, and contravene cultural norms. The writer suggests that these differing cultural orientations go some way to assist researchers in further exploring and understanding the characteristics of UK ethnic minority SMEs. Indeed, such factors would be important in understanding the internationalization strategies adopted by these firms.

### 3.5.3 Exporting

*"A conclusive theory of small business internationalization is far from being available."*

- Miesenbock (1988)

#### 3.5.3.1 Introduction and the Export Behaviour of SMEs

Having identified that SMEs are different from larger firms and MNEs (Shuman and Seeger, 1986) (please refer to **Section 3.5.2**), in the context of this study it was important to establish their orientation towards international activity (Bonnaccorsi, 1992; Erramilli and D'Souza, 1993; Haahti, Hall and Donckels, 1998). The literature suggests that SMEs generally concentrate on exporting as their main FMEDS. Indeed, Buckley et al (1979) suggest that export operations constitute the first step in the process of internationalization, and this stage is critical to the firm's advancement to other forms of international business, such as licensing, joint ownership or wholly owned production abroad. This is supported by Young et al (1989) who comment that exporting is the most common FMEDS, particularly among SMEs, due to the minimal business risks, low resource commitment and high flexibility of action it offers.

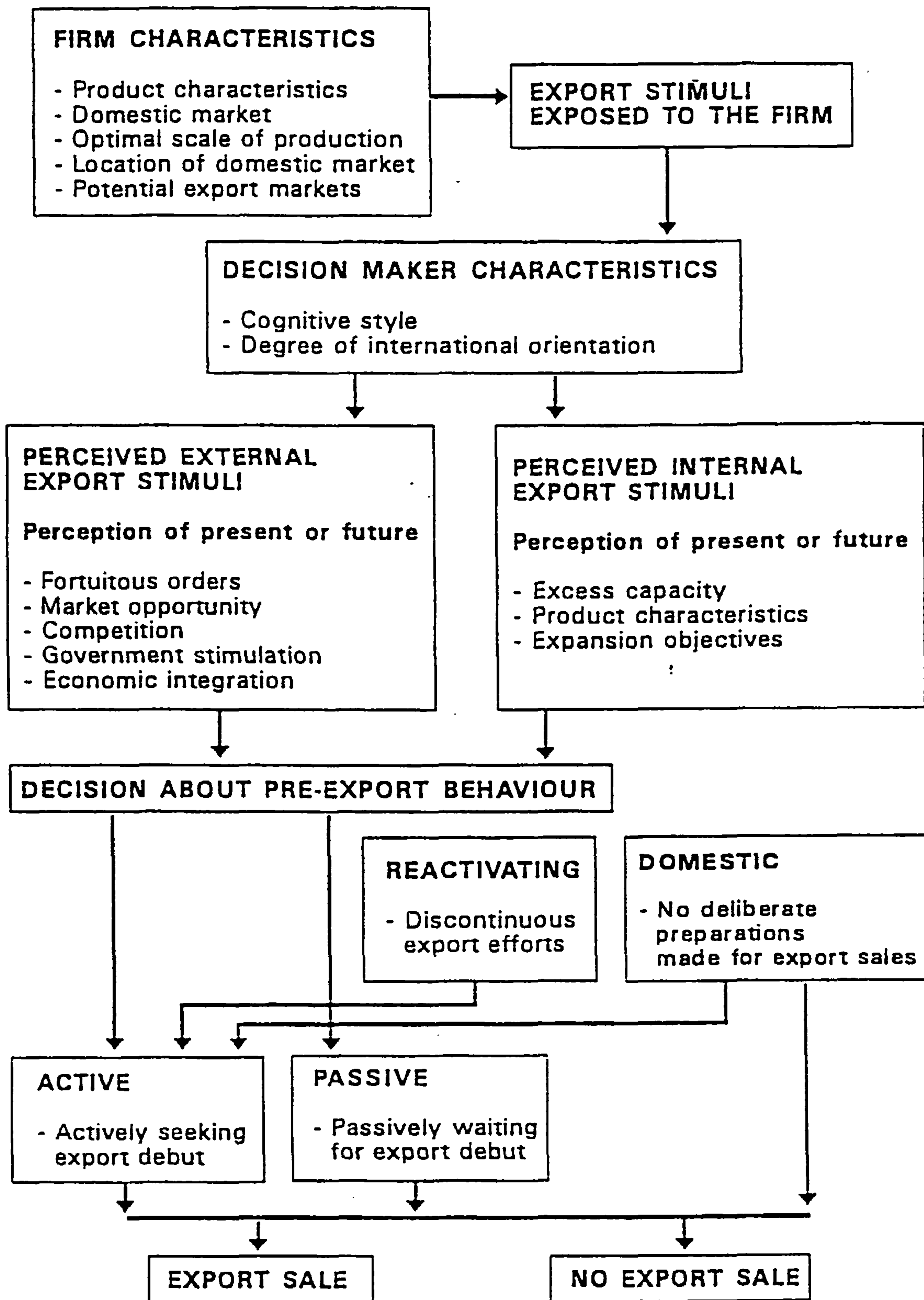


The literature review identifies that American based studies predominate in this field with the majority of contributions coming from studies on industrial products; typically those manufactured in advanced economies. Few investigations have explored non-traditional exports from less developed countries (LDC's) or high-technology and service sector exports. The writer suggests that the literature is heavily influenced by the findings of US studies and that generalisations made on the basis of data which may not even be representative of a specific market should be treated with caution (Bodur 1986). Many studies, regardless of country of origin, are cross-sectional and do not adopt longitudinal approaches, and lack the richness and depth which qualitative research provides. The limitations of existing studies should be recognised. Indeed, the writer suggests that not all sectors of economic activity display similar characteristics. The findings of Buckley, Pass and Prescott (1992), Edvardsson, Edvinsson and Nystrom (1993), and Aksoy and Kaynak (1994) suggest that firms in the primary or tertiary economic sectors, despite their growing foreign business involvement, display idiosyncrasies in their internationalization patterns. This finding was considered to possibly have some relevance to this study.

#### **3.5.3.2 The Initial Export Decision - 'Go' or 'No Go'**

Wiedersheim-Paul et al (1978) propose a conceptual framework on the factors which influence the firm's pre-export behaviour. This model suggests that external or internal '*attention evoking*' stimuli act as '*triggering cues*' in the initial export decision-making process. The alternatives evoked depend not only on the characteristics of the firm and the environment in which it operates, but also on the characteristics (and *cultural* background) of the individual decision-maker. In their model of export propensity, Olson and Wiedersheim-Paul (1978) develop the concepts further by arguing that these stimuli are significant only to the extent that they are *perceived* as such by the decision-maker (please refer to **Section 5.4.2** which discusses management paradigms). The writer suggests that this notion goes some way towards explaining why comparable firms, exposed to similar stimuli, adopt different strategies and perspectives to export opportunities. For example, they may adopt disinterested, reactive, passive or active stances as illustrated in **Figure 3.3**. As a basis for discussion, many scholars regard these conceptualisations as providing useful frameworks on export initiation.

Figure 3.3 Model of Export Propensity



Source: Olson and Wiedersheim-Paul (1978)



### 3.5.3.3 Demographic Considerations

Demographic characteristics such as firm size and age are among the most frequently analysed variables in the export literature (Tookey, 1964; Reid, 1982; Cavusgil and Naor, 1987; Bilkey and Tesar, 1977; Kirpalani and MacIntosh, 1980; Piercy, 1981; Kaynak, 1985; Ito and Pucik, 1993; Ali and Swiercz, 1991; Liouville, 1992; Keng and Jiuan, 1989; Ortiz-Buonafina, 1990; Garnier, 1974; Cavusgil, 1976; Withey, 1980). Interest in these factors stem from the belief that small size and inexperience present insuperable impediments to exporting, with ownership issues also being regarded as important.

However, Cavusgil (1984) argues that firm size (however defined) is an unreliable indicator of export activity. This is supported by Czinkota and Johnston (1983) and Reid (1983) who suggest that the relationship between size and export development is very inconclusive. In their review of past studies, Aaby and Slater (1989) conclude that *"company size, by itself, is not an important factor unless it is linked to aspects such as financial strength or economies of scale"*. Also, with regard to the impact of age of the firm on a firm's export activity, again, mixed views exist (Ogram, 1982; Reid, 1982; Wiedersheim-Paul et al, 1978; Kirpalani and MacIntosh, 1980; Ursic and Czinkota, 1989). In addition, with regard to the impact of ownership on firms export activity, conflicting views exist. Abdel-Malek (1978) reports no significant differences. Daniels and Goyburo's (1976) Peruvian study finds no differences between state-owned, private, or co-operative national firms, but conclude that foreign-owned firms are more likely to export. Indeed, a number of scholars also identify that ethnic origin or nationality of owner/managers is significant in exporting (Simmonds and Smith, 1968; Garnier, 1974; Wiedersheim-Paul et al, 1978) - a dimension which this study explored.

Bell (1994) concludes that in the absence of conclusive evidence to support or refute the importance of firms' demographic characteristics, the only logical conclusion that can be reached is that they should not be considered in isolation. While they may be seen as proxy measures of the firm's resource base and operational capabilities, they must also be viewed in the context of variations between industry sectors and other external environment factors. Indeed, the writer suggests that the cultural dimension associated with the firm should also be considered.

### 3.5.3.4 Macro and Micro Environmental Considerations

According to Garnier (1982), the factors that constitute the environment include the

characteristics of the nation (macro) in which the firm is located and of the industry (micro) of which it is a part. The notion that environmental factors generating push and pull factors which influence exporting is widely accepted (Bilkey and Tesar, 1977; Rabino, 1980; Kaynak and Kothari, 1984; Bauerschmidt et al, 1985; Rao, 1990; Green and Larsen, 1987; Miesenbock, 1988).

In addition, both the size and location of the domestic market are important factors. Firms located in small home markets may have little option but to seek new export markets (Joynt, 1982). Conversely, those based in large economies may not feel the urge to do so unless threatened by market saturation or by increased foreign imports (Hartland-Thunberg and Crawford, 1982; Reid, 1982; Cavusgil, 1984). Similarly, proximity to foreign markets will influence export activity (Tesar, 1975; Bilkey, 1978; Schlegelmilch, 1986; Sullivan and Bauerschmidt, 1991). Dichtl et al (1990) suggest that this tendency towards a domestic or international market orientation can best be observed at an aggregate level.

It should also be noted that even with the geographic location of the firm within the domestic market, the proximity and availability of transport and other infrastructural factors may have positive or negative influences on exporting (Verhoeven, 1988; Samiee and Walters, 1990). In addition, industry-related factors are also significant with certain industries possessing greater opportunities for internationalization than others. The extent of this potential is determined by industry-specific factors such as: the relative size of firms vis-à-vis other sectors; industry-structure factors such as size distribution and concentration of power; economies of scale; whether the industry is mature and in decline or has prospects for international growth, etc. Many capital and R&D intensive sectors (for example, aircraft and automobile manufacture, computers, military hardware, microchip production, etc.) possess significant barriers to entry and export development, primarily because they are dominated at an international level by a small cluster of major players and concentrated in a few key markets which have competitive advantages (Porter, 1990).

Conversely, many SMEs operate in product or service sectors which offer little potential for export expansion (Overweel and Van Elk, 1991), for example, small scale retailing (a sector which in the UK has attracted ethnic minority entrepreneurs). However scholars have argued that in certain sectors, small size does not necessarily preclude initial entry or rapid expansion in both domestic and export markets; for example, Bell identifies the computer software industry (also see Coviello and Martin (1999) who suggest that contemporary research on internationalization of service sector SMEs is limited).



### 3.5.3.5 Decision-Maker Considerations

*"He or she is the one to decide starting, ending and increasing international activities. He lays down the goals concerning exporting and determines the organisational commitment."*

- Miesenbock (1988)

Miesenbock's statement reinforces the findings of many studies which clearly recognise that the decision-maker is the key variable in determining export activity. This view highlights the importance of the attitude and personal attributes and qualities of the decision-maker in the internationalization process (Maignan and Lukas, 1997). A review of the literature uncovers that considerable empirical research has been conducted to establish decision-making characteristics which distinguish exporters from non-exporters or which correlate with export success (Simpson and Kujawa, 1974; Pavord and Bogart, 1975; Dichtl et al, 1983; Schlegelmilch, 1986; Bradley, 1984; Axinn, 1988; Aaby and Slater, 1989). These characteristics can be broadly classified as either objective or psychologically-orientated decision-maker attributes. The former include factors such as the decision-maker's age, level of education and experience, including a number of dimensions on the individual's international orientation - nationality, or ethnic background, residence abroad, overseas travel, foreign language skills, etc.

In the literature, conflicting views emerge on the importance of the decision-maker's age on export activity (Pinney, 1983; Reid, 1983; Cheong and Chong, 1988; Cavusgil and Naor, 1987; Moon and Lee, 1990), and the relationship between the decision-maker's educational achievements and export propensity (Simpson and Kujawa, 1974; Wiedersheim-Paul et al, 1978; Reid, 1983; Keng and Juan, 1989; Holzmuller and Kasper, 1990; Ogram, 1982; Cavusgil and Naor, 1987; Axinn, 1988; Dichtl et al, 1984). The literature suggests that the most important objective characteristic relates to the international experience and the external contacts of the decision-maker (Daniels and Goyburo, 1976; Bilkey 1987; Axinn, 1988; Angelmar and Pras, 1984; Dichtl et al, 1984; Garnier, 1982). Indeed, many scholars suggest that in the case of current exporters, regular overseas travel is positively linked with export success (Tookey, 1964; Tesar and Tarleton, 1982; Cunningham and Spigel, 1971), although the duration of these activities does not seem to be significant (Topritzhofer and Moser, 1979).

In the context of this study, it was important to note that a number of scholars identify that foreign birth, parentage, or extensive overseas experience is also seen as a contributory factor, not only to the decision-maker's overall international orientation (Dichtl et al, 1990), but also to a preference for, and focus on, familiar markets (Simmonds and Smith, 1968;

Reid and Mayer, 1980; Reid, 1983; Crick and Chaudhry, 1995). For example, ethnic minorities living in the UK would see nations where similar minority communities reside as possibly familiar markets, because they may travel to these locations on holidays to visit kin. Knowledge of international markets is considered crucial by Yaprak (1985) who concludes that *exporters are better informed in this respect than non-exporters*. Many scholars identify the importance of foreign language skills (Dichtl et al, 1984; Schlegelmilch, 1986; Swift, 1991) in international success. However, others see English as the only essential language for exporting (Daniels and Goyburo, 1976), although, the writer suggest that this in reality may be a disadvantage to effective cultural sensitivity and understanding.

Psychologically-orientated decision-maker characteristics prove to be more controversial, since it is difficult to identify whether such attributes are a pre-condition to, or a consequence of, export activity. Exporters are regarded as having a higher positive attitude to exporting, and consider it to be more important to the firm's growth and profitability, than do non-exporters (Hunt et al, 1967; Bilkey 1978; Cavusgil and Nevin 1981; Ogram, 1982; Czinkota and Johnston, 1983; Piercy, 1983; Cavusgil, 1984; Dichtl et al, 1984; Axinn, 1988). They perceive exporting to be more profitable and less risky (Withey, 1980; Brasch, 1981; Tesar and Tarleton, 1982; Edmunds and Khuory, 1986; Weaver and Pak, 1990). Significantly, however, profit motives appear to be less important than growth objectives in the initial export decision.

The literature suggest that exporters are more dynamic, aggressive, creative and innovative than non-exporters (Perkeft, 1963; Simmonds and Smith, 1968; Bilkey and Tesar, 1977; Lee and Brasch, 1978), more self-confident and flexible (Dichtl et al, 1984), and more likely to have an international orientation (Kaynak and Kothari, 1984; Kaynak, 1985). Indeed, virtually all findings highlight the positive relationship between managerial commitment and the propensity to export (Cavusgil et al, 1979; Gronhaug and Lorentzen, 1983; Cavusgil, 1984; Sullivan and Bauerschmidt, 1989).

Regarding psychologically-orientated decision-maker attributes and attitudes, the following pertinent observations can be made: a number of studies identify no significant differences between the self-perceptions of exporters and non-exporters (Brooks and Rosson, 1982; Kaynak and Stevenson, 1982; Diamantopoulos and Inglis, 1988); and Eshghi (1992) argues that *"managerial attitudes towards exporting and exporting behaviour do not necessarily have to be consistent... some managers may have negative attitudes towards exporting even though they are involved in exporting. Conversely, some non-exporters may actually be favourably disposed towards exporting"*.



### 3.5.3.6 Other Considerations

The literature suggests export initiation occurs due to the interaction between: firm, environment, decision-maker characteristics and internal and/or external stimuli. Bilkey (1978) and Cavusgil and Nevin (1981) maintain that the internal determinants include:

- ◆ Management perceptions of differential advantage in terms of their products, process or operational efficiency;
- ◆ The strength of management aspirations regarding growth profitability and market development; and
- ◆ Management expectations of the impact of exporting on the firm, based on present knowledge and perceptions of future development.

Indeed a number of scholars (Ibeh and Young, 2001; Stevenson, Robertson and Grousbeck, 1989; Samiee et al, 1993) propose that exporting is an entrepreneurial act.

Many studies also conclude that favourable expectations regarding the firm's *competitive advantage* (in relation to products, level of technology, distribution, pricing, core competences, etc.) or the potential for increased profits are critical factors in export initiation (Tookey, 1964; Cooper and Klienschmidt, 1985; Alexandrides, 1971; Cavusgil, 1976; McGuinness and Stevenson, 1982; Brasch, 1981; Johnston and Czinkota 1982; Reid, 1983; Cavusgil and Naor, 1987). Yaprak (1985) suggests that such expectations and management aspirations will not only reflect decision-maker goals and objectives, but will also be influenced by previous positive or negative outcomes, and that new exporters are likely to view prospects with some trepidation.

It can be argued that greater commitment will lead to the allocation of resources to planning and implementing export activity, assuming that the firm has excess capacity and uncommitted resources (Rabino, 1980; Ogram, 1982) and that management has the skills and the will to commit them effectively (Johanson and Mattson, 1984). It is also implied that SME decision-makers pursue rational economic goals and have long-term planning horizons, which is not always true (Lee and Brasch, 1978; Tesar, 1975; Berry, 1998). However, the literature on Indian Enterprise suggests that issues such as community and a sense of service to ones fellow man and family score higher in certain instances.

Recognising the importance of internal factors, Olson and Wiedersheim-Paul (1978) incorporate the impact of perceived external '*attention-evoking*' factors on the export decision. They maintain that receipt of fortuitous orders, competition, market opportunity, the effects of government stimulation and the consequences of economic integration, etc., can

all have a positive effect on export behaviour.

Many scholars present evidence to suggest that a critical factor in export initiation is the receipt of unsolicited orders (Snavely et al, 1964; Pavord and Bogart, 1975; Bilkey and Tesar, 1977; Bilkey, 1978; Wiedersheim-Paul et al, 1978; Kaynak and Kothari, 1984; Bannock, 1987; Barker and Kaynak, 1992). However some scholars suggest that additional factors, for example, adverse home market conditions, excess capacity, exchange rate fluctuation, etc., will also influence the firm's reaction, i.e. *push* and *pull* factors (Tesar, 1975; Bilkey, 1978; Wiedersheim-Paul et al, 1978; Rabino, 1980; Reid and Mayer, 1980; Joynt, 1982; Kaynak et al, 1987; Pavord and Bogart, 1975; Kaynak and Kothari, 1984; Simpson and Kujawa, 1974; Reid, 1980; Weaver and Pak, 1990).

While some scholars consider the impact of government stimulation for exports to be a major stimuli to export initiation (Reid and Mayer, 1980; Seringhaus, 1986), others suggest that export policy measures act solely as hygiene factors (Hertzberg et al, 1957; Hertzberg et al, 1959) in reinforcing the firms' decision to export rather than influencing the decision in the first place (Simpson and Kujawa, 1974; Karafakioglu, 1986; Christiansen et al, 1987, Paliwoda, 1993).

Miesenbock (1988) suggests that one or two of these internal and external stimuli provoke an export decision, however, this is contested by others (Bilkey and Tesar, 1977; Wiedersheim-Paul et al, 1978; Bilkey, 1978; Johnston and Czinkota, 1982). Consensus is clearly lacking on determining the precise stimuli which provokes the export decision. The writer argues that it is clearly contingent on firm and situation factors.

**Figure 3.4** provides Albaum et al's (1989) classification of export motives which incorporates not only the source of the stimuli but also whether a firm's subsequent response, and that of the key decision-maker, is reactive or proactive. They conclude that the behaviour of large firms tends to be internally motivated and proactive due to greater resource availability and strategic management (Berry, 1998; Andersen and Kheam, 1998). However, it can be argued that SMEs with inherent resource limitations and inadequate planning horizons, will more likely react to external stimuli with this pattern not only being reflected at the export initiation stage, but assuming that SMEs meet with success, will also be evident in subsequent phases of internationalization.



**Figure 3.4 A Classification of Export Motives**

	INTERNAL	EXTERNAL
PROACTIVE	<ul style="list-style-type: none"> <li>● Managerial urge</li> <li>● Growth and profit goals</li> <li>● Marketing advantages</li> <li>● Economies of scale</li> <li>● Unique product/ technology competence</li> </ul>	<ul style="list-style-type: none"> <li>● Foreign market opportunities</li> <li>● Change agents</li> </ul>
REACTIVE	<ul style="list-style-type: none"> <li>● Risk diversification</li> <li>● Extend sales of a seasonal product</li> <li>● Excess capacity of resources</li> </ul>	<ul style="list-style-type: none"> <li>● Unsolicited orders</li> <li>● Small home market</li> <li>● Stagnant or declining home market</li> </ul>

Source: Albaum et al (1989)

### 3.5.3.7 Critical Export Success Factors?

Scholars suggest that unsuccessful attempts to assess export performance at a micro-level have resulted because of the difficulties in assessing export 'success' realistically (Cunningham and Spigel, 1971; Kaynak, 1992). Consequently, scholars have adopted the growth of export revenues or improvement in the export ratio (export sales as a proportion of total sales) as indicators of success which Bell (1994) argues to be problematic because:

- ◇ Many studies have been cross-sectoral and little attempt has been made to reflect different domestic and international growth rates for specific industries. In cases where single sectors have been investigated, classification measures are invariably different to those adopted in other studies;

- ◇ Few efforts have been made to explore export performance and success in the longer-term due to the predilection for cross-sectional research; and
- ◇ Quantitative approaches and the aggregation of data fail to reflect that even in the same industry Individual firms' expectations regarding growth, profitability and other measures of success are likely to be different because of the dominant methodologies. Thus, 'success' is an extremely subjective and ephemeral concept: export growth and profits considered adequate by one firm may be regarded as unsatisfactory by another. Moreover, firms' expectations are quite likely to change over time and a decline in export activity should not necessarily be regarded as indicative of failure.

Consequently, many studies have focused on identifying key factors which contribute to firms' abilities to initiate and expand export operations. These criteria can be broadly classified as:

- ◆ **Marketing related** - market intelligence, product attributes, pricing techniques, communication and distribution strategies, customer care, etc.; and
- ◆ **Management related** - caliber of management, decision-making skills and strategic planning and operational competencies.

Clearly, inadequacies in these areas will impact the domestic performance of a firm even before it contemplates international activities. Indeed, Cavusgil and Kaynak (1982) suggest product quality, good personal relationships, frequent communication, long-term commitment, competitive pricing and good terms of sale/credit to be essential elements in contributing to survival and long-term export development.

An investigation conducted by Bannock (1987) on behalf of the British Overseas Trade Board (BOTB) represents the most comprehensive investigation in understanding export success. In this study, the responses from 920 firms (in a survey of 3000 UK firms of various sizes within different industries) were analysed, together with those from a further 1050 firms responding to the Small Business Research Trust's (1986) Seventh Quarterly Survey of Small Business. Firms exporting more than 15% of turnover in at least one (1) of the previous three (3) years were classified as '*active exporters*', those exporting less than 1% of sales as '*non-exporters*' and the residual of these two (2) categories were deemed to be '*passive exporters*'. There is agreement on the factors which contribute to export success between these groups, i.e. finding the right agent or distributor, selecting the right markets, and the need for commitment, confidence and persistence are considered important by all groups. However, Bannock's observation that active exporters were more focused on what is important, and that they demonstrate higher levels of commitment was evident from firms' responses. Indeed, it can be argued that the fact that they were to be less concerned about



pricing, product modification and knowledge of markets or customers also indicates much greater confidence in their ability to compete in export markets.

The study presents an interesting insight in the context of this study, in that it emphasises that positive management attitudes are critical to export success. In profiling the attitudes of successful and less successful exporters, there is evidence that suggests successful exporters adopt structured, long-term, proactive approaches to exporting, whereas less successful exporters take a short-term view of exporting, reacting haphazardly in an unprofessional manner, over-estimating the potential export problems and externalising failure (see Maignan and Lukas, 1997).

The following conclusions can be drawn from the export success literature: possession of suitable products or technology, adequate human and financial resources and marketing related competencies (for example: good market intelligence and distribution, competitive pricing, communications with clients, customer care, etc.), influence whether firms achieve export success. However many firms appear to achieve a modicum of success, even in the absence of some of these criteria. Authors such as Bilkey (1985) find considerable evidence to suggest that SMEs pursue sub-optimal export strategies and it appears that even UK Queen's Export Award winners *"are not, in general, particularly marketing orientated"* (Brown and Cook, 1990; Crick, 1995). However, just as firms develop more sophisticated domestic strategies as they become larger and more experienced, so too is export planning likely to become more structured over time in response to favourable outcomes; and positive managerial attitudes are an essential pre-requisite for export success insofar as they enable firms to overcome inherent resource limitations and improve their competitive positions. Conversely, in the absence of managerial commitment, other potential advantages are likely to be negated and possible export opportunities are unlikely to be fully exploited. Thus, managerial commitment is crucial for export success.

### **3.5.3.8 Exporting - The Restraining Forces**

The largest area of research has focused on impediments to exporting and the problems facing SMEs. The literature is somewhat confused with mixed results caused by the research predilection for comparative studies, which explore the problems and obstacles facing firms which are actually exporting, at the same time as investigating the barriers and impediments as **perceived** by non-exporting firms. In addition, although most findings identify and rank problems in order of importance, few (excluding Czinkota and Ricks' 1981 study) measure problem intensity; indeed, many scholars disagree on rankings. It should also be noted that many findings on exporting problems emanate from the US and reflect

the capabilities and experiences of American firms. As Katsikeas (1991) observes *"it is thus implied that, prima-facie, the findings on the obstacles perceived cannot be considered to represent the export behaviour of firms primarily based in countries other than the USA"*.

With regard to the UK, Bannock (1987) highlights finance-related issues and delays in payment as the most significant problem facing UK exporters. Export paperwork, obtaining market information, product suitability and securing suitable representation are also suggested to be problematic.

It should also be noted that relatively few enquiries into export problems have been conducted outside the advanced industrial nations. Consequently, assumptions relating to problems facing firms from other nations should be viewed with caution also. This was an issue which was relevant to this study.

Katsikeas agrees with Bodur's (1986) assertion that *"One common denominator (in the research efforts of other scholars)... is the indication that most of these problems are infrastructural and institutional rather than marketing management orientated. Documentary requirements and paperwork, host and home government regulations, insufficient financing and lack of foreign market information and contacts are the most often cited problems in exporting. It is found that the nature of these problems does not vary across firms when 'annual sales' or 'export experience level' are the classifying criteria"*.

Other studies substantiate this view, highlighting export problems as part of broader investigations into exporting issues. However, it should be noted that some scholars also identify marketing-related problems. Cannon (1980), Dichtl et al (1984) and Walters (1989) suggest that export pricing presents difficulties and others argue that obtaining payment from foreign customers is problematic (Tesar and Tarleton, 1982; Axinn, 1988). McFarlane (1978) and Seifert and Ford (1989) regard poor communications and inadequate promotional activities or budgets to be detrimental to export performance. Rosson and Ford (1980), Erramilli (1990) and others highlight problems relating to channel choice and/or control and other aspects of distribution, whereas Weinrauch and Rao (1974), Bodur (1986), Karafakioglu (1986) and Keng and Jiuan (1989) suggest poor product quality or unsuitable offerings are significant export obstacles. Indeed, it is important to note that competence in at least some of these marketing-related areas, along with managerial factors feature prominently in the export success literature.

In addition, in the case of non-exporters many of the barriers are of a motivational nature and reflect an inherent lack of commitment to exporting as a strategy for growth; and in the



case of active exporters, problems tend to relate to operational issues, given that such firms have successfully overcome a psychological hurdle to exporting.

### 3.5.4 The Export Practices of UK Indian SMEs

It is useful at this stage to introduce the findings of Crick and Chaudhry's (1995) study on the export practices of the ethnic minority business community which was selected by the writer in order to explore the study's research focus (i.e. UK Indian firms) in this section on exporting. **Section 4.0** discusses Indian Enterprise in more depth.

Amongst the problems faced by UK Indian enterprises in the development and realisation of what the writer argues to be their *true* international business potential, is the complexity which the business growth process itself brings to bear on SMEs (Carter et al, 2000). In general, this requires the many different skills and specialisations highlighted throughout this section which in the main tend to be beyond the resources of individual Indian firms (Pardasi, 1992) (discussed in **Section 4.0**). In addition, many Indian enterprises, which are predominately classified as SMEs, also face the substantial barriers to growth and entry in to international markets which are common to SMEs per se and highlighted throughout **Section 3.5.2** (Rothwell and Zegfeld, 1982; Dichtl et al, 1990).

As stated in the export literature, decision-maker considerations influence an individual's international orientation (Maignan and Lukas, 1997); indeed, ethnic background was highlighted as being significant in this. The writer's review of the literature in the areas of '*Internationalization*' and '*UK Asian Enterprise*' per se, clearly identifies that the area has received negligible research attention. Indeed, Crick and Chaudhry's (1995) study, which focused on investigating the **export practices** of Asian SMEs<sup>44</sup>, provides some insight - although limited - on certain aspects relating to matters concerning '*Asian Enterprise*' and '*Internationalization*'. Their study set out to investigate: the organisational characteristics of Asian firms in terms of decision-making and staffing for export operations; the degree to which Asian firms actively planned for export operations; and operational issues associated with the Asian firms' export involvement.

Their study revealed the following:

- ◆ The senior manager was found to be an important factor in the export operation;
- ◆ Formal planning of export activities was on the whole limited. The authors referred to it, i.e. formal planning, as approximating to a '*hit and miss*' attitude, with none of the firms

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<sup>44</sup> Their survey was restrict to the Clothing Industry in the Midlands.

- dedicating any staff to export activities;
- ◆ In 72% of cases, decisions regarding export orders were restricted to the senior executive;
  - ◆ With regard to government services, managers on the whole were not aware of services available and unsatisfied with the support which was available;
  - ◆ It was common for family members to serve as Directors on the Board within Asian owned firms. This implies that in essence they are extensions of the decision-making body;
  - ◆ Although family members had the authority to accept orders, for reasons relating to family pride, they left documentation concerning acceptance of orders to the senior member of the family;
  - ◆ Only a relatively small number of the firms saw themselves as carrying out regular marketing research. Of these, the authors considered only 8% came close to conducting anything near thorough research;
  - ◆ Planning was far from thorough, and it was identified as being more reactive than proactive, with none of the firms setting clear objectives and strategies;
  - ◆ Contacts from the country of ethnic origin together with language ability were found to be important considerations, with travel to the market proving less important. With the use of telephones and faxes with contacts in the market, travel was not seen to be too important. However, business travel together with family vacations did take place;
  - ◆ Firms which engaged in exporting following the receipt of a solicited order had, on the whole, more favourable perceptions of export profitability than those starting from the receipt of an unsolicited order;
  - ◆ Although the high percentage of firms exporting to Europe was not surprising, given its low *psychic distance* from the UK, a high percentage of firms exporting to East Africa was identified, suggesting that their place of ethnic origin, or at least an area of familiarity, or where contacts have been developed, is also very important. The authors conclude that ethnic minorities are potentially more likely to start exporting to countries psychically closer to their roots;
  - ◆ Nearly all firms concentrated on a few countries, adopting a market concentration approach because of limited resources;
  - ◆ Firms were unlikely to adapt elements of their marketing mix in exporting, i.e. they were production/product orientated as opposed to market orientated; and
  - ◆ Levels of understanding of the English language were limited with some managers (usually older ones).

The authors' findings fuel some interesting and probing thoughts surrounding the whole



issue of 'UK Asian Enterprise' and 'Internationalization' per se, especially relating to social networks, ethnic ties and the importance of the place of their origin to the internationalization research field. Indeed, these findings were important dimensions of this study.

Crick and Chaudhry's study clearly identifies that Asian entrepreneurs and their firms lack a proactive culture, appropriate strategies, suitable management and market intelligence when it comes to international decision-making, findings which are echoed in the literature on SMEs per se and the SME internationalization literature as outlined in **Section 3.5.2**.

The writer draws attention to the fact that although Crick and Chaudhry's findings go some way to outlining the *export characteristics* of UK Asian firms, they provide limited insight into understanding the export development process, or broader internationalization process, adopted by UK Asian enterprises<sup>45</sup> which was the primary aim of this study from the outset.

### **3.6 Summary and Conclusions**

The purpose of this section has been to draw together the various streams of literature and knowledge pertinent to the study's internationalization focus and identify specific gaps in the literature which if addressed would further our understanding of SME internationalization.

The literature review identifies that views on the internationalization of the firm are evolving, primarily because of the dynamic and complex nature of the subject area. Although the subject matter has captured the interest of many researchers, the literature review identifies that only a few attempts at developing the concept have emerged. This is understandable as the basic ideas are drawn from several theoretical traditions, i.e. *Organisation Theory*, *Economic Theory*, and *Marketing Theory*, with scholars generally choosing to develop empathy with one (1) group of theorists in particular, and it emerges that there still remains great scope for contribution to the development of '*models/frameworks*' of internationalization.

Each of the different conceptualisations provides some understanding of the internationalization processes of firms but their explanatory power is more pertinent in certain situations. For example, the internalisation and transaction cost perspectives are useful in understanding the internationalization strategies of large internationally established firms (predominately MNEs), whereas elements of behavioural, contingency and network theories are more appropriate for SMEs with limited international experience. Indeed, stage

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<sup>45</sup> The advantages and disadvantages of qualitative and quantitative studies are discussed in depth in **Volume 2, Section 3.0**

models are useful in providing groupings of firms (each demonstrating particular characteristics pertinent to their stage of international development) which provide a useful framework for agencies in their targeting of business support initiatives. However, the bulk of SME internationalization studies have focused on *export development* leaving a vast void in the development of a theory relating to the internationalization of SMEs per se, and in particular how *ethnic ties* and *networks* may influence the process of cross-border business development and growth.

Whilst the three (3) schools of thought provide important contributions to enhancing our understanding of the '*internationalization of the firm*', it clearly emerges that none provide a comprehensive theory, and it should be recognised that these competing theories are not mutually exclusive.

The literature suggests that a key area of debate in the internationalization literature is the role and growing importance of '*cultural-differences*'. This is an area of research which has received little attention in the internationalization literature from a developmental perspective. It is generally discussed in the stage theories as '*psychic distance*', and on the surface - when combined with issues of uncertainty and risk - such explanations would appear logical. However, the findings of the literature review would suggest otherwise. The literature leads the writer to suggest that the real focus should be on cultural-differences between the people/actors engaged in the internationalization process, i.e. one must understand the '*culture of the people*' with whom one plans to do business and correspondingly deal with the implications of these differences for managing in that culture. To improve our understanding, the psychic distance concept and its use in international business research requires qualifications or refinements, especially since psychic distance is a larger, more encompassing concept than simply cultural differences. Business factors, such as legal and competitive environments, also need to be included when conceptualising distance in the internationalization market screening and selection process.

It is shown that a firm must understand its *inter-cultural competence* which is based on its ability to function in inter-cultural contexts. In addition, similarly to an individual's inter-cultural competence, the firm must not only be able to understand, but also be able to *communicate* effectively with its international target markets.

In addition, the review of the literature pertinent to the internationalization of SMEs per se identified that research studies have predominantly focused on the exporting activities of such firms. However, this stream of literature suggests that the dimension of '*inter-cultural*



*competence*' as opposed to the dimension of *'psychic distance'* is an area which is potentially more critical to successful SME internationalization, and is an area where gaps in the literature and knowledge exist. Indeed, the area of *'ethnic ties'* as a dimension of a firm's inter-cultural competence, and a potential factor which may enhance successful SME internationalization, materialises as an area worthy of research: hence this study.

Overall, the literature suggests that SMEs suffer from many resource and competency related hurdles which restrict international growth and development, and due to this characteristic engage in *'networking'* activities to leverage maximum benefits, primarily via the utilisation of a resource/intelligence base external to the firm's own physical boundaries. From an internationalization perspective, it emerges that research focusing on the *'cross-border'* networking dynamics of SMEs is in its infancy, with much of the work currently being fragmented and lacking in depth. By developing this field, a better understanding of the internationalization of the firm can be achieved. The area has the potential to provide a valuable contribution to both research and policy agendas.

Indeed, from a business support perspective, the literature suggests that a need exists for national policy-makers to review the value of standard support offerings targeted at SMEs, and tailor internationalization assistance (generally in the form of export assistance) in line with any given firm's particular circumstances, recognising the diverse, heterogeneous and specialised nature of the SME sector. Whilst much of the recent SME policy initiatives go some way to remove the bureaucratic red tape which hinders SME growth and development (for example, education and training, access to start-up finance, access to intelligence and business consultancy), it emerges that a coherent policy for supporting SME start-up, growth and development, and internationalization should recognise the dynamics of such firms as well as the environmental constraints which govern their behaviour, and seek to address them in the enhanced design and delivery of general and specific internationalization support measures.

### **3.7 Potential Issues for Investigation Through Primary Research**

The literature review presented in this section relating to internationalization per se has identified that, by exploring the following issues, contribution can be made to both practitioner and academic audiences:

- ◆ The degree to which *'ethnic ties'* and *'social networks'* play a significant role in the business dynamics and internationalization processes of UK ethnic firms which operate in

culturally very heterogeneous markets.

- ◆ The literature clearly identifies that the notion of '*psychic*' or '*cultural*' distance as it is currently defined needs to be revisited in the light of changing organisational dynamics and environmental changes. There is increasing support to suggest that a '*psychic*' or '*cultural*' distance between the firm and its markets can only be established based on '*which firm*' and '*which people*' we are discussing, since markets or market segments are not defined by national borders. This implies that similar markets may exist across nations, suggesting that the concept of a national culture can be dangerous in many respects, since cultural boundaries do not follow national boundaries as sub-cultures quite clearly exist. There is a need to establish clarity in this respect.
- ◆ The type of ethnic firm profile associated with international activities and whether or not the sectors within which ethnic firms operate preclude entry or expansion in both domestic and international markets.
- ◆ The extent to which ethnic entrepreneurs are likely to engage in international trade with countries psychically closer to their roots, or nations in which they have ethnic ties of kinship or where strong social and community bonds exist.
- ◆ The determinants of progression of ethnic firms from one FMEDS to another, i.e. development.
- ◆ Whether ethnic firms adapt in terms of structure, operation, and ideology because of international activity.
- ◆ The degree of international orientation that exists within ethnic firms, i.e. decision-maker factors.
- ◆ The extent to which the demographic factors of ethnic firms influence internationalization.
- ◆ The extent to which macro and micro environmental considerations influence ethnic firms in making internationalization go/no go decisions.
- ◆ The degree to which ethnic entrepreneurs pursue rational economic goals when they make international decisions and the degree of long-term planning within ethnic firms.
- ◆ Whether ethnic firms are more influenced by push or pull factors when internationalizing, i.e. motivations for seeking international opportunities.
- ◆ The extent to which cultural factors and dynamics influence the internationalization decision-making process and the appropriateness of psychic distance in the context of ethnic firms and their internationalization.
- ◆ The key factors which contribute to an ethnic firm's ability to initiate and expand international operations, i.e. the critical international success factors of ethnic firms.
- ◆ The restraining forces and barriers which impede ethnic firms' internationalizing activities and the degree to which these are similar to the barriers faced by other UK SMEs.



The last two (2) issues relate to the resource-based perspective.

The reader should note that whilst the above issues have emerged following synthesis of the internationalization literature as worthy of investigation, the writer chose to be selective with regard to which issues the study actually addressed in order to maintain a focused study. These are presented as the research propositions which were introduced earlier in **Section 1.6**.

It is important to recognise that the research propositions were devised by also selectively accommodating emergent issues which may influence the internationalization of the firm, following synthesis of the literature streams relating to Indian Enterprise (see **Section 4.6**), Cultural Influences (see **Section 5.7**), and Asian Networks (see **Section 6.7**) which are now discussed in the following sections of this volume.

## 4.0 UK Indian Enterprise - The Context of The Study

With the ethos of doctoral research to focus a study on emergent issues and gaps in the literature - in this study's case, the internationalization literature and the significance of ethnic ties and entrepreneurial/social networks in the internationalization processes of SMEs (see **Section 3.6** and **Section 3.7**) - the writer chose to explore these dimensions by focusing the study on UK Indian SMEs. A detailed discussion as to why UK Indian enterprises were selected as the ethnic minority case study from which the study's sample frame would be drawn is justified in the Research Methodology (see **Volume 2, Section 3.0**).

### 4.1 Introduction

The aim of this section is to provide the reader with pertinent background information regarding 'Asians' and 'Asian Enterprise' and in particular 'Indian Enterprise' where possible<sup>46</sup>.

1. The section provides the context in which the research dimension of the study was explored, i.e. *'the significance of ethnic ties and social networks in the internationalization of the firm'*.
2. It outlines, for example, the nature of immigration to the West and the key reasons behind the emergence of Ethnic Enterprise in the West; and
3. It also expands by identifying key considerations for debate which will increasingly influence UK Indian Enterprise and suggests that a movement towards an international business perspective is a topic worthy of pursuit and research, especially since the literature suggests that it is essential for many SMEs' long-term survival and growth (McGee, 1989; Ansoff, 1957; Luostarinen, 1980; Hartland-Thunberg and Crawford, 1982; Reid, 1983).

From a holistic perspective, it is important to recognise that the growing importance of SMEs to the UK economy has been cited by many researchers and scholars (Storey, 1994; Carter et al, 2000; Reynolds, 1997; Carter and Jones-Evans, 2000; Barrow, 1993) (also see **Section 3.5**). Maratos (1997) reports that SMEs are responsible for one third (1/3) of all

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<sup>46</sup> The reader should note that much of the Asian Enterprise literature fails to differentiate between Asian Communities and treats them as a homogeneous group. Hence the term 'Asian' as it appears throughout this thesis can be assumed to mean Indian. Although the writer clearly understands that there is some scope for error in interpreting the findings of past studies, where clarity between the different Asian business communities is not clearly presented by the researcher(s). This clearly highlights that in future ethnic studies researchers need to better clarify their sample frame's demographics so as to avoid misunderstandings and inappropriate assumptions being drawn.



private sector employment, and 'micro-businesses'<sup>47</sup> account for ninety four per cent (94%) of all UK enterprises. Focusing on the ethnic business community, a recent report by the Bank of England (1999) reports that ethnic owned enterprises constitute an increasingly significant segment of the SME population and it states:

*"Regardless of which source is used, it seems clear that members of the ethnic minority communities make up a significant part of the small firms sector. While ethnic minorities represent 5% of the UK population, around 9% of new business start-ups in 1997 involved entrepreneurs from ethnic minority backgrounds. Currently, such businesses represent almost 7% of the total business stock in the UK. It is likely that this figure will increase over time, because the ethnic minority population is expected to double over the next 25 years."*

- page 11

Consequently with Basu (1998), Metcalf et al (1996), and Ram and Jones (1998) reporting that 'Asians', as employers and workers, have been at the forefront of ethnic minority entrepreneurship, it was felt by the writer that this warranted focusing the study on the largest Asian business community, i.e. the Indian community, which account for seventy percent (70.4%) of Asians in the UK (CRE, 1985).

Additional considerations in deciding to focus the study on the UK Indian business community were:

- ◆ A third (1/3) of Asian men in paid work are self-employed; this contrasts with an eighth (1/8) of Caribbean men (Modood et al, 1997), and a fifth (1/5) of white.
- ◆ Asian firms have been identified as employing workers from their own community (Werbner, 1990). The mobilisation of family, ethnic, and social ties is often regarded as a 'fundamental aspect' of these firms, with owners and employees often accepting a set of obligations that are characteristic of a family enterprise (Bailey, 1985).
- ◆ Asian firms are often saturated in the ideology of the 'family', in a much broader sense than the Western notion of the nuclear family. 'Family' in an Asian context blurs somewhat with notions of 'community' (Lewis and Rout, 1998).

<sup>47</sup> Firms employing fewer than ten (10) employees.

Although scholars have investigated the notion of the Asian *'family'* business (Barrett et al, 1996; Ram and Jones, 1998), little if any research attention has been focused on the dimension of *'ethnic ties'* and the potential advantages they present Asian firms when seeking international business opportunities. Consequently, as stated earlier, it was because of this lack of insight in this particular area, where family structures and expectations may differ from those of the mainstream/white population, that this study was conceived.

It is also important to recognise that Herche and Balasubramaian (1994), Mulhern and Williams (1994), Owenbey and Horridge (1997), and Jamel and Chapman (2000) suggest ethnic minority markets (i.e. consumers) will play an increasingly important role in economic development.

Since the study's aim was to provide a more enhanced understanding of these dimensions it is important for the reader to have an appreciation of the ethnic community which was selected for the study. This is the primary aim of this section, i.e. to provide textualisation regarding the case study dimension of the study, and to enrich the readers understanding of UK Indian Enterprise; and enhance the readers appreciation of the writer's conclusions and recommendations presented in **Volume 2**.

## **4.2    *The Roots of UK Indian Enterprise***

### **4.2.1   Immigration: The Western World**

Immigration since 1945 to the United States of America (USA) and to nations in Western Europe has introduced many members of ethnic groups (Ward, Randall and Krcmar ,1986; Reardon et al, 1997) from nations where economic conditions, at the time when immigration took place, were lower than in the nation of settlement, for example, India vis-à-vis the UK. However, with international trade and investment currently showing signs of movement from the Atlantic region to the Pacific region, the nations from which many immigrant groups emigrated now show rapid rates of growth and economic development, rates which are predicted to continue to be far greater than those of the Western world. Consequently, such regions present potential business opportunities for immigrant groups settled in Western nations, an assumption presented by the writer based on socialisation norms, since they naturally possess cultural values and empathy with individuals from, and regions in, these developing nations (Dichtl et al, 1990; Simmonds and Smith, 1968; Reid and Mayer, 1980; Reid, 1983; Crick and Chaudhry, 1995).



In the United States (US), the pattern of immigration has been more complex with significant regional variations. Waldinger (1986) illustrates the impact which immigrants have had in the US by commenting: *"while in the US large scale manufacturing has remained largely in the hands of White employers, the garment industry has been increasingly penetrated by Asian-owned firms<sup>48</sup>".*

In European nations, initial immigration has nearly always been a response to demand by the receiving country for labour (Castles, 1984). Cross (1983), quoting figures for 1978, suggests the proportion of foreign workers among those in employment in the major European nations has been of a similar order of magnitude. However, in respect of unemployment trends, Ward, Randall and Krcmar (1986) suggest that ethnic communities are more severely affected than the nation's population as a whole.

Ward (1986) reports that different immigration terms have had important consequences in shaping the subsequent role of immigrants in various economies. The UK drew upon its former colonial subjects to supply its labour needs, drawing in subjects from a wide range of backgrounds, with some having previous experience of business and middle class occupations. As a consequence, higher levels of ethnic business formation can be expected in the US and the UK, where immigrants have been attracted from a wide range of backgrounds and where bureaucratic obstacles to business formation are considered to be minimal (Ward, Randall and Krcmar, 1986). Indeed, downturns in economic climate, which generally lead to limited job opportunities for immigrants, make employment prospects for members of ethnic groups difficult, resulting in many seeking a means of livelihood through entrepreneurship (Shapiro and Sokol, 1982; Ward, 1986).

Bannock (1981) points out that during periods of high unemployment in advanced Capitalist economies there is a correlation between high levels of unemployment and high levels of small-scale business activity. Indeed, Bannock found that *"the effect of higher levels of unemployment among ethnic minorities is likely to give them a greater relative incentive for entrepreneurial activity"*, a finding which has important implications for policy makers.

There is a good deal of evidence which suggests some immigrant minorities in Western economies, particularly those coming from patriarchal societies, exhibit a propensity for self-employment independent of their qualifications in the labour market (Krcmar, 1984; Ward and Jenkins, 1984). However, Ward (1986) suggests that *"there is also evidence that those well equipped to go in to business may prefer to turn to employment in the labour market"*. The writer suggests that this is possibly because of the greater perceived rewards which

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<sup>48</sup> Indian, Pakistani and Bangladeshi.

employment provides the individual, both tangible and intangible, vis-à-vis running their own business. Ward's suggestion also provides an interesting issue for policy makers to consider when seeking to improve their nations competitiveness internationally.

## 4.2.2 Asian Immigration: The UK

### 4.2.2.1 Background: Indian Sub-Continent Asians and East African Asians

Individuals from the Indian sub-continent have been in the UK since the end of the Seventeenth Century (17C). The recent arrival of Asian people in the UK is part of the long history of contact between the UK and India (Visram, 1986). The peak of immigration from the Indian sub-continent was reached before 1962 at which time immigration controls<sup>49</sup> were introduced (Patel, 1989; Anwar, 1986; Crisis, 1968).

The arrival of the East African Asians (following the Kenyan and Ugandan Asian expulsion) in the late sixties (1960's) and early seventies (1970's) increased the number of Asian immigrants in the UK. It was identified that many East African Asians had spent the majority of their lives in Africa after settling there in substantial numbers early in the century and regarded their settlement areas in Africa as their home.

When Kenya, Uganda and Tanzania (the three (3) nations which formed British East Africa) achieved independence in the early 1960's, Asians living there were offered the choice of becoming British Citizens. Approximately fifty percent (50%) chose to retain their British Citizenship, largely because they were identified with the British and had not involved themselves in African nationalism. In the late sixties (1960's), following persecution, East African Asians were expelled from Kenya on racially motivated grounds and given entry to the UK. Following this incident, in 1972, Asians were expelled from Uganda by Idi Amin in response to Uganda's policy of Africanisation and arrived in the UK as refugees (Tribe, 1975). The East African Asians formed a distinctive group on settlement in the UK since many had never been to India (Patel, 1989).

The literature identifies that the *South Asians* and *East African Asians* clearly had different pre-migration experiences, level of resources and contrasting reasons for emigrating to the UK (Tribe, 1975). East African Asians differed from their counterparts not only in their outward expressions - through work patterns, name systems, dress and religion - but also in several other respects (Patel, 1989):

<sup>49</sup> A voucher system for Commonwealth Citizens was introduced which differentiated between skilled and unskilled labour and allocated a quota for immigrants in these categories.



- ◇ They were mainly, though not exclusively, of urban background as compared to those from the Indian sub-continent, who were predominantly of rural origin - as landowners or peasant labourers;
- ◇ They were predominantly Gujaratis, whereas Punjabis constituted the largest single linguistic group amongst those from the Indian sub-continent (Desai, 1963; Thomas and Ghuman, 1978);
- ◇ As a group, they were mainly of middle class background, occupying an intermediate position in society and economy, above the Africans and below the Europeans; and
- ◇ They arrived with more financial resources (Rex and Moore, 1967).

Generally, migrants from the Indian sub-continent were mainly motivated by economic goals, whereas East African migrants, on the whole, arrived for political reasons. Although Asians per se have maintained their cultural and religious ties, their life-styles have been modified to accommodate the UK environment (cultural issues are discussed in **Section 5.5** in more detail). Indeed, this is especially noticeable amongst the second and third generation UK Asians born and raised in the UK, some of whom are unable to communicate in the mother language of their parents and grand parents.

#### **4.2.2.2 The Economic Picture**

In the UK, the majority of immigrants (generally referred to as '*ethnic minorities*') have arrived from the Indian sub-continent and the Caribbean. Generally, the first immigrants came to undertake pre-arranged paid employment, often of low status. Contemporary discussion of ethnic minority groups is taken to refer to communities of Asian, Afro-Caribbean or Chinese origin, which in 1988 comprised approximately 4.2% of the population (Employment Gazette, 1988).

Waldinger, Ward and Aldrich (1985) suggest that economic restructuring has destroyed the many millions of the jobs that migrant workers came to take. In the 1950's and 1960's, most ethnic minority group workers took manual employment, either in factories or in service industries, for example, public transport. Large scale substitution of technology for labour, loss of competitiveness (in the face of low cost manufacturing in the Pacific basin) and world wide recession have all contributed to undermine employment prospects of migrant workers in the UK. This has resulted in the need for immigrants to look to other forms of work to safeguard income as a necessity to survive. Consequently, from the 1960's onwards increasing numbers began to enter small-scale enterprise (McEvoy and Aldrich, 1986; Mitter, 1986; Jones et al, 1994).

Over the last quarter (1/4) of a century, Ethnic Enterprise clearly emerged in the UK. 2.2M (4.2%) of the UK population are minority settlers, 1.2M (2.3%) of whom are of Asian origin. Of these 1.2M Asians, Indians account for the largest group (70.4%) followed by Pakistanis (24.3%) and Bangladeshis (5.3%) (The Commission for Racial Equality, 1985). Clegg (1996) reports that the ethnic minority community is forecast to double to six million (6M) within the next thirty (30) years, with Timmins (1995) reporting that in London alone approximately thirty percent (30%) of the population is anticipated to come from ethnic minority communities within the next fifteen (15) years. Indeed, by 2011, Leicester is expected to become the first UK city with a majority non-white population (Financial Times, 2000). The 1981 Census identified that persons of South Asian origin (i.e. from India, Bangladesh and Pakistan) constituted 1.96 % of residents in Great Britain (GB). Another 0.34% originated in East Africa - many of these were of South Asian descent - and approximately 37% of 'Asians' were born in GB, with the balance being immigrants. The 1981 Census identified that the percentage of residents in the UK who were born overseas to be 5.9%.

It should also be noted that Asian distribution throughout the UK is not uniform, but rather concentrated in major urban centres (Jones, 1978). Indeed, views drawing similarities between such Asian urban centres - alongside the degree of residential segregation - and the American ghettos have been put forward by scholars (McEvoy, 1983). However, Khan (1988) suggests that Asian settlers (in the UK) have become important minority business communities and in recent years have begun to attract academic attention, although little is still known about their performance, size and growth (Crick and Chaudhry, 1995).

Deakins (1996) draws attention to the UK's economic history, where ethnic immigrants have traditionally been of crucial importance to economic development, and that these ethnic groups have often been willing to accept new practices or bring new skills that facilitate significant local and national economic developments. This tradition can be seen to be of continual significance in the modern economy, where Asian entrepreneurs were the first to open retail outlets on Sunday, pre-dating a modern movement towards Sunday opening in most retail sectors.

Indeed, ethnic entrepreneurs have been cited in the literature as being willing to develop capabilities in areas which are shunned by 'mainstream' or 'White' entrepreneurs, areas which are economically marginal - such as inner city areas, areas which have been long deserted by White entrepreneurs (Deakins, 1996). The location of such inner city areas has significant implications for ethnic minority entrepreneurs. Not only does the location often limit the available market to ethnic enclaves, it also makes the acquisition and availability of



resources, especially finance and insurance, very difficult or expensive.

Ward (1986) states that there is a tendency to attribute the rise of minority owned enterprises, in the industrial West, to the entrepreneurial orientation of the owners. However (he continues), it is evident that while some minorities may be better equipped to exploit marginal business opportunities, the pattern of ethnic enterprise is in large measure, in the words of McEvoy and Aldrich (1986) "*a reaction to structural disadvantage in the labour market*". This conclusion is supported by Wilson and Stanworth (1986), Mitter (1986), Jones et al (1994), and Ward, Randall and Krcmar (1986).

It should also be noted that the potential of ethnic minorities in economic development has also been highlighted by the recent statistical analysis of census data by Ballard and Kalra (1994) who show that one of the demographic features of ethnic minorities is their considerably younger age profile. For example, 33% of the ethnic population is under 16 years of age compared with 19.3% of the White population. This would seem crucial to the future economic development of the UK and especially marginal, inner city areas which are still the predominant location for ethnic entrepreneurs. Any policy to assist ethnic entrepreneurs must take this important factor into consideration in order to be appropriate and effective in the long-term.

### **4.3 Geographical Distribution**

Ethnic groups have tended to settle in cities where employment (and housing) could be found more easily, consequently concentrating in industrialised urban areas.

In 1961, 56% of Asians were living in conurbations in England and Wales, increasing to 59% in 1966 and 61% in 1971. Evidence from a number of local studies, for example, in Birmingham, Blackburn, Bradford, Coventry, Huddersfield and Oxford, suggest that the Asian population has become more regionally concentrated since 1971 (Patel, 1989).

Although dated, a national study conducted by Jones (1978) which analysed the distribution and diffusion of Asians throughout the UK, identified that settlements took place in areas where there tended to be a shortage of White labour because of economic expansion, especially in Greater London and Birmingham. Also, settlement took place in areas where there was a shortage of indigenous labour in some industries because of the poor working conditions and low pay, for example, in the textile industry in Lancashire, Leeds and other satellite areas. Settlement took place in areas where employment prospects in local

industries were good, for example, in the factories of Nottingham and Derby (Dosanjh, 1967) or the paper mills of Gravesend (Bath, 1970) or the foundries in Birmingham (Desai, 1963).

Evidently, a gradual process of diffusion from the major ports of entry has resulted in Asian immigrants relocating to particular urban areas throughout the UK. Patel (1989) suggests that it is paradoxical that the immigrants, of whom the overwhelming majority came from rural areas, have made their way almost without exception to the larger towns and cities. Patel comments that this pattern of migration was clearly a reflection of the opportunities available in urban areas, which were more numerous and financially more rewarding than the other forms of employment for which Asians were qualified (echoing similarities with the industrial revolution). By 1971, 56.9% of Indians and 48.8% of Pakistanis were living in the six (6) major conurbation's in the UK (HMSO, 1974).

Historically, Asian immigrants from India settled on the basis of their geographical roots. Consequently, in any one firm or area, certain groups predominate. This provides some basis for understanding both the social and commercial lives of Asians in these areas. The tendency towards chain-migration reinforced this localised concentration by origin which was underlined by the 1962 Immigration Act, which required immigrants to be sponsored by British Citizens.

It is interesting to note that about 50% of all Punjabi Sikhs in the UK have come from only two (2) districts of the Punjab, i.e. Jullunder and Hoshiarpur. Patel (1989) states that the emigration from the Punjab has been extremely localised and as a result close ties of geography and kinship exist within the Sikh communities in the UK. It is quite possible that people who lived in the same street in a village in Jullunder District live in the same street in Leicester, Bradford, Southall or Birmingham. There is a high degree of clustering of particular ethnic groups into particular parts of the UK. Overall, about 14% of the economically active population of working age in Greater London and 10% in the West Midlands metropolitan area are from ethnic minority groups, compared with proportions of 1% or less in Scotland, Wales, the North, North Yorkshire and Humberside and the South West.

Similarly, it has been estimated that about 80% of the Bangladeshis are from Sylhet district. There was a tradition of Sylhetis leaving the district to work as personal servants or galley hands for the British in the army and civil service and undertaking domestic work aboard ships. Some of these workers settled in the UK in the forties (1940's), mainly working in and managing Indian restaurants (Ballard and Ballard, 1977; Robinson, 1986).



#### 4.4 The Development and Growth of Asian Enterprise

*"The pattern of Ethnic Enterprise is in large measure 'a reaction to structural disadvantage in the labour market'."*

- McEvoy and Aldrich (1986)

##### 4.4.1 Are Asians All Alike?

There are views which propose '*Asians are not all alike*' (Baker, 1978). Crick and Chaudhry (1995) state that "to group Asian entrepreneurs together is problematic, since their place of origin, e.g. Bangladesh, India, Pakistan, etc., together with associated cultural and religious differences, makes generalisation on behaviour incorrect". Their view reinforces Hofstede's (1980) finding that there are distinct differences between these '*Asian*' communities (Hofstede's work is discussed in **Section 5.4.3**). Indeed, a review of the Central Statistical Office (CSO) data identifies that with regard to ethnic business participation rates, it is important not to group firms with managers from different cultural backgrounds together, especially since such data suggests their propensity to become involved in entrepreneurial activity varies not only between cultural backgrounds, but also between regions within the UK and between trade sectors. Ahmed (1981) showed that Bangladeshis are heavily concentrated in the restaurant business; Ward, Randall and Krcmar (1986) and Werbner (1984) showed that Pakistanis are heavily concentrated in the textile and garment industries; and Baker (1981-1982) and Robinson and Flintoff (1982) showed that Indian-owned firms are more diversified. This would suggest that the business characteristics of Asian communities varies according to their origin from the Indian sub-continent. This is a finding which Hofstede would argue is based on differences in distinct national cultures. Consequently, it is no longer appropriate to group such heterogeneous groups together and assume them to be homogeneous in nature; they quite clearly are not. Indeed, it illustrates that *Asian Culture* has many sub-cultures within it. Cultural aspects are discussed in **Section 5.0** in more detail.

However, opposing views, which support the notion that '*all Asians are alike*' are also presented in the literature. Khan's research (1988) suggests that the differences between the ethnic origin of Asian owners does not appear to have a significant effect on their business growth (sales and total assets). He concludes that this suggests - despite differences in religion, language, education and background - Bangladeshi, Indian and Pakistani business communities in the UK appear to be homogeneous groups in terms of these aspects of business performance. This is a view supported by McEvoy and Aldrich

(1986) who conclude that the stress of distinctions within the Asian community is limited or contrary to that expected.

It is apparent that differing views regarding the issue of whether ethnic communities classified as '*Asians*' should be considered (from a research perspective) as being heterogeneous or homogeneous communities exist. Indeed, it was this factor which influenced the writer to focus the study on the largest Asian population in the UK, i.e. the '*Indian*' community which account for 70.4% of the Asian population in the UK (see **Section 4.2.2.2**).

#### **4.4.1.1 The Perception of '*Asians*'**

It should be noted that from a business context, contradictory perceptions exist regarding *Asian* entrepreneurs, and between *Asians* per se and the '*mainstream*' population.

There is a view that '*Asian*' firms are unusually successful because of Asians willingness to work long hours, exploit family labour, and make use of community resources (Smith, 1984; Baker, 1981-82; Hall, 1977; Gidoomal, 1998; Basu, 1995). Forester (1978) suggests that Asian firms may be the saviours of the inner city economy. Wilson (1982) suggests that Asians have a Midas touch and can turn any business in to a profitable one; a claim which this writer suggests is out-dated and clearly must be rejected, but nevertheless has been made. Parallels can be drawn with economically-successful migrant groups in other nations, such as the Cubans in Miami (Wilson and Martin, 1982), the Japanese in California (Bonacich and Modell, 1981), the Jews and Chinese - the success of Chinese business is discussed in **Section 6.4** - in many places (Bonacich, 1973) and of course Asians themselves in East Africa.

There are also views which oppose this rather harmonious picture (Aldrich, Cater, Jones and McEvoy, 1981/1983; Jones and McEvoy, 1986; McEvoy and Aldrich, 1986; Ram et al, 2000; Ram and Barrett, 2000), views which regard the growth of Asian Enterprise not as a manifestation of success but as:

- ◆ A reaction to structural disadvantage in the labour market;
- ◆ Representing a waste of talent, capital and energy;
- ◆ Often occupying small shops which are positioned in declining and often unrewarding segments of the British economy;
- ◆ Often occupying residential niches in the economy abandoned by Whites;
- ◆ Accepting the limited opportunities available;
- ◆ Not competitively ousting established White shops; and



- ◆ The occupants of the least desirable retail niches, where their survival rate would be worse than that of Whites.

The fact that such perceptions exist is partly a result of limited research in the area of Asian Enterprise and Asian Entrepreneurship, coupled with regionally scattered research exercises. The writer concludes that the literature demonstrates that this area of research justifies more research focus, if only to prove or disprove one of these perceptions.

#### 4.4.2 Asian Entrepreneurship

Crick and Chaudhry (1995) identified that a number of different approaches have been put forward in an attempt to explain the entrepreneurial success of ethnic firms, approaches which have focused on issues relating to culture, development, and management (Light, 1972; Werbner, 1984; McEvoy, Jones, Cator and Aldrich, 1982; Nowikowski, 1984). The predominance of ethnic entrepreneurship in some areas of the UK has led to attempts to explain this phenomenon (Deakins, 1996). For example, scholars have sought to explain the motivations of these entrepreneurs and the issues they face. In particular, the inherent characteristics of ethnic SMEs and entrepreneurs who are often '*stereotyped*' as concentrated in particular industrial sectors have been researched.

The most notable stereotyping which has been applied to Asian entrepreneurs typecasts them as '*corner shop*' retailers, considering them to be concentrated in the retailing, catering, and clothing sectors. Deakins suggests that this stereotypical and stylised view of Asian Enterprise is out-dated. The more recent literature suggests that ethnic entrepreneurs cannot be grouped into convenient categories based on industrial sector. In addition, as stated earlier in **Section 4.4.1**, the term '*Asian Entrepreneur*' would include a wide range of distinct ethnic communities with their own characteristics, for example (on a religious basis), Sikh, Muslim, and Hindu (**Section 5.5.2.1** discusses the importance of religion to Asian communities). Indeed, Ward (1986) suggests that *many small ethnic businesses have started as an attempt to survive in times of economic hardship*, resulting in the restoration and viability of marginal areas of the economy as a positive consequence.

The writer suggests that there is also a valid and growing argument that Asian entrepreneurship requires new direction from both start-up (initiation) and growth and development perspectives. This is supported by MacMillan and McCaffery (1982) who suggest that if the full potential that minority communities can make to economic activity is to be realised, more attention needs to be given to encourage diversification to new

products and new markets, and more generally to identifying ways of overcoming barriers to growth - barriers which are common to SMEs generally (Carter et al, 2000) (Section 3.5.2 discusses the characteristics of SMEs) as well as barriers which exist because of ethnicity. Indeed the issue of *'breakout'* from reliance upon ethnic niche markets has come to the fore and has been recognised as a policy issue for ethnic entrepreneurs (Deakins, 1996). The Ethnic Minority Business Development Initiative (EMBDI) (1991), for example, pointed to the need for ethnic minority entrepreneurs to become accepted into the *'mainstream'*.

Studies conducted by Ram and Sparrow (1993) have shown that Asian entrepreneurs may engage in a wide range of commercial activities, supporting the suggestion implying that there is a need to treat ethnic firms as heterogeneous and disregard historical stereotypical and stylised views which regard ethnic firms as concentrated in a narrow range of industrial sectors. The authors reinforce the importance of and need for *'breakout'* strategies to be developed and implemented. Indeed, they suggest that even in new industrial sectors an ethnic entrepreneurs customer base may predominantly be from their own ethnic community. They even go so far as to make the following statement:

*"It still remains the case that for an ethnic minority entrepreneur, it is more difficult to become established and undertake significant enterprise development than for an equivalent White entrepreneur."*

#### 4.4.3 Characteristics of Asian SMEs

The literature concerned with the development of Ethnic Enterprise has developed in response to the growing need to pay more attention to this sector over the last decade (Deakins, 1996). However, Deakins comments that the attention has shifted from start-up issues to enterprise development issues (Khan, 1988; Blackburn, 1994; Ram and Hillin, 1994).

Khan (1988) supports the argument presented earlier that differing images of Asian Enterprise exist in the UK with many firms being small in size, under-capitalised, ill-located, informally operated and sometimes reliant on the ethnic market. His study probing size and growth of Asian-owned incorporated firms in the UK, identified that Asian firms are becoming more diverse, moving into new geographical areas and new industrial sectors. As a general comment, the writer feels it important to stress at this stage that in order to facilitate such *'breakout'*, there is a need for support agencies to realign their service provision to encourage this shift change to continue in the future, primarily because the



literature suggests that further growth of Asian Enterprise necessitates diversification (Wilson, 1983).

When decisions as to which industry to enter are considered, Wilson and Stanworth (1986), McEvoy and Aldrich (1986), and Ward, Randall and Karisa (1986) have identified a number of factors which not only influences the industry an Asian firm selects to establish itself in, but also determines the scale of operation which will be executed. These revolve around:

- ◇ Cost and availability of labour and finance;
- ◇ Access to labour and finance;
- ◇ Capital investment requirements;
- ◇ Dimensions of market entry barriers;
- ◇ Ease of set-up;
- ◇ Access to markets; and
- ◇ Work experience.

With much of the academic literature in the area of Asian Enterprise being restricted regionally in its orientation, and concentrating predominantly on two (2) key industry sectors, *Clothing* (Ward, Randall and Karisa, 1986; Crick and Chaudhry, 1995) and *Retailing* (Ahmed, 1981; Aldrich et al, 1981; Brooks, 1982; McEvoy et al, 1979; Rafiq et al, 1985; Ward and Jenkins, 1984; Wilson, 1983), these factors identified as influencing industry choice should be considered within these contexts. However, it is worth drawing attention to the fact that although these factors have been identified as influencing the choice of industry for Asian entrepreneurs, they are just as important considerations for any entrepreneur regardless of ethnicity (see Barrow, 1993; Carter et al, 2000; Carter and Jones-Evans, 2000; Carter, 1998; Carter, 1999). It is also interesting to note that because of this sectoral conclusion, Wilson and Stanworth (1986) identified that some Asian entrepreneurs argued for active business discouragement by support agencies rather than additional support, primarily because of their concern about increasing competition. This reinforces the need to encourage Asian firms to adopt diversification strategies into other sectors. It should also be noted that much of Asian self-employment and small business ownership is in sectors characterised by unsocial hours, low pay and non-standard employment practices (Ram and Jones, 1998; Ram et al, 2000).

When considering business motivations and attitudinal factors, Curran and Blackburn (1993) identify that the motivational factor of '*independence*' is significant in entry to entrepreneurial activity. However, as stated before, a history of disadvantage and discrimination has led ethnic entrepreneurs to seek independence by concentrating in marginal areas of economic

activity (Deakins, 1996). Indeed, a study of recruitment practices in the UK during 1985 clearly identified that racial discrimination in the labour market was as pronounced as ever (Brown, 1985), with conclusions of the study suggesting that *“The supply of (ethnic) minority entrepreneurs in the UK is unlikely to dry up quickly - indeed, there is every reason to anticipate an even larger number of (ethnic) minority group members seeking opportunities in their own business in the future”*.

Wilson and Stanworth (1986) state that the presence of (perceived or real) racial discrimination in labour markets was likely a priori to increase entrepreneurial supply beyond that of groups not facing such barriers. **Table 4.1** records the *‘business motivations and attitudes’* of Asian retailers and wholesalers in London (1982-84). With one exception, viz. racial discrimination as a barrier to job advancement mentioned by Asians, these motivations are common to SME entrepreneurs in general. It is not surprising that the presence of barriers to labour market entry and mobility arguably increased their need to seek opportunities in business. The writer suggests that whilst motivations for entrepreneurial activity are similar to any other group, the issue of discrimination, perceived or real, in the labour market acts as an enormous push factor for the rise of Asian entrepreneurship and enterprise. Indeed, Margaret Hodge (Hodge, 1998), DfEE Minister, made the following statement directed at employers on the issue of ethnicity: *“just like the writing in a stick of Blackpool rock, concern for ethnicity must run right through”*. Price (1997) reports that *“organisations need to focus on the management of diversity, making the most of the wide pool of talent: strategies should consider Equal Opportunities policies, targeting the positive development of under represented groups; people managers can monitor their activities and increase awareness to minimise discrimination”*.



**Table 4.1 Business Motivations and Attitudes**

Detail	Firms (%)
<b>Motivation:</b>	
Independence, own boss, control own destiny	57
To make more money	27
Dislike working for others	30
Redundancy, no jobs	15
Family in business	33
<b>Unsatisfying Aspects:</b>	
Hours too long	32
Lack of profit	11
<b>Reasons for More Support:</b>	
For group self-esteem	0
For material benefit	30
To avoid working for others	23
Discrimination in job market	20
Discouragement needed (!)	15

Source: Adapted from Wilson and Stanworth (1986)

In addition, the writer suggests that coupled with motivation are issues relating to the ability of individuals or firms to capitalise upon business opportunities as they present themselves to the entrepreneur (Maignan and Lukas, 1997; Ibeh and Young, 2001). A 1982 study of ethnic minority firms (Asian and Afro-Caribbean), conducted in North-west London, provided an opportunity to investigate and assess growth and change over time (Wilson, 1982, 1983). The study was the base for a longitudinal study - the follow-up survey was undertaken in 1984 - and investigated the surviving firms and any new entrants in the same locality. The study was undertaken against a background of steadily rising numbers of new firms in the UK (in the five-year period to 1984 a 10.8% increase was recorded) and a wealth of public and private sector support for enterprise and SMEs in the UK (Ganguly and Bannock, 1985). The findings of the study which were of relevance to this study were (Wilson and Stanworth, 1986): Asian firms produced an annual formation rate of 22.1 % versus 10% for Afro-Caribbeans and slightly lower annual failure rate (12% versus 13.1%); Asians demonstrated a higher formation than failure rate, leading to a net increase in their numbers (10.1% per annum); the absence of any clear trend towards greater business diversity in Asian firms; 60.9% of Asians had acquired their business as a going concern; and 50% of Asian acquisitions were from vendors belonging to the same ethnic community. A key finding of

the study was a proliferation of small, low order retailing and service activities, with excessive dependency on local custom and with no perceptible evidence of internal growth or change, in either the nature or scale of operation.

Although somewhat dated, an inescapable finding of the study was that *Asians considerably outperformed the Afro-Caribbean firms in terms of numbers alone*, and it should be noted that the Asians (22.1%) exceeded the national formation rate for retailing and services (14.1%). Wilson and Stanworth comment that *"by exceeding even the national formation rate in selected sectors, the Asians have rapidly caught up with the wider society in terms of rates of business ownership"*. However, the writer suggests that there is also cause for concern generated by the key finding, which leads the writer to assert that there is a need to pursue *'breakout'* strategies by Asian entrepreneurs into growth sectors and eliminate a *'myopic'* perspective. In addition, there is clear evidence to suggest that other ethnic minority business communities require support and business development assistance. Also there is clearly a vast opportunity for the development of a research agenda with regard to ethnic enterprise and entrepreneurship.

Wilson and Stanworth support the statement that the presence of barriers to labour market entry and mobility arguably increased the Asian community's need to seek opportunities in business. Their study also identified the degree to which Asian firms had access to business opportunity, as a function of their access to *'internal'* resources (family and co-ethnic group resources) and *'external'* resources (resources available through competitive bidding in the open market). The literature strongly suggests that Asian firms are supported by their respective communities (via networks) when it comes down to resource availability issues, i.e. human resources, customer base, support from existing traders, finance and technology (for example, Ram and Barrett (2000)).

The researcher's study suggests that one (1) of the crucial resources affecting ethnic minority entrepreneurial development is the availability of finance. Indeed, the writer suggests that it is a crucial resource if *'breakout'* from ethnic niche markets is to be attained, and is, consequently, vital to the future development of ethnic entrepreneurship and enterprise, as well as to the future competitiveness of the UK. Research undertaken by Curran and Blackburn (1993) and Deakins, Hussain and Ram (1992, 1994) shows that SMEs owned by ethnic entrepreneurs are not different from White-owned SMEs in being heavily dependent on the Banks for external finance. Curran and Blackburn (1993) and Blackburn (1994) confirmed that certainly for business development, ethnic firms are dependent on Bank finance. One of their studies found that 61% were using institutional sources of finance which led them to comment that *"it is the relationship with the Bank*



*Manager that can be crucial to the development of the ethnic minority small business and a critical factor in the ability of these businesses to 'break-out' of traditional ethnic community markets".*

Wilson and Stanworth (1986) state that although the Asian business community has a positive image with Banks, the access to institutional funding is dependent on formal presentation of the business and its future prospects which presents difficulties for firms whose survival is based on informal networks (as outlined in **Sections 6.4 and 6.5**) and cost cutting measures. **Table 4.2** identifies the sources of non-institutional finance which were utilised by Asians for purposes of start-up and expansion. It clearly shows that they are heavily reliant on personal, family and network finance.

However, Ward (1987) argues that because of the sectors of Asian operation being marginal, the cost of institutional finance compared to family funding can be prohibitive in such highly competitive sectors. He adds that the lack of additional funds ensures that the enterprise remains on the marginal edges of industrial sectors as they cannot invest in expansion programmes, which use more advanced technology and skilled labour, or which depend on buying or leasing larger premises. However, Deakins (1996) suggests that Asian entrepreneurs over the past decade have been able to reduce dependence on their own community for finance enabling continued successful entrepreneurship and business development.

In a report published by the NatWest Bank<sup>50</sup> (1997), it was highlighted that although Asian firms have grown rapidly over the last ten (10) years, and are an integral part of the small business sector which makes a significant contribution to the economy of the UK (BOE, 1999), there is a need for banks to understand the differing Asian cultures and structure/package their interface/products and services in an effective manner to win, retain, and grow their Asian business customer base. **Table 4.3** Highlights the recommendations to banks presented in the report. A key recommendation was targeted at encouraging Asian entrepreneurs to seek international business opportunities through capitalising upon their overseas ethnic ties. It was perceived as a potential '*value adding*' area of activity for the banks in servicing their Asian business customers.

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<sup>50</sup> Report titled: '*Asian Businesses and Their Banks*'. Findings were collated from three (3) sources of independent research in different parts of the country. Sources: 1. The Centre for Community Research; 2. Asian Business Initiative (ABI); and 3. Manchester Business School.

**Table 4.2 Non-Institutional Financing - Start-up and Expansion**

Source	Start-up (%)	Expansion (%)
Personal	70	-
Family	43	4
Friends	-	6
Partners	3	2
Other	10	7

Source: Adapted from Wilson and Stanworth (1986)

**Table 4.3 Recommendations to the Banks from Three Pieces of Research**

- ◆ The banks should become '*ethnic minority friendly*', for example they need to work on their image within the communities and their understanding of the differing cultures.
- ◆ They should also be more *proactive in* meeting the needs of ethnic businesses. This will enable them to change from a high street bank to a bank that can offer specialist services for targeted customers.
- ◆ *Training* should be provided to Business Managers and front desk staff, so that they become more receptive to the needs of ethnic minority customers.
- ◆ Banks should reflect the diverse nature of local communities in *their staffing*.
- ◆ While *valuing the potential of Asian businesses*, banks should not disregard the fact that most Asian businesses maintain international links with their countries of origin. These countries are all in various stages of growth, and by encouraging and fostering these links it can provide added value to the businesses hoping to internationalize their operations.

The writer asserts that the issue of concern appears to be that Asian entrepreneurs prefer to borrow as little as possible from external agencies (for example, the Banks) in order to retain control over internal decision-making, even when borrowing would make good commercial sense with regards to an organisations systems objectives such as survival, profitability and growth.



#### 4.4.4 Business Growth Training Schemes and Asian Enterprise

*"for international business development, as for other aspects of small business growth, local agencies are rarely seen as relevant."*

- Anderson (1999)

This sub-section seeks to identify the degree to which SMEs utilise international training and advice services available from government and non-government agencies.

Marlow (1992) and Crick and Chaudhry (1995) argue that there is a need for tailored programmes for ethnic firms because they face additional barriers to succeeding in business which are not faced by White firms (see **Section 4.4.3**).

A major source of professional advice and financial support to SMEs are the state-funded agencies such as Business Links and Training and Enterprise Councils (TECs)<sup>51</sup>. State-sponsored schemes have been established to encourage business growth and employee training. They are designed for a range of business types - new and established, large and small. Whilst recognising that the business profile is of significant importance when assessing advice and support needs, little consideration is given to factors of *'ethnicity'* or *'gender'*, factors which also effect the type of help and advice necessary (Marlow, 1992). However, recently Central and Local Government assistance specifically for ethnic owned SMEs has begun to attract more attention. This was highlighted at the Third Annual Ethnic Minority Business Support Conference which was held in Leicester at De Montfort University (2000).

However, indications from support agency consultants (TECs, Chambers of Commerce, Commercial Banks) are that they are rarely utilised by ethnic firms and entrepreneurs (Marlow, 1992). Nor is there any monitoring of workforce ethnicity in White-owned firms assisted by such agencies. This leads to the conclusion that ethnic-owned firms do not appear to be utilising or benefiting from support agency advice. Indeed, Anderson (1999) reports that with regard to support for international trade *"when asked (SMEs in general) about the services that might be available from TECS, Chambers of Commerce and so on only two of the companies felt that they might be helpful and one company asserted that, although many mail shots were received from trade bodies, the Chamber of Commerce, the TEC and the DTI, their support was 'rarely relevant or convenient'"*.

<sup>51</sup> To be superseded by the Small Business Service (SBS) and Learning and Skills Council (LSC) networks from April 2001.

In a broad business context, Watkins (1983) and Hull (1987) document that owner managers are highly sceptical of external advice and reluctant to use it. This is supported by Bragard et al (1985) who comment that whilst SME owners recognise the usefulness of professional help they are reluctant to use formal schemes. Amongst the reasons presented are the following:

- ◇ They cannot afford it because of financial and time constraints;
- ◇ Their concern is with problem resolution not anticipation; and
- ◇ There is suspicion of the 'expert advisor' who might expose the entrepreneur's own lack of formal training.

Most SME owners, regardless of ethnicity, are reluctant to make approaches to such agencies, and in particular, agencies '*do not address growth constraint problems specific to ethnic businesses*', so it is not surprising that ethnic firm owners rarely consult '*the professionals*'<sup>52</sup> (Marlow, 1992). The author comments, that despite publicity, investigation and substantial financial grants, the indication from government agencies (TEC statistics, 1989) is that there has been little use of formal business growth training or professional advice programmes by ethnic entrepreneurs.

Kirby (1988) and Leyshon and Turner (1988) conclude that any form of professional advice should:

- ◆ Be of particular relevance to the firm;
- ◆ Be inexpensive or cost effective in terms of savings generated;
- ◆ Contain incentive for the firm to become involved;
- ◆ Not undermine the owners control of the firm; and
- ◆ Be initiated by the consultant approaching the firm owner personally.

This writer suggests that only by incorporating such criteria in to advice programmes will the bulk of Asian SME owners be willing to utilise agency advisors.

The Ethnic Minority Business Initiative (EMBI) (1989), established by the Government Home Office to monitor the quality and type of advice available to minority-owned SMEs, suggested that more information relating to the availability of government advice and funding is crucial as is the manner in which the information is targeted. The EMBI suggested that the dissemination of information is a key problem and proposed the use of academic institutions and existing development agencies to become involved with and publicise available schemes and advice. Indeed, the study conducted by Marlow (1992) identified that

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<sup>52</sup> As defined by the service provider.



there is a genuine and considerable interest in developing the firm through the use of formal business growth training and professional advice by Asian firms. However, the system of delivery was identified to be inappropriate with improvements in the delivery mechanism being necessary.

#### 4.4.4.1 SME Agency Support - Internationalization

In seeking to develop an internationally competitive economy, Governments strive to develop meaningful, focused, and effective support infrastructures to deliver the necessary training and support services to SMEs which are seeking to enhance performance via international activity (see **Section 3.5**). Schmidt (1996) suggests that with the wider environmental trends towards convergence and the adoption of outsourcing options by many firms of all sizes, the expansion of international business is increasingly becoming recognised as a growth option for SMEs. As stated in **Section 3.0**, international activity involves a whole host of possible FMEDS, ranging from exporting to the direct ownership of subsidiaries responsible for manufacturing, marketing or service abroad.

As outlined earlier, the major source of funding for business advice and support services in the UK is the Department of Trade and Industry (DTI), which provides a range of different forms of support to SMEs. Support services can be accessed locally through the network of Business Links and Training and Enterprise Councils (TECs) which are empowered to deliver business support, often operating in collaboration with agencies such as Chambers of Commerce, Regional Government Offices, and Regional Development Agencies (RDAs). In addition, the DTI provides SMEs with centralised services of advice and information related to all aspects of international trade.

Whilst the SME literature suggests that most SMEs do not aspire to substantial business growth, the potential which international activity has to offer the firm with regard to long-term survival or growth is extremely attractive if addressed effectively (Carter et al, 2000). Indeed, given the importance of SMEs, not only to the UK economy, but also to the European economy<sup>53</sup>, and the growing realisation that markets are becoming increasingly multi-cultural and trans-national, the European Parliament and Governments of member states have focused the role of national and local business support agencies in facilitating the successful expansion of international business amongst SMEs (OECD, 1997; Eyre and Smallman, 1998).

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<sup>53</sup> The European Network for SME Research (1994) reports that SMEs are a significant characteristic of the European economy - they represent ninety five percent (95%) of commercial organisations within the European Union and account for

DTI objectives draw attention to the growing need to ensure SMEs assisted by government linked agencies, i.e. Business Links, experience genuine productivity gains and increased profitability, whilst simultaneously receive encouragement to improve their international activities, primarily through focused support for exporters (DTI Strategic Framework 1999-2000).

In the broad context of business support and advice services for SMEs, '*international business support*' activities are provided by *Export Development Counselors*<sup>54</sup>; these are individuals to whom SMEs can gain access via the Business Link network. Advice, grants and seminars are available to support activities such as:

- ◆ the design and support of business strategies (domestic or international);
- ◆ training in skills areas such as marketing and export;
- ◆ the provision of market intelligence and information; and
- ◆ visits to trade shows and potential markets, etc.

Anderson (1999) argues that these services focus on the *initial internationalization* phase during which SMEs may have least difficulty in undertaking this kind of '*programmed learning*', The phases where agency support might be more relevant are the *earliest pre-internationalization* phase and the *final* phase when generative learning is required to revise organisational assumptions in order to become an established and committed international player. Anderson draws attention to the importance of the decisions taken by the entrepreneur at this stage in that they will significantly influence the international growth of the SME thereafter (Maignan and Lukas, 1997), although it is a phase during which the entrepreneur may not realise their need for advice and support. Consequently if the initial phase is not effectively supported then realisation of the final phase may well be constrained.

The author concludes that the realisation of the *final* phase of the internationalization process necessitates a reconceptualisation of the underlying organisational paradigm and generative learning by the entrepreneur and the firm as a whole (Maignan and Lukas, 1997; Eriksson et al, 1997), together with enhancements in support agency services which currently fail in addressing this critical learning process (Ibeh and Young, 2001).

Consequently, business advice and support for SMEs which seek to internationalize would be more helpful if the range of learning requirements which underpin the internationalization process were to be considered and incorporated.

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over seventy percent (70%) of employment and eighty percent (80%) of turnover.

<sup>54</sup> Most of the services accessible through *Export Development Counselors* can be classified as informational, technical and procedural, primarily orientated around market intelligence and training in export skills. Export strategy consultancy advice is also available. In the main, the services relate primarily with the *initial internationalization* phase.



Evaluation studies, conducted by the DTI and independent researchers (Anderson, 1999; Reid, 1984; Julien et al, 1998) of the local network of business support services provided through the TEC network, suggest that they are well received by those SMEs that use them, although evidence highlights that services are **under-utilised** by **most** firms within the sector. Where the services are used, the most frequently cited benefits are in relation to *'motivation and attitudes'* and to *'financial control and business planning'*. The *'development of new markets (including export markets)'*, however, are cited less frequently as a benefit of the provision (DTI, 1995; Carter et al, 2000).

The internationalization literature (presented in **Section 3.0**) would suggest that the transition from a naive newcomer to international activity to becoming an established international player is an uncertain and dynamic one for firms of all sizes (Chetty and Hamilton, 1996). However, for the SME, this transformation is particularly challenging and may well threaten the survival of the firm (Barber et al, 1989; Storey, 1994; Bonaccorsi, 1992; Calof, 1994) since success is dependent on market, management and financial factors (Newbould et al, 1978; Buckley, 1989). Indeed, Reid (1984) and Julien et al (1998) report that the use made of the business and enterprise agencies, which are specifically charged with fostering international activity (at both local and national levels) by SMEs engaged in international activity, is marginal.

Indeed, Anderson (1999) reports that the learning requirements of SMEs which internationalize changes radically as the process of internationalization proceeds and that the business support and guidance services that are provided are relevant to only a small part of the process. Consequently, it is argued that the services as currently offered are relevant for a minority of SMEs. The author concludes that if policy objectives of support to foster an internationally competitive SME sector are to be realised, less emphasis should be placed on publicity for existing services and more emphasis should be given to a significant review of the nature of the services that are offered.

With regard to ethnicity, Crick and Chaudhry (1995) conclude that the take-up of internationalization business support by Asian entrepreneurs is lacking and there is a need to tailor the government support directed at enhancing the international performance of these firms (see **Section 3.5.4**).

Anderson's (1999) analysis of the *'learning requirements'* of SMEs which underpin the internationalization process suggests that they change radically as the process unfolds. Indeed, Mirza (1994) and Geringer and Freyn (1990) perceive learning as a critical

dimension in enhancing an enterprise's international performance. Consequently, any support agency seeking to foster SME growth through international activity must ensure support activities not only recognise this dimension but effectively address it also.

Support agencies must also recognise the importance attached to the SME entrepreneur's personal networks of business contacts and friends, which have been cited by scholars as being the most useful, and commonly sought, sources of advice and support related to the internationalization process (Jones, 1999) (see **Section 3.3.2.2** and **Section 6.0**). Anderson reports that this was particularly evident during the pre-internationalization and initial internationalization phases.

Anderson's survey findings (see **Table 4.4**) confirm that the **least sought** sources of advice in support of international activities were:

- ◆ parent company;
- ◆ contacts in unrelated businesses; and
- ◆ Business Link/TECs.

Whereas the most **commonly sought** sources of advice in support of international activity, by contrast were:

- ◇ contacts in similar businesses;
- ◇ the DTI; and
- ◇ banks.

In addition, the findings also suggested that the businesses rated the quality of advice received from banks, trade associations, Chambers of Commerce, Business Link/TECs and the DTI as of *poorer quality* than advice received from **contacts** in similar or unrelated businesses or from **informal contacts** generally. The findings of Carter et al (2000) support this.



**Table 4.4**  
**Quality of Advice and Information Received to Support SME International Activities<sup>55</sup>**

Data presented is from responses to the following question presented in a postal questionnaire:

*How would you describe the quality of advice and information received to support your international activities?*

	Not used	Poor %	Avg %	Good %	Very Good
<b>Banks</b>	32	24.5	30	12.5	-
<b>Trade Associations</b>	42	14	33	8	2
<b>Chamber of Commerce</b>	36	17	30	15	2
<b>Business Links/TECs</b>	45	14.5	25	14	2
<b>Dept. of Trade and Industry</b>	30	14	30	23	3
<b>Parent Company</b>	67	5	7	15	5
<b>Contacts in Similar Businesses</b>	29.5	4	20	39	8
<b>Contacts in Unrelated Businesses</b>	56	7	17	16.5	2.5
<b>Informal Contacts</b>	35	5.5	29	25	5.5

Mailing size: 3,000 exporters

Responses: 252

Source: Anderson (1999)

#### 4.4.5 Assisting Asian Firms to 'Breakout' and Enter The Mainstream

*"After a decade or more of overcoming barriers, ethnic minority entrepreneurs are more than ever in need of specialised assistance, both from support agencies and the banks."*

- Deakins (1996)

A recent initiative entitled *Race for Opportunity*, a campaign by *Business in the Community*, to encourage firms to invest in the UK's ethnic minorities was launched in October 1995. Ayling<sup>56</sup> commented that "*Race for Opportunity aims to boost the economic activity of the UK's ethnic minority communities by harnessing the business potential of the ethnic minority population*" (1995). Central to the Campaign's overall success is that it is led by business.

The writer suggests that an initiative such as this<sup>57</sup> illustrates positive action which can assist

<sup>55</sup> From a range of sources including: informal business contacts; banks; the DTI; Business Link; and TECs.

<sup>56</sup> Bob Ayling was Chairman of the initiative and Group Managing Director of British Airways at the time when the study was undertaken.

<sup>57</sup> Supported by leading UK employers, for example: 20 of the UK's largest companies had joined the programme, including

in bringing Ethnic Enterprises in to the mainstream. The initiative provides a mechanism through which opportunities for Asian firms to 'breakout' from their dependence on more traditional markets and *ethnic enclaves*<sup>58</sup> (Portes, 1981; Portes and Bach, 1985; Portes and Jensen, 1987; Wilson and Portes, 1980) can be achieved. It may even provide internationalization opportunities. In addition, it can be seen as a positive step which will enable ethnic firms to make a positive contribution to the competitiveness of the UK and enhance social and business integration.

Indeed, if the full potential that minority communities can make to economic activity is to be realised, the literature suggests that more attention needs to be given to encourage diversification to new products and new markets, and more generally, to identifying ways of overcoming barriers to growth (MacMillan and McCaffery, 1982; McEvoy and Aldrich, 1986; Wilson, 1983; Carter et al, 2000). This calls for a strategic approach within each locality seeking to identify how the various interested agencies<sup>59</sup> can develop the best understanding of what is needed and the most effective partnership structures for delivering effective support.

Blackburn (1994) is prompted to point out some issues relating to the future development of ethnic SMEs. He predicts, for example, that ethnic market niches, i.e., the market within their own community, will decline due to the declining links with their country of origin. He concludes that "As a result, the notion of "breakout" is central to a study of ethnic-owned businesses". As stated throughout this section, the issue of 'breakout' from this reliance upon ethnic niche markets has come to the fore and needs to be recognised as a policy issue for ethnic entrepreneurs. Indeed, Deakins, Hussain and Ram (1994) positively suggest that there remains considerable untapped potential in the development of ethnic entrepreneurship and small business. The writer would suggest that this should be broadened to include the international potential of these minority SMEs.

#### 4.4.5.1 Achieving 'Breakout'

As long ago as 1986 Wilson and Stanworth (1986) made the following two (2) suggestions regarding what is necessary to facilitate breakout:

- ◆ Recognition must be given to the limits of economic opportunity in self-employment and

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NatWest, British Gas, WH Smith, Boots, TSB, Littlewoods Organisation, Barclays Bank, British Telecom, British Airways, Sun Life, BBC, Ministry of Defence.

<sup>58</sup> Portes (1981, pp. 290-291) defines ethnic enclaves as follows: *Enclaves consist of immigrant groups who concentrate in a specific spatial location and organise a variety of enterprises serving their own ethnic market and/or the general population. Their basic characteristic is that a significant proportion of the immigrant labour force works in enterprises owned by other immigrants.*

<sup>59</sup> Local authority economic development staff; voluntary agencies; banks and accounting businesses; academics; Business Links/ SBS; TECs/LSCs; Ethnic Minority Support Agencies; and others.



small business, particularly in low order retailing and services. Indiscriminate encouragement to minorities (or indeed anyone) to go into business on their own account is more likely to compound their economic and social problems, rather than to alleviate them. As a necessary base for more diversified entrepreneurial activity, the opportunities in management and technical positions in larger organisations must as a matter of urgency be opened up to minority groups. In addition, encouragement measures must place greater emphasis on the quality of entrepreneurial supply and economic opportunity, than on numbers alone.

- ◆ Policy and practice should seek to make available to minority groups the resources that would enable them to exploit more fully existing opportunity. At the same time, remedial measures should be targeted at both the quantity and quality of opportunities open to minority groups, particularly where there is the prospect of a transition to wider markets, for example, international. Ultimately, if minority-owned enterprise is to escape the restrictive confines of inner city markets, policy will have to focus on ways to achieve such a transition.

The writer suggests that the author's suggestions provide consideration for ways forward. Indeed, Ram and Hillin's (1994) experiences with three (3) Asian firms, who were receiving consultancy help as a result of a local authority initiative in the West Midlands, identified that: two (2) of the three (3) firms were heavily involved in their own ethnic community markets, with Asian customers representing 90% of their client base; all three (3) firms relied on word of mouth and personal recommendation for the development of their business; and all three (3) firms were experiencing difficulties due to the declining importance of the ethnic client base (an issue predicted to be a rising problem by Blackburn (1994)). Their findings reinforce the need for agencies to focus appropriate support activities in this direction if regional economic development is to be sustainable and enhanced.

The writer suggests that although achieving '*breakout*' will be crucial to the future development of Asian firms and entrepreneurs, as Ram and Hillin illustrate, there are a number of difficulties in operationalising any such strategy. They observed that attempts to persuade one (1) of the three (3) firms to relocate was met with some resistance because of **perceived** discrimination by potential (White) customers as outlined in **Box 4.1**.

The authors suggest that '*breakout*' has staffing and recruitment strategy implications as well as significance for marketing strategy. In addition, there are training issues that need to be addressed by support agencies and in general: "*Breakout* then requires a re-assessment of labour organisation practices if the opportunities provided by access into majority markets are to be exploited".

**BOX 4.1 Resistance to Breakout**

*"A longer-term suggestion was to consider relocation to a more 'up-market' high street position. 'Cash' (an Asian businessman) understood the logic of this suggestion, but he related the experience of one of his competitors, which created a certain ambivalence. RugCo's principal rival - an Asian business - opened in a predominantly White suburban area. Although its merchandise was of a respectable quality and competitively priced, the business closed down due to lack of trade. 'Cash' believed that the reluctance of White customers to purchase from ethnic minority businesses played a major part in the closure."*

Source: Ram and Hillin (1994)

The implications of their study and the acceptance of the difficulties of developing strategies that can achieve breakout have important relevance for policy. Improvements in information on ethnic firms is necessary, as well as continual re-assessment of funding for business support interventions. The research concludes with the holistic nature of *'breakout'*.

Breakout is a concept that has implications for all aspects of an ethnic entrepreneur's or small business' operation and the access to appropriate resources. The authors highlight the need to have access to appropriate resources, a crucial resource being finance and in particular access to bank finance, which raises issues regarding the quality of the relationship with bank managers (Deakins, 1996) as stated earlier.

A review of the literature on Ethnic Enterprise has led the writer to conclude that a consensus has emerged that the issue of *'breakout'* will be crucial to the future development of Ethnic Enterprise and entrepreneurship and that internationalization may be one possible way forward, a dimension of activity which will grow in importance for many SMEs.

**4.4.6 Asian Enterprise and Internationalization - A New Reality**

*"No firm can ignore the international dimension, even the most domestically orientated business is likely to find that it is operating in some body else's international market."*

**- Wriston (1992)**

The writer suggests that Asian firms are faced with another key driving force, that of internationalization (as discussed in **Section 3.0**) and the impact of international competition on their marginal areas of activity. Unfortunately, the pace of international movement is not anticipated to decline. The implications of this are that Asian firms which wish to capitalise on the opportunities which this phenomenon presents need to ensure that they are well



positioned and actively seeking international opportunities (Schmidt, 1996; OECD, 1997; Eyre and Smallman, 1998). Those who choose to ignore this phenomenon place themselves under increasing domestic and international competition which may ultimately threaten their firm's long-term survival prospects.

The study discussed in **Section 3.5.4** undertaken by Crick and Chaudhry (1995) into the export practices of UK Asian SMEs, suggests that Asian firms lack a proactive culture, appropriate international FMEDS, and suitable management and marketing intelligence when it comes to international trade and investment decisions. The writer suggests that since the findings of other scholars suggest that Asian entrepreneurs and their firms have access to enormous social networks (which span many nations) - networks which are integrated into their cultural fabric and norms (see **Section 5.5.2**) - they should leverage the networks which present genuine opportunities to develop international activity in order to facilitate international growth and development. The topic of Asian networks are discussed in **Section 6.0** in more detail.

#### **4.5 Summary and Conclusions**

Asian immigrant labour and skills have been utilised by the UK and many other Western Economies in order to facilitate a higher standard of living for the population, supported by the economic development of the nation. However, as global changes and technological advances have taken place, there has been a shift in the employment patterns in most of the developed economies in the West. Consequently, immigrants (and their next generations) have found it increasingly difficult to secure employment in the changing labour market. This has forced many immigrants to turn to self-employment and business creation in economically marginal areas as a course for survival and wealth creation. It would appear that UK policy makers need to enforce equal opportunity policies which encourages all citizens who have the pre-requisite ability, education, skills and experience to seek appropriate employment opportunities. This will minimise the movement of minority groups into business activities which are regarded as marginal and not supportive of effective and efficient deployment of talent and resource.

The stylised view that all Asian entrepreneurs are successful is out-dated, with many Asian firms identified to be small in size, under-capitalised, ill-located, informally operated and sometimes reliant on the ethnic market. Consequently, a key issue for the UK and other Western economies today, and one which will become of increasing importance due to intensifying international competition, is *'how do they develop, harness and channel the*

*entrepreneurial capabilities of ethnic minorities in order to contribute to the development of the economy at both local and national levels*'. Indeed, a theme which is echoed throughout the literature on 'Asians' per se is their propensity to be more entrepreneurial than other ethnic communities in the UK, for example, Afro-Caribbean. The challenge is to ensure that the energy which is exuded in this activity be nurtured and directed appropriately, especially, if any western economy wishes to service the ever increasing demands placed on it by its citizens.

The literature suggests ethnic entrepreneurs face additional barriers to growth and development above those common to SMEs per se. These barriers may go some way to explain the strategies adopted by this sector, strategies which capitalise upon cultural factors and customs. Social networks were identified as being critical to the sustainability and development of Asian Enterprises, presenting sources of competitive advantage and competitive disadvantage. Indeed, international opportunities could be capitalised upon by exploiting social networks and ethnic ties which are interlinked and span across many nations.

The literature review also identifies that ethnic-owned firms do not appear to be utilising or benefiting from support agency advice, primarily because it is inappropriately targeted. From an international policy perspective, the literature reveals that although government advice and guidance services may be of assistance to firms per se, in the main firms which are already engaged in international activity, they do not address the needs of many firms which are at the '*pre-internationalization*' stage, seeking to address questions orientated around '*whether*', '*where*' and '*how*' to internationalize. In addition, this non take-up of services would appear to be more acute for Asian and other ethnic minority firms.

The writer concludes that services provided by local agencies directed at encouraging the development of international activities, would be considerably enhanced if they were orientated more around the process of internationalization per se, rather than the narrowly focusing on one (1) dimension of the internationalization process, i.e. the form of FMED. In order to be effective, the writer suggests that new policy focus would need to be sensitive to issues of ethnicity which have been identified to influence the business dynamics of ethnic owned firms, i.e. issues associated with cultural differences (see **Section 5.0**).

Overall, the literature review of Ethnic Enterprise and entrepreneurship leads the writer to conclude that the issue of '*breakout*' is crucial to the future development of ethnic minority enterprise and entrepreneurship and that internationalization may also be a valid business growth strategy to pursue.



#### **4.6 Potential Issues For Investigation Through Primary Research**

A review of the literature relating to 'Asians' and 'Asian Enterprise' suggests the studies which have been undertaken in the past have been myopic in approach and narrow in focus. In terms of method, focus and location they have failed to broaden our understanding of the complex nature of Asian business dynamics. Indeed, the writer suggests that this has impeded any meaningful understanding of aspects relating to the internationalization processes of such firms, limiting effective developments. The literature clearly suggests that Asian firms differ in their perspective and approach to internationalization based on cultural differences by drawing upon strong social bonds and ethnic networks and ties to facilitate internationalization activities.

Quite clearly, the limited research in this area leaves many unanswered questions and raises many uncertainties, for example: How do these firms differ from SMEs in general? Are Western internationalization frameworks applicable in an Asian context? How can these firms be encouraged to internationalize? How would this be facilitated by support agencies in order to improve the competitiveness of the UK? Is a standard package of offerings likely to meet the diverse support needs of these firms; firms which are clearly not a homogenous group, either in terms of their resource bases, or in respect of their export motives, experience, expertise, approaches and problems? Evidently, there is a need to understand how such firms, which have been identified to operate in marginal areas, can broaden their markets by seeking international opportunities.

With determinants of export behaviour - such as domestic market factors, industry sector and firm characteristics - being of secondary importance to managerial attitudes and attributes, and the role of the decision-maker being pivotal, with their perception and interpretation of internal and external export stimuli determining the firms' future activities, people per se would appear to be the key. This leads the writer to conclude that this would be a logical area to begin probing in order to gain a better understanding of the internationalization processes of ethnic firms and provide a distinct contribution to the development of internationalization theories.

Indeed, as highlighted earlier in **Section 3.0**, as internationalization and intensifying international competition increases, certain sectors of business activity will feel the pressure which this phenomena brings more severely than others. The writer suggests that this will especially be the case for those firms which operate in marginal price competitive sectors,

sectors which the literature suggests are the domain of many UK Asian firms.

The literature review with regard to Asian Enterprise also clearly identifies that a focus on '*Indian*' firms is a valid one in order to explore the study's focus, i.e. the significance of ethnic ties and entrepreneurial networks in the internationalization of the firm.

The literature review presented in this section relating to UK Indian Enterprise has identified that by exploring the following emergent issues a contribution can be made to both practitioner and academic audiences:

- ◆ The extent to which the nature of the business sectors within which UK Indian firms are active are susceptible to internationalization and the barriers which may exist.
- ◆ The extent to which agency support facilitates and supports internationalization activities and the take-up of such support by UK Indian firms.
- ◆ Whether internationalization is a viable growth and business development '*breakout*' strategy for UK Indian firms.
- ◆ Whether ethnic ties and social networks present a viable mechanism for internationalization.
- ◆ Whether UK Indian firms, which have the potential to Internationalize, possess the internal resources to do so effectively and efficiently.
- ◆ Whether Asian networks differ significantly from Western networks.
- ◆ Whether Indian culture in the UK influences the business behaviour of UK Indian firms when it comes to internationalization.

The reader should note that the writer has sought to address the issues presented in **Section 3.7** - following synthesis of the internationalization literature - by devising research propositions (see **Section 1.6**) orientated around UK Indian Enterprise as a case study example. This has been achieved by selectively incorporating some of the emergent issues presented above which have materialised as worthy of research attention following synthesis of the literature relating to UK Indian Enterprise.



## 5.0 Cultural Influences

### 5.1 Introduction

*"Culture is often considered to be a factor causing difficulties in international business."*

- Sandstrom (1992)

The primary objective of this section is to alert the reader to the importance of the cultural dimension since it has been highlighted in the previous sections as being of significance to the study, especially because of the study's focus on *'ethnicity'* and *'ethnic ties'* which are culture bound dimensions. The following sub-sections, which are largely derived from the literature on *culture* and *cross-cultural management*, are aimed at presenting the reader with a concise overview of: important cultural issues which influence the effective internationalization of firms regardless of their ethnicity; and issues which materialised as plausibly influencing the internationalization of UK Indian firms. The issues which emerged were important in defining the study's research propositions presented earlier in **Section 1.6**. The section also expands on the discussion of *'psychic distance'* (discussed in **Section 3.4**) and identifies research implications relating to the international business behaviour of UK Indian firms.

### 5.2 The Cultural Dimension

Since international business is becoming increasingly important to the long-term success of many firms, it is crucial to establish and manage good relationships across different cultures at both national and organisational levels (Hambrick et al, 1989; Buckley and Casson, 1988). This is a challenge which the literature suggests many firms, especially SMEs (as identified in **Section 3.5**) struggle with. In addition, the writer suggests that employers who encourage cultural diversity gain significant business benefits, not only because they are seen as fair and positive employers, but also because a diverse workforce can be argued to help improve the firm's performance domestically and internationally (Corbridge and Pilbeam, 1998; Commission for Racial Equality, 1995).

This section investigates the dimension of *'cultural differences'*, developed in **Section 3.4** which focused on *'Psychic Distance'*, especially since it was identified in the Asian Enterprise literature (presented in **Section 4.0**) to be a significant factor in the business dynamics of UK Indian firms and may well influence their internationalization decision-making processes. The dimensions of *'national culture'*, in particular those of the UK and

India, are the focus of this section. Indeed, when psychic distance is mentioned in the internationalization literature it generally refers to *national* cultural differences.

Earley and Singh (1995) emphasise the need to gain a deeper understanding of the relationship of management to national cultural characteristics which requires a clearer understanding of the components influencing cultural differences: for example, language (both verbal and nonverbal), economics, religion, politics, social institutions, social strata or classes and family structure, values, attitudes, manners, customs, material items, aesthetics, and education (Darlington, 1996). Indeed, many scholars have approached the subject area of national culture from different perspectives. For example: Hofstede (1982, 1991), Trompenaars (1984), and Hampden-Turner and Trompenaars (1993) focus on differences in behaviour, proposing distinct national cultures; Tayeb (1988, 1994) focuses on national and corporate characteristics and proposes a causal model of culture; and Di Stefano and Lane (1992) focus on differences in value orientation and propose a profile of effective global executives. Clearly, the different perspectives serve us in understanding some of the patterns and differences inherent in *national culture* and gain a richer understanding of the complex and dynamic subject area.

In discussing national culture, it is important to recognise that the use of the term '*culture*' in the management literature is not limited to the national level. Attributing a distinct culture to a firm or organisation has become extremely popular (Hofstede, 1994; Peters and Waterman, 1982; Peters, 1987). However, scholars are in agreement that organisational cultures are distinct from national cultures, if only because membership of an organisation is usually partial and voluntary, while the '*membership*' of a nation is permanent and involuntary. However, the writer suggests that it is necessary to recognise that organisational culture is influenced by national culture.

It should also be noted that with the residence of *ethnic communities* within nation states (for example, Indians in the UK) it becomes both socially and economically productive to be culturally understanding (both ways) and work towards successful integration<sup>60</sup> (specific issues are illustrated in **Section 5.5.3**). Indeed, it can be argued that where there is a recognised understanding of the components of *cultural differences* of trading parties from different nations then less noise surrounds the encoding and decoding of communication. Consequently, information which flows between the parties is subject to lower levels of possible misunderstanding, an important dimension when operating internationally.

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<sup>60</sup> Integration means being able to participate in the society of the nation state without sacrificing one's own culture and without becoming socially isolated.



One (1) group of scholars maintain that managers' behaviour worldwide is becoming homogeneous (Cole 1973; Form 1979; Hickson et al, 1974; Kerr et al, 1952; Negandhi 1979/1985), while others argue that it remains heterogeneous (Hofstede 1980; Laurent 1983; Lincoln et al, 1981; Meyer and Rowan 1977). However, Adler and Bartholomew (1992) conclude that it actually appears that divergence predominates, supporting the argument that an understanding of (and adaptation to) the cultural differences of the target market is imperative for effective internationalization. This implies that cultural differences may well influence the FMED strategies adopted by firms in order to introduce products and services to customers in different nations. A cultural perspective is necessary throughout the internationalization decision-making process.

Tayeb (1994) points out that the major strength of adopting a *cultural perspective* as a whole is that it recognises:

- ◆ The fact that cultural values and attitudes are different in degree at least, if not in absolute terms in some cases, from one society to another;
- ◆ The fact that different cultural groups behave differently under similar circumstances because of the differences in their underlying values and attitudes; and
- ◆ The important role that culture plays in shaping work organisations and other social institutions.

Having identified that a cultural perspective is advantageous, many scholars have commented on the difficulties of studying management across cultures (Adler, 1983; Peng et al, 1991). However, the writer suggests that with the increasing dominance of multinationals and the globalization of world markets, firms which adopt a cultural perspective stand to gain substantial international advantages (Smith, 1992).

Tayeb (1994) makes the statement that *"we live in an increasingly shrinking world, where internationalization is bringing us in to closer contacts with one another. Understanding other people and developing sensitivity to their ways of life are very crucial to the success of our social and business interactions. Personal attitudes as well as our corporate goals should reflect this understanding and sensitivity"*. By considering this statement when making corporate decisions, executives can formulate strategies to enhance organisational performance both domestically and internationally. Indeed, Adler (1991) suggests that to succeed in today's world, firms must develop global strategies, suggesting that new approaches to managing research and development, production, marketing, and finance, incorporating today's global realities, are necessary. Boyacigiller and Adler (1995) reinforce this by stating that global business has become a reality with macro and micro economic statistics daily etching this reality into the decision patterns of political and corporate leaders.



Terpstra and David (1991) also suggest that effective international business people no longer brush aside culture as a vague, non-quantifiable variable that will take care of itself if proper business analyses have been accomplished. They incorporate cultural analysis, adding textualisation to broad business analysis which can give their firms competitive advantage when operating internationally.

It is important to recognise that to really understand a culture and to ascertain more completely the group's *values* and overt behaviour, it is necessary to delve into the underlying cultural values and assumptions, which are typically unconscious and impregnated into the mind-set of people during their formative years of socialisation, values which actually determine how group members perceive, think, and feel (Schein, 1984). This aspect is discussed in **Section 5.5.1** which addresses the issue of continuity of culture.

### 5.3 What Are Cultural Differences?

#### 5.3.1 Introduction

*"Its [culture's] influence for organisational behaviour is that it operates at such a deep level that people are not aware of its influences. It results in unexamined patterns of thought that seem so natural that most theorists of social behaviour fail to take them in to account. As a result, many aspects of organisational theories produced in one culture may be inadequate in other cultures."*

- Triandis (1983)

In examining the literature, it becomes apparent that the meaning of 'culture' is vague, diverse and contradictory. Cray (1996) suggests that in part this conceptual confusion is imported with the basic analytical framework from anthropology. Indeed, the term '*psychic distance*' used by internationalization scholars (discussed throughout **Section 3.0**) adds to the confusion. Even though many attempts have been made to define the term 'Culture', general agreement still remains lacking among anthropologists, sociologists, economists, linguists, practitioners and academics probing the internationalization of the firm.

Roberts and Boyacigiller (1984) suggest that the most fundamental problem in this area has been the lack of any agreement as to how to define culture, and the consequent lack of a currency within which studies can be conducted. This leads Chapman (1992) to point out that *"the literature on management and culture is rich in assertions of the need to define culture. If it is not defined, how can it be operationalised? If it is not operationalised, how can it be measured? If it is not measured how can it take its place in the scientific literature, with*



*its multiple regression, its patterns of causation, and its ambitions of rigor?*" Consequently, researchers have proposed definitions prior to commencing their studies for contextual purposes and as a result constantly increasing the number of definitions of culture. Indeed, Kroeber and Kluckhohn (1985) documented one hundred and sixty four (164) definitions of 'culture'. Culture to some researchers is some combination of norms, values, feelings, thinking, roles, rules, behaviour, beliefs, attitudes, expectations, meanings, etc. To others, culture is understood by what it does not include: economics, politics, law, religion, language, education, technology, industrial environment, society or the market. Tayeb (1994) suggests that culture is too fundamental to be solved through tighter definition because the idea is tied to a particular context, for example, a nation.

In the context of 'national culture', Lachman, Nedd, and Hinings (1994) suggest that recent attempts to develop theoretical frameworks have pointed at *cultural values* as the important elements of *culture* to impact organisations. Consequently, many scholars have attempted to identify and classify several *cultural values*, or patterns of values, on which different nations can be compared and contrasted in terms of commonality in values in an attempt to improve international business performance (Glenn, 1981; Hofstede, 1980; Triandis, 1982, 1984; Ronen and Shenkar, 1985), making an important contribution to the internationalization literature under the umbrella of 'psychic distance' (Sections 5.4 discusses Hofstede's Value Survey Model).

### 5.3.2 Definitions: What Is Culture?

The word 'culture' originates with the Latin 'cultura', which is related to 'cultus', which can be translated as *cult* or *worship*<sup>61</sup> (Punnett, 1996). However, it is an issue which is complicated by the fact that the word *culture* has several quite different meanings. Culture can refer to 'a shared, commonly-held body of general beliefs and values that define what is right for one group' (Kluckhohn and Strodtbeck, 1961; Lane and Di Stefano, 1988), or to socially elitist concepts, including 'refinement of mind, tastes and manners' (Heller, 1988). Indeed, when probing issues relating to the 'components of culture' (Smircich, 1983; Alvesson and Melin, 1987; Frost et al, 1991; Ott, 1989) much debate continues.

To suggest 'cultural differences' exist which may affect international exchange is not sufficient, one must identify on what grounds cultural differences exist and how such differences can be harmonised in order for effective and efficient international exchange to take place (for example, see Demirbag and Mirza (2000)). This implies that the concept of

<sup>61</sup> Members of a cult believe in specific ways of doing things, and thus develop a culture which enshrines those beliefs.

'culture' must first be defined. As stated earlier, this presents many problems since culture can be defined at different levels. Indeed, Sandstrom (1992) defined culture at four (4) levels: national culture, business culture, organisational culture, and personal culture. It can be argued that because culture is organic and dynamic, being both influenced and influencing the social environment on many levels, it is constantly changing over time making it very difficult to define its sub-components and degrees of impact. However, the cascading effect which national culture has on business culture, organisational culture, and personal culture should not be regarded as unimportant (Sekaran, 1983) especially in the context of this study, i.e. there may well be an Indian way of *'doing business'*.

Anthropologists have defined culture in many ways. 'Culture' is *"that complex whole which includes knowledge, belief, art, law, morals, customs, and any capabilities and habits acquired by a man as a member of society"* (Simon, 1980). It is *"a way of life of a group of people, the configuration of all the more or less stereotyped patterns of learned behaviour, which are handed down from one generation to the next through the means of language and imitation"* (Barnouw, 1963). Mead (1951) presents the following widely accepted anthropological definition of culture, where the term 'society' can be understood to apply to any level of culture, for example, nation, organisation or profession: *"a body of learned behaviour, a collection of beliefs, habits and traditions, shared by a group of people and successively learned by people who enter the society"*.

Based on their analysis, Kroeber and Kluckhohn (1985) provide the following comprehensive and generally accepted definition: *"Culture consists of patterns, explicit and implicit of and for behaviour acquired and transmitted by symbols, constituting the distinctive achievement of human groups, including their embodiment in artifacts; the essential core of culture consists of traditional (i.e., historically derived and selected) ideas and especially their attached values; culture systems may, on the one hand, be considered as products of action, on the other, as conditioning elements of future action"*.

'Culture' is therefore (Carrol, 1982):

- ◇ Something that is shared by all or almost all members of some social group;
- ◇ Something that the older members of the group try to pass on to the younger members; and
- ◇ Something (as in the case of morals, laws and customs) that shapes behaviour, or structures one's perception of the world.

When the concept of culture is applied to international business, the findings of Hofstede's 1970 IBM study (discussed in **Section 5.4.3**) are influential. He suggests that in order to



manage effectively<sup>62</sup> one has to know the *'things'* to be done, and one has to know the *'people'* who have to do them (1994), i.e. understanding their culture is imperative and a fundamental requirement in effective international management.

Consequently, understanding people means understanding their background from which present and future behaviour can be predicted (hence the detailed section on UK Indian Enterprise – **Section 4.0**). This background has evolved from, and provides them with, a *certain culture*. The word *'culture'* is defined here in the sense of *"the collective programming of the mind which distinguishes the members of one human group from another... learned assumptions and beliefs, attitudes and values shared by members of a group... the interactive aggregate of common characteristics that influences a human group's response to its environment"* (Hofstede, 1980).

Quite clearly, the *'category of people'* can be a nation, region, ethnic community, women Vs men (gender culture), old Vs young (age group and generation culture), a social class, a profession or occupation (occupational culture), a type of business, a work organisation or part of it (organisational culture), or even a family (Hofstede, 1994). In general, people regard other people as being from different cultures if their ways of life as a group differ significantly from their own.

Randlesome (1996) provides a more pragmatic definition of *business culture* and its determinants. The concept of business culture is perceived as *"embracing, the attitudes, values and norms which underpin commercial activities and help to shape the behaviour of companies in a given country"*. Randlesome et al (1993) further postulate that the business culture of any nation grows out of its business environment, past and present. The business environment itself is described as taking in the relationship between business and government, business and the economy, business and finance, business and trade unions, etc.

In discussing national culture, it is important to recognise that nations are not the only basis of cultural division; sub-cultures do exist. For example, on the Indian sub-continent there are religious groups which possess distinct cultural characteristics. The three (3) main religious groups which exist are Sikh, Hindu and Muslim. In general, these three (3) religious groups also come from different areas of the Indian sub-continent and speak different languages, the Sikhs from the Punjab, the Hindus from all areas of India, and the Muslims come from Pakistan. Similarly, if one was to look for significant cultural difference within the UK one may turn to the social class structure.

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<sup>62</sup> Management can be defined as getting things done through (other) people (Koontz and Weihrich, 1988).

The literature presents many definitions of culture which all embrace a multitude of factors. However, the one which was adopted in the context of this study was the following which delineates what is meant by the word culture in an international management context:

*“Culture is a learned, shared, compelling, interrelated set of symbols whose meaning provides a set of orientations for members of a society. These orientations, taken together, provide solutions to problems that all societies must solve if they are to remain viable”* (Terpstra and David, 1985).

Quite clearly scholars from many disciplines have concluded that cultural differences and characteristics do exist between ‘groups’. However, when defining what these differences or attributes are, one must first define the issue to be addressed and its context (for example, the *Internationalization of the Firm*). Only then can one aim to explain what differences *may possibly* exist and how they influence the issue ‘culturally’ under investigation. **Section 5.5.3** identifies what national cultural dynamics exist between India and the UK, and identifies what influence these characteristics have on the firm and individual behaviour in the two (2) different contexts.

### 5.3.3 Conceptualisation - Cultural Orientations

In the context of the study, it was important to understand the *cultural orientation* of a society, which reflects the complex interaction of the *values, attitudes, and behaviours* displayed by its members (Adler, 1991), terms which constantly appear in the many definitions of ‘culture’. Individuals express culture and its normative qualities through the *values* that they hold about life and the world around them - values which grow out of the process of ‘*socialisation*’. These values in turn affect their attitudes about the form of behaviour considered more appropriate and effective in any given situation. The continually changing patterns of individual and group behaviour eventually influence the society’s culture, and the cycle begins again.

Kluckhohn and Strodtbeck (1961) identify six (6) dimensions which relate to an individual’s perception of: the individual, the World, human relations, activity, time, and space in order to describe the *cultural orientations* of societies, when seeking to answer the questions:

- ◆ Who am I?
- ◆ How do I see the world?
- ◆ How do I relate to other people?
- ◆ What do I do?
- ◆ How do I use space and time?



Each orientation reflects a *value* with behavioural and attitudinal implications. Punnett (1996) suggests that such *values* are useful in explaining and understanding cultural similarities and differences in behaviour. If organisations understand how *values* can vary from culture to culture, they are more likely to accept and interpret correctly behavioural differences. This acceptance and correct interpretation, in turn, enable their managers to interact effectively with others whose values and behaviours are unfamiliar, i.e. they become sensitised to their way of thinking, an essential quality when managing international operations.

Lachman, Nedd, and Hinings (1994) illustrate that *cultural values* influence organisational effectiveness and performance and can serve as an hypothesis generating framework, which can be used as a base for predicting the behaviour of firms from different nations. Their framework proposes that values (core or periphery) influence individuals through different socialisation influences (home, community, or workplace) exerted at different (early or adult) life cycle stages, and sanctioning (positively or negatively) patterns of action manifested in organisational structure and processes that correspond to resource availability (scarcity or munificence). This leads to (high or low) congruence, which results in (high or low) organisational effectiveness. Various combinations of all or some of these propositions can be generated from the framework and tested separately (Lachman, 1988). **Table 5.1** summarises several hypotheses proposed by the authors illustrating some implications of these four (4) values for the structure and processes of organisations, as well as for the behavioural styles of their members. These relate directly to Hofstede's (1980) work and the management paradigm which permeates organisations (see **Section 5.4.2**).

Darlington (1996) comments that while in most instances a person's nationality is a sufficient indicator of their culture (where culture is the norm of that nationality) (Hofstede, 1994), many societies, including the UK, now contain a variety of ethnic communities (for example, Asian, Afro-Caribbean, Chinese, etc. as discussed in **Section 4.2**) who may easily be influenced by cultures other than their '*apparent*' nationality. The writer suggests this to be the case for second and third generation ethnic minorities. So by developing sensitivity to the constituents of culture, failures in perceptions and communication can be eliminated.

**Table 5.1 The Effects of Cultural Values on Organisational Choices - An Illustration**

<i>Cultural values</i>	<i>Structure</i>	<i>Processes</i>	<i>Behavioural style</i>
<b>Power</b> High/low power	<i>Hierarchy:</i> differentiation high/low <i>Centralization:</i> high/low	<i>Decision making:</i> participative/ non-participative <i>Communication:</i> vertical/horizontal <i>Control:</i> tight/loose <i>Coordination:</i> vertical/horizontal	<i>Leadership:</i> authoritarian/democratic Subordinates' compliance <i>Strategies:</i> high/low authoritarian, or coercive/permissive
<b>Social relations</b> Individualistic/ collectivistic orientation	<i>Horizontal differentiation:</i> specialization high/low <i>Rewards:</i> differential high/low	<i>Rewards and incentives:</i> individual/group emphasis <i>Communication:</i> specific/diffuse <i>Decision making:</i> contentious/consensus	<i>Commitment:</i> self/group goals <i>Compliance strategies:</i> calculative/moralistic <i>Climate:</i> competitive/co-operative
<b>Work orientation</b> Work/non-work centrality	<i>Span of control:</i> wide/short	<i>Rewards and incentives:</i> intrinsic/extrinsic	<i>Climate:</i> expressive/instrumental <i>Commitment:</i> internal/external
<b>Uncertainty</b> High/low avoidance	<i>Formalization:</i> high/low <i>Centralization:</i> high/low	<i>Locus of decisions:</i> hierarchical/diffuse	<i>Climate:</i> reserved/open

Source: Lachman, Nedd, and Hinings (1994)

Hofstede (1991), like Mead (1951), suggests that culture is learned not inherited. Darlington argues that if this is true, then it follows that it is possible to learn new cultural traits and to unlearn old ones. This means that it may be possible to integrate cultural differences in decision-making at operational, tactical and strategic levels which enable a firm to improve its performance in different nations above that of indigenous mainstream firms.

The writer suggests that, based on Czinkota and Ronkainen (1993), Hofstede (1991) and Trompenaars (1993) work, cultural programming involves the diffuse range of elements



stated earlier<sup>63</sup>.

## 5.4 Culture in International Business

### 5.4.1 Introduction

***"The business of international business is culture."***

**- Hofstede (1994)**

As stated earlier, and discussed in **Section 3.4** which focused on *Psychic Distance*, many of the difficulties associated with international business attributed to the *cultural* dimension are summarised under the headings of notions such as '*cultural distance*' (Carlson, 1966) and '*psychic distance*' (Johanson and Wiedersheim-Paul, 1975; Hallen and Weidersheim-Paul, 1982) which focus on the differences in the cultural environment which often cause difficulties in international business. Sandstrom (1992) suggests that culture is used as a common explanation as to why international business parties do not find certain proposals or deals attractive, since nationality is the most clear-cut characteristic that the firms do not have in common. As implied earlier, cultural characteristics are often used in stereotypical ways to brand people from different nations or communities homogeneously. However, it can be argued that to identify culture as a factor connecting all the inhabitants of a country as the '*cultural distance*' and '*psychic distance*' literature does can be misleading. The author comments that nations are seldom culturally homogeneous and business life contains within its frames several sub-cultures, and to single out culture as a significant source of problems in international business is therefore inadequate, especially in global industries where changes in industry patterns may lead to international issues emerging.

Clearly, there is a need to discuss cultural aspects relating to undertaking business exchange across national borders and the important role of '*culture*' in the effective *internationalization of the firm* (see Buckley and Casson (1988)). A review of the literature by Evans, Hau and Sculli (1995) on cross-cultural aspects of management style revealed two (2) main themes:

- ◇ The management style adopted in a particular society is determined by the level of technology or the general state of development of that society. Kerr, Dunlop, Harbison, and Myers (1976) argue that as the society develops, the management style will inevitably converge towards the style adopted in the developed Western countries;
- ◇ The particular culture of a society is a dominant factor in managerial style, and

<sup>63</sup> Language - both verbal and nonverbal, economics, religion, politics, social institutions, social strata or classes and family structure, values, attitudes, manners, customs, material items, aesthetics, and education (Darlington, 1996).

management will retain its own unique cultural identity even as the society develops (see **Section 5.3.2**).

These two (2) themes (although contradictory) have implications for the effective management of international activities. Punnett (1996) suggests that *national culture* emanates from *societal* variables (not necessarily restricted by national boundaries) such as language, religion and history, as well as *national* variables (which are clearly associated with national boundaries) such as government, laws and regulations, geography and economic conditions. Also, national culture is seen to be influenced by current events both within the country and in the world at large. Punnett concludes that *national culture* is relatively stable; however, it does change in response to broader circumstances.

As discussed earlier, national culture plays a fundamental role in forming '*cultural values*', which in turn, interact with the needs, attitudes and norms of individuals and groups which result in behaviours, which in turn, contribute to organisational effectiveness, or lack thereof. Consequently, the writer suggests that a firm's effectiveness internationally will increase to the extent that the factors influencing behaviour are understood by its employees, and that an international firm's performance is likely to be enhanced when systems are in place which create an '*atmosphere*' that is congruent with the various influences that determine behaviours. Realistically, however, it is impossible to understand all of the factors influencing individual behaviour<sup>64</sup>. Consequently, many scholars and researchers have turned to *national cultures and values* as an important starting point by developing *international cultural value models*.

When considering internationalization, it is important for the firm to evaluate its orientation with regards to *ethnocentrism* and *parochialism*<sup>65</sup> and recognize that it is likely to exhibit either or both of these attitudes at various levels throughout the firm, and that these attitudes may inhibit its ability to work effectively in other cultures if not understood.

#### **5.4.2 The Management Paradigm**

In discussing *national culture*, one cannot overlook discussions relating to *organisational culture* in a broad sense, which is an expansion of Langhoff's (1997) views to take account of a firm's perception of target markets.

<sup>64</sup> Language - both verbal and nonverbal, economics, religion, politics, social institutions, social strata or classes and family structure, values, attitudes, manners, customs, material items, aesthetics, and education (Darlington, 1996).

<sup>65</sup> Ethnocentric means that the view of our own and other cultures is centered on our own, and the belief that our own culture is superior to others. Ethnocentrism implies that the belief in the home culture's superiority is conscious, while parochialism implies only that the home culture is believed to be superior because little is known of other cultures.



*National culture* can be defined as 'the shared attitudes and values of the members of a country' (Johanson and Vahlne, 1992; Benito and Gripsrud, 1992; Andersen, 1993). This draws attention to common, deeply rooted attitudes and values, which exist largely irrespective of individual differences. As discussed earlier, it is generally agreed that culture influences a person's attitudes and values which have an effect on his/her behaviour. Consequently, it can be argued that *national culture* will influence *organisational culture* because individuals from the population will be employed by firms operating within that nation, and this in turn will contribute to the organisational culture and the *management paradigm* (Sheldon, 1980; Johnson, 1987) which permeates throughout the organisation. This in turn will influence the way strengths, weaknesses, opportunities and threats (SWOT) are viewed by the firm, which then governs behaviour. Consequently, unless a firm is able to undertake generative learning and develop a new organisational paradigm (Burpitt and Rondinelli, 1998), for example, in order to become a committed international player, it is likely that the firm's performance in international markets will be at best poor, and it will be left vulnerable with regard to successful growth and long-term survival (Berry, 1998).

The impact of attitudes on executive behaviour and their decision-making processes has received attention from practitioners (Harmon and Jacobs, 1985; Peters and Waterman, 1982; Heller, 1992) and academics alike (Hambrick, 1987; Posner and Munson, 1979; England, 1978; Rokeach, 1973; Kakabadse, 1991; Grinyer et al, 1987; Maignan and Lukas, 1997) with several pointing out that the impact of top management team's attitudes and values on their strategic choices (Chaganti and Sambharya, 1987; Dess, 1987; O'Reilly and Flatt, 1986) are influenced directly by their collective individual belief structures which influence their interpretation of information and outcome preferences (Walsh and Fahey, 1986; Schwenk 1984), i.e. the management paradigm that exists within a firm governs decision-making behaviour.

O'Grady and Lane (1996) point out that the cross-cultural literature indicates that the culture in which people are raised can affect ways of thinking and behaving (i.e. their mental programming), although it does not hinder their ability to manage within their own country where business practices are generally similar. However, it can affect their ability to manage in other nations and cultures and consequently influences decision-making. As a result of different mental programming, people from various cultures often see situations differently and have different approaches and solutions to similar problems (Maignan and Lukas, 1997). This implies that internationalizing firms must/should foster and sustain a management paradigm which genuinely capitalises upon cross-cultural factors, enabling their decision-making to correctly evaluate the SWOT presented by different international

markets. This issue is addressed by many global firms (for example, Motorola) by adopting a global Human Resource Recruitment Policy.

### **5.4.3 International Cultural Value Models**

#### **5.4.3.1 Introduction**

A review of the literature identifies that a number of '*cultural value models*' have been devised which can assist firms in planning international activities by enabling them to screen nations for international opportunities more effectively. The models which are commonly cited in the cross-cultural management literature are: Country Clusters (Ronen and Shenkar, 1985); Kluckhohn and Strodtbeck's (1961) Value Orientation Model; and Hofstede's (1980) Value Survey Model. Such models of cultural values are helpful in understanding cultural similarities and differences. However, in essence they are stereotypes. It is clear that any culture is far more complex than the models which are presented would suggest, and it is important that this complexity is recognised when considering internationalization.

Mendenhall et al (1995) points out that one should think of these cultural stereotypes as describing the *values* of a typical member of a *particular culture*, but must acknowledge that any culture is made up of individuals, many of whom will not share the typical values, and that when working with people from other cultures, both of these aspects need to be considered. Indeed, the reader should appreciate that it could be suggested that there are Western cultural biases inherent throughout this study because of the writer's background. Although cultural research focusing on country clusters and value orientation are presented in the literature, in the context of this study, it was the work of Hofstede (1980) and Tayeb (1984) which emerged as most pertinent.

#### **5.4.3.2 Hofstede's Value Survey Model (VSM)**

Hofstede's book '*Culture's Consequences*' (1980) has established him as a leading expert in the field of cross-cultural comparison, conceptualising culture as the programming of the mind.

The term *cultural programming* is used to imply that certain reactions are more likely in certain cultures than in other ones, with values representing the basic elements of different national programme codes. His focus is on differences between basic values of the members of different cultures. In three (3) different research projects, one (1) among subsidiaries of a multinational corporation (IBM) in sixty four (64) countries and the other two (2) among students in ten (10) and twenty three (23) countries, respectively, five (5)



dimensions of *national culture* differences were identified (Hofstede, 1980, 1983, 1986, 1991; Hofstede and Bond, 1984, 1988; The Chinese Culture Connection, 1987). Hofstede holds that the most important differences between national cultures can be captured by identifying the extent to which individuals of different nations differ with regard to five (5) values: *power distance* (i.e. the degree of dependence between boss and subordinate); *collectivism* (i.e. integration into cohesive in-groups) versus *individualism* (i.e. the degree in which everyone is expected to look after themselves); *femininity versus masculinity* (masculinity is high in societies in which social gender roles are clearly distinct; femininity is high when these roles overlap); *uncertainty avoidance* (i.e. the extent to which the members of a culture feel threatened by uncertain or unknown situations); and *long-term versus short-term* orientations. It should be noted that most nations are not at the extreme but rather moderately high or moderately low. Thus, effective management practices will not usually reflect an extreme tendency, a consideration which should always be borne in mind when interpreting the results of Hofstede's work. However, from a practical perspective, the cultural variables described by the VSM are intuitively appealing because of their apparent relationship to the management process. **Section 5.4.3.3** outlines how Hofstede's VSM can be utilised in international management.

It is important to recognise that the impact of Hofstede's work can be measured by: the number of citations; the widespread usage of Hofstede's culture types beyond citation; and the confirmation of the results and validation of the dimensions by other empirical research. As a paradigm, his work is taken for granted with his framework being applied in a speculative manner, generally without any test or research based on the concepts (Sondergaard, 1994). This is possibly because of what many scholars regard as the two (2) key attributions of Hofstede's framework: relevance and rigour. Consequently, *Culture's Consequences* has polarised academic discourse with respect to the consequences on management of cultural differences. In addition to the relevance of Hofstede's framework, the findings were based on a rigorous research design, systematic data collection and a coherent theory to explain national variations.

In the field of culture and management, many scholars regard Hofstede's typology of culture to be one of the more important and popular theories of culture types<sup>66</sup>. However, it should be recognised that many references purely amount to '*name dropping*', with no other purpose but to acknowledge an '*in vogue*' framework. The writer suggests that a similar statement can be made of the use of the term *psychic distance* in the internationalization literature as a basis to explain FMED decisions.

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<sup>66</sup> A study of Social Science Citation Index (SSCI) listings found 1036 quotations from *Culture's Consequences* in journals during the period 1980 to September 1993.

It can be argued the publication of *Culture's Consequences* was timely (Gladwin, 1981) with the growth of international enterprise in the 1960s and 1970s increasing the need to know how to manage effectively in an international setting (Adler and Bartholomew, 1992). As stated earlier, many scholars have concluded that culture makes a difference to the issues being studied.

However, a number of scholars have queried Hofstede's work from a number of dimensions, querying:

- ◆ Whether the dimensions developed from data collected between 1968 and 1973 were artifacts of the period of analysis (Warner, 1981; Baumgartel and Hill, 1982; Lowe, 1981);
- ◆ The constraints derived from Hofstede's research population of IBM employees (Robinson, 1983; Sorge, 1983; Triandis, 1982; Banai, 1982; Kidd 1982; Merker, 1982; Rose, 1986; Schooler, 1983; Korman, 1985; Blankenberg, 1983; Graves, 1986); and
- ◆ Whether the use of only attitude-survey questionnaires was a valid base from which to infer values (Smucker, 1982; Triandis, 1982; Kreweras, 1982; Schooler, 1983), since it can be argued that a multitude of research instruments are required to study cultural differences (depending on the research focus).

Nevertheless, many scholars have been (and many continue to be) intrigued by the substantive findings of his work. Indeed, a total of sixty one (61) replications have been recorded (Sondergaard, 1994). In the majority of cases his findings were confirmed. It is important to recognise (in the context of this study) that the study undertaken by Tayeb (1988) in a number of Indian and British firms, where both the IBM questions and additional questions were used, identified the same dimensions (Tayeb's findings are discussed in **Section 5.5.3**).

Even with the criticism levied at Hofstede's work, many scholars have found it advantageous to draw on his dimensions to further their argument or to put their theories and explanations into a clarifying perspective. Indeed, Sondergaard identifies that scholars of decision-making and strategy formulation as well as selection, training and job design use the dimensions for such purposes, with scholars in the field of internationalization drawing on Hofstede's work in order to denote '*psychic distance*' as a hurdle to overcome when considering FMEDS. Clearly, Hofstede's work has found applicability in a number of fields and was drawn upon by this study.



### 5.4.3.3 Using Hofstede's VSM in International Management

The management process is often described as consisting of planning, organizing, staffing, directing and controlling (Fayol, 1970; Koontz and Weihrich, 1988). These aspects of the management process occur in some form in all firms, but the form may differ depending on the environment. In particular, the cultural values that are typical of a particular society can influence what is effective in terms of the management process as suggested earlier in the discussion relating to management paradigms (see **Section 5.4.2**). The following consider some extremes of Hofstede's dimensions as they might relate to aspects of the management process:

- ◆ Where ***individualism is high*** (for example, in the UK vis-à-vis India), individual input is sought from those individuals who have particular knowledge or expertise. Superiors are expected to make day-to-day decisions and communicate these to subordinates who are expected to carry them out. Input may be sought from subordinates, or others, who will be affected by decisions, or who have particular knowledge or expertise. Individuals may disagree with particular decisions, but will generally go along with them if the majority agree, or if the decision has been made by the person in a position of power.

Individuals are given specific responsibility for completing tasks and achieving goals and objectives. The individual is expected to make the necessary decisions to carry through a given assignment. Management by objectives (MBO) is a popular approach, because MBO incorporates the idea of top management setting strategic directions, lower levels developing action plans to achieve these, and individuals accepting and working towards individual goals.

- ◆ Where ***collectivism is high*** (for example, in India vis-à-vis the UK), organizational plans are formulated on the basis of the larger societal direction, and with input from all organisational members. The overall direction of the organisation is discussed and agreed to throughout the organisation. Decisions are made collectively, with all affected participating in the process. Disagreements are dealt with throughout the process, and consensus from all members is sought. Tasks and assignments are carried out by groups. There is pressure from the group for conformance to acceptable standards. When decisions need to be made, they are made by the group as a whole. The quality circle approach is popular, because it incorporates the idea of bottom-up decision making, consensus among members and group involvement.

- ◆ Where ***uncertainty avoidance is high*** (for example, in India vis-à-vis the UK), uncertainty can be avoided by having group members share responsibility for planning and decisions, or alternatively, by having one person in a position of power take responsibility. The advice of experts is likely to be important in formulating plans and making decisions. Planning provides security and is well accepted. Plans are likely to be detailed and complex, incorporating priorities and contingencies. Specific plans provide direction and little ambiguity. Strategic planning is as long-term as it is practical. Checks and balances ensure that performance is at the planned level, and allow for correction before a major departure occurs. Decisions are reached slowly. If responsibility is shared, then group agreement is important to the planning process. If a powerful individual makes the decisions, then these are imparted to subordinates as absolutes. In any case, disagreement is discouraged.
- ◆ Where ***uncertainty avoidance is low*** (for example, in the UK vis-à-vis India), planning is flexible and relatively short-term. Uncertainty is seen as inevitable, and therefore the organisation must be able to change direction quickly. Planning is accepted as providing guidance but not constraints. Formal planning is most likely to take place at top levels and be at least partially based on a subjective evaluation of opportunities. Personal preferences are likely to be evident in strategic directions. A certain amount of risk taking will be encouraged. Individuals are likely to accept the risk of individual decision-making and the need for making quick decisions will be stressed.
- ◆ Where ***power distance is high*** (for example, in India vis-à-vis the UK), planning and decision making is done at the top. Input is accepted from those in powerful positions, but no input is expected from those at lower levels. Long-term plans are kept secret. Operational decisions are made on a daily basis by superiors, and work assigned to subordinates. All decisions are referred to the superior, and subordinates are discouraged from taking the initiative and making decisions. Subordinates accept assigned work and carry out tasks as instructed. Those in positions of power are respected and those in inferior positions expect that more powerful individuals will take responsibility for decision-making.
- ◆ Where ***power distance is low*** (for example, in the UK vis-à-vis India), everyone is seen as being capable of contributing to the planning process, and input from a variety of organisational levels is sought in developing strategic plans. Decision-making in general is participative, and long-term plans are likely to be shared among organisational members. Operational decisions incorporate the views of those who must carry them out. The people involved in particular tasks are expected to make the routine decisions



necessary to complete the task, and decisions are only referred to the superior when they involve unusual circumstances. Power differences exist, but are minimized, and friendly relationships between superiors and subordinates are normal.

- ◆ Where ***traditional masculine values predominate*** (for example, in the UK vis-à-vis India), strategic plans emphasize specific, measurable advances by the organisation (for example, increases in market share, profitability, etc.); these are difficult but believed to be achievable, and results are observable. Strategic choices are made at the top level. Operational decisions will focus on task accomplishment and tasks will be undertaken by those people most likely to perform at the desired level. Certain tasks will be seen as more suitable for males, others as more suitable for females. In some cases, responsibility for different types of decisions will be on the basis of sex. Outside of their traditional decision-making roles, each sex will tend to emulate the other.
- ◆ Where ***traditional feminine values predominate*** (for example, in India vis-à-vis the UK), strategic plans will take into account the environment, the quality of working life, and concern for the less fortunate. Profitability and market share, for example, will be defined within this context. Operational decisions will focus on satisfaction with work and development of a congenial and nurturing work environment. Task accomplishment will be within this framework. Work will be seen as generally suitable for either sex, with more concern for assigning work according to individual abilities and preferences. Decision-making will be shared between the sexes. Decision-making responsibility will depend on ability and preferences rather than sex. Male values of achievement, money and performance will rank equally with female values of nurturing, quality of life and caring for the less fortunate.

## 5.5 ***Indian Culture in the UK***

### 5.5.1 **Continuity of Culture**

In the context of this study, it was important to establish whether there is a continuity of Indian culture as found on the Indian sub-continent (Hofstede, 1980) within UK Indian communities located in England (a notion which the literature in **Section 4.0** on Indian Enterprise suggests to be true) and the degree to which continuity is likely to continue. This was especially important since the output of the study is recommendations targeted at a variety of audiences based on the study's propositions.

Rafiq (1988) points out that the process by which individuals learn a particular culture is

referred to as '*Socialisation*'. Although the process of socialisation continues throughout an individual's life, psychologists recognise that childhood socialisation has the most lasting effect on the individual, with the family representing an important agent in the impregnation of culture from one generation to the next. Other key agencies in cultural impregnation are the religious and educational institutions with which individuals come into contact; this is the Cultural Transfusive Triad as referred to by Engel, Kollat and Blackwell (1973).

It can be argued that an individual born in an ethnic minority family is subject to socialisation from two (2) different and possibly competing cultures, the host nation's national culture (for example, English) and the child's parent's '*apparent*' national culture (for example, Indian). The degree of cultural adaptation to suit the host national culture will determine the extent to which cultural differences exist between future generations of ethnic minorities and the national culture of the host nation (D'Astos and Daghfous, 1991; Cuellar et al, 1997; Reardon et al, 1997; Oswald, 1999).

A dated study undertaken by Child (1982), focusing on individual and social factors associated with the behaviour of children in a play setting, found that the *social group* of the children made a significant impact on such behaviour. In addition, the nature of the differences between British and Asian children appeared to begin to shape their behaviour, patterns, motivations and social competencies during the formative pre-school stage, i.e. their culture (see **Section 5.3.3** which discusses cultural orientations). The study concluded that such differences are likely to have significant consequences for the children's career and life chances later on. These findings clearly support the argument that Asian culture as found on the Indian sub-continent has continuity in UK Asian communities and their younger generations.

However, Rafiq (1988) suggests that culture is adopted by groups to their changing needs and changes in socio-economic environment. Hence changes in either or both will lead to adaptation of existing culture. The author suggests that the transplantation of Asian culture to the UK (Reardon et al, 1997) has led to changes in both the economic context and needs of Asians and hence one would expect to observe, over time, adaptations in Asian cultures as a consequence of contact with the host nation's culture. However, one must clearly identify the degree to which superficial cultural adjustments are made, for example, in dress code, language, acceptable social behaviour, etc. and the degree to which more deep rooted cultural factors are adjusted, factors such as religion, family values, sense of community, etc. The writer suggests that UK Asians readily make superficial cultural adjustments in order to be accepted and participate with the broader society (Jamal and Chapman, 2000). However, they maintain their more deep rooted cultural factors which are



passed on over the generations - factors such as those identified by Hofstede (1980). This is an argument which is supported by both the literature and Child's findings.

In conclusion, continuity of culture at all four (4) levels proposed by Sandstrom (1992) can be argued to exist within the UK Indian community with deep rooted Indian cultural traits and characteristics unlikely to diminish over the foreseeable generations. However, noticeable adjustments in the dimensions of UK Indian *business, organisational, and personal cultures* in response to changes in the broader UK environment, and in particular *UK business culture*, are predicted by the writer to be significant over the generations.

## **5.5.2 Indian Culture**

The literature suggests that within the Asian community there are three (3) key factors which significantly influence '*Asian Culture*'. They are: religion, authority structures and hierarchies, and a sense of community (Child, 1982). These are discussed in the following sub-sections.

### **5.5.2.1 The Significance of Religion**

Rafiq (1988) suggests that beliefs of a group appear in the most systematic form in religion, and whilst religion is declining in its importance in Western society, it still has a very strong hold in Asian societies. Child illustrates this view by stating that "*in contrast to the British, religion in the Asian context is culturally central. Religion is regarded as influencing culture. Children are thought to imbibe social values which stem from the religious belief systems of their parents during the process of socialisation. This value system is inducted into children through social learning and identification ...*".

Child comments that the British in general are not religious people and that religion does not usually have a significant impact in their lives. However, "*... religion would seem to lie at the centre of the Muslim, Sikh, and Hindu ways of life. Islam, Sikhism, and Hinduism prescribe total patterns for living*". Religion plays a dominant role in the lives of Indians both on the Indian sub-continent and in the UK. The author states that "*for Asians it is generally correct to say that religion and its precepts are culturally central. It can be said that for Asian minorities religion plays an overtly central role in their way of life whereas such an assertion would be much more questionable for the indigenous British population ... Low socio-economic status (which the majority of Asians occupy) intensifies and confirms religious beliefs*". Child presents evidence which suggests that there is no softening of religious attitudes amongst UK Asian groups with migration, and there is some evidence to suggest that they are actually strengthened.

Since religion was identified as central to the UK Indian community, it is implied that business behaviour may well be strongly influenced by religious values, beliefs and teachings, especially for first generation UK Indians.

### 5.5.2.2 Authority and Respect

The main social unit on the Indian sub-continent is the *extended family*<sup>67</sup> which is governed by explicit and implicit rules of behaviour. Child's work uncovered that the typical Indian family has a hierarchical and authoritarian structure. Authority in the family is allocated according to sex and age, with the elders having more authority than younger people, and with the men having greater authority than the women. In India, this hierarchical principle determines the division of labour in the family and the structure of roles and relationships within it. The issue of respect which governs behaviour is closely linked to authority, those in positions of authority receiving respect from those beneath them in the hierarchy. Generally, the father is head of the family, possessing ultimate power and authority, with the children at the bottom of the hierarchy, Child sees them as being "*powerless dependent, submissive and respectful to their parents*". This clearly influences their views of the host nations society and the behaviour they display when interacting with it. Similarities can be drawn here to Hofstede's power-distance dimension as illustrated in Table 5.2 which compares behaviour patterns which would be expected in the UK and India with regard to Hofstede's power distance dimension.

In India, people are generally not conceived of as individuals pursuing their own goals of fulfilment as is often the case in the West. But instead, they are seen as members of a family and kinship system from which they obtain their identity and fulfilment, with any success in the World outside the house bringing added status to the family as a whole rather than the individual who has achieved it. Conversely, any misbehaviour by a family member can bring disgrace to the whole family, not just to the transgressor (Child, 1982).

The implication of the extended family system is that individuality can be viewed as sacrificed to collective solidarity, implying that the pursuit of individual goals may be subservient to the pursuit of family goals; this does not mean that the '*family unit*' will not act equally in the pursuit of its own goals as any achievement orientated indigenous UK citizen. A number of studies have illustrated this fact. For example, de Vos (1973) illustrated how

<sup>67</sup> The common form it takes is that of a number of married couples and their children living together with the parents of the married men in the same household. Besides sharing a common residence the extended family share common economic, social and ritual activities. Emphasis is placed on the joint preparation of food and meals, taken as a family together, since eating together is regarded as the eternal symbol of family homogeneity. Property is held in common and resources pooled



'the Japanese are guided by a work ethic as compelling as that demonstrated by Northern European Protestants'. However, the difference between the Japanese and the British is that in the Japanese case this ethic serves family rather than individual goals; this is also the case for Indians where "the ultimate goal involves fulfilling a commitment to a social group rather than to pursuing individual glory" (Maehr and Nicholls, 1980).

**Table 5.2 Subordinateship for Three Levels of Power Distance**

<b><i>Small Power Distance</i></b>	<b><i>Medium Power Distance</i></b> (e.g. similar to the UK)	<b><i>Large Power Distance</i></b> (e.g. similar to India)
<ul style="list-style-type: none"> <li>◇ Subordinates have weak dependence needs.</li> <li>◇ Superiors have weak dependence needs toward their superiors.</li> <li>◇ Subordinates expect superiors to consult them and may rebel or strike if superiors are not seen as staying within their legitimate role.</li> <li>◇ Ideal superior to most is a loyal democrat.</li> <li>◇ Laws and rules apply to all, and privileges for superiors are not considered acceptable.</li> <li>◇ Status symbols are frowned upon and will easily come under attack from subordinates.</li> </ul>	<ul style="list-style-type: none"> <li>◇ Subordinates have medium dependence needs.</li> <li>◇ Superiors have medium dependence needs toward their superiors.</li> <li>◇ Subordinates expect superiors to consult them but will accept autocratic behaviour as well.</li> <li>◇ Ideal superior to most is a resourceful democrat.</li> <li>◇ Laws and rules apply to all but a certain level of privileges for superiors is judged as normal.</li> <li>◇ Status symbols for superiors contribute moderately to their authority and will be accepted by subordinates.</li> </ul>	<ul style="list-style-type: none"> <li>◇ Subordinates have strong dependence needs.</li> <li>◇ Superiors have strong dependence needs toward their superiors.</li> <li>◇ Subordinates expect superiors to act autocratically.</li> <li>◇ Ideal superior to most is a benevolent autocrat or a paternalist.</li> <li>◇ Everyone expects superiors to enjoy privileges; laws and rules differ for superiors and subordinates.</li> <li>◇ Status symbols are very important and contribute strongly to the superior's authority with the subordinates.</li> </ul>

Source: Hofstede (1980)

Clearly the issues of '*consensus, commitment and collectivism*' will influence the decision-making process of UK Indians when considering internationalization. Indeed Crick and Chaudry's (1995) findings support this. Hofstede's (1980) findings clearly reinforce many of the cultural related findings of research on UK Asians (see **Section 4.0**).

### 5.5.2.3 Community and Family Structure of UK Indians

The literature identifies that the Asian population is predominately concentrated in inner city areas where there are poor housing, poor jobs, and lower incomes, with Asians living in communities which share a common culture with a system of mutual dependence and orientation and a desire for cultural cohesion (see **Section 4.0**).

Desai (1963) and Oakley (1970) identified that Indian families in the UK assist family members who reside on the Indian sub-continent financially. Many writers (Desai, 1963; Allen, 1970; Hiro, 1971; Dahya, 1974; Saifullah Khan, 1974; Ballard and Ballard, 1977) have commented on the close *emotional bonds* linking first generation immigrants in the UK with their joint families on the Indian sub-continent (and elsewhere). These writers have stressed that *first generation Asian immigrants still consider their families in the UK to be part of the extended family back in India*. The writer suggests that with shortages of labour and skills in other nations, Asian emigration to other nations has led to extended family members being dispersed globally, developing a considerable *global social network* through which opportunities lie for international business transactions to take place. Indeed, Gidoomal (1997) identifies the South Asian diaspora totals some twenty million (20M) people worldwide. This can be viewed to be similar to the Chinese networks which exist across South East Asia which are discussed in **Section 6.4**.

The Ballards (1977) suggest that these findings imply that any attempts by first generation Asians at assimilation with the host nation were irrelevant since the minority group adhered to the *values* and culture of their homeland to which they believed they would one day return. Allen (1970) described how first generation families were bringing up their children according to *norms* of behaviour found on the Indian sub-continent. Indeed, Child (1982) presents evidence which indicate that the structure and value system of the extended family in India has been retained by first-generation minority families in the UK. The author suggests that Asian mothers in the UK cling to the customs and value systems they assimilated as children on the Indian sub-continent, and it is likely that it is these norms which are being transmitted to second generation children in the UK. The evidence would also seem to suggest that first generation minority families in the UK are making superficial attempts to integrate within the host society and largely remain encapsulated in their own linguistic regional areas of origin, with collectivism rather than individualism being the main cultural value stemming from the Asian family organisation (Hofstede, 1980). However, the writer points out that Child's findings are dated, and the findings refer to first generation Asians who at the time (this writer suggests) would have had young families to raise and



protect in very much an 'alien' environment to them. Consequently, the writer suggests that with the passage of time, attitudes can be expected to be different today.

### 5.5.3 Indian and UK Cultural Differences

*"Cultural distance remains an obstacle when the parties in a relationship fail to develop common rules to guide the relationship and the activities. This difficulty might be most pronounced when the difference between national cultures is great."*

- Sandstrom (1992)

The question which Sandstrom's statement raises is: *Are the cultural differences between mainstream 'UK' and 'Indian' firms significant?* The literature would suggest that the differences are significant enough to influence business behaviour and practices, i.e. organisation culture and business culture.

Child's work uncovered a number of cultural differences between Asian and British cultures which are shown in **Table 5.3**. In addition, Tayeb's<sup>68</sup> (1984) cross-national study carried out in Britain and India, aimed at clarifying the association of certain cultural and non-cultural characteristics with people's work related attitudes and values, and with the structure of their work organisation, suggests that Indian and British people are different from one another with regards to fear of (and respect and obedience to) their seniors, ability to cope with ambiguity, honesty, independence, expression of emotions, fatalism, reserve, and care for others. However, Tayeb's (1984) findings also found that they were similar with regard to tolerance, friendliness, attitude to change, attitude to law, self control and self-confidence, and attitude to social differentiation. The author's findings are shown in **Table 5.4**.

Hofstede's (1980) findings identified UK and Indian cultural characteristics to be different with regards to his dimensions, differences which are supported by Tayeb's findings. **Table 5.5** summarises Hofstede's findings.

Clearly, the empirical research conducted by (and the findings of) Hofstede (1980), Child (1982) and Tayeb (1984) when considered holistically suggest that:

- ◆ There is continuity of Indian culture within the UK Indian community over the generations;
- ◆ Indian culture and UK culture are distinctly different;
- ◆ The integration of cultures presents opportunities for international advantage; and
- ◆ The behaviour and responses (i.e. solutions/strategies) observed by individuals and firms of different cultural heritage to similar stimuli may well be different.

<sup>68</sup> A comparative study of British and Indian work related attitudes and values in matched manufacturing firms.

**Table 5.3 Cultural Differences Between UK Asian and British Cultures****Attitude to Achievement:**

- ◆ The Asian child's attitude is to do his duty to his family.
- ◆ The English child's attitude is to perform well and outdo his peers.

**Individualism/Collectivism:**

- ◆ The Asian child perceives himself as part of a social unit and not as an atomised individual who must make his own way in the world.
- ◆ The English child is encouraged to be independent and think and act for himself as soon as possible.

**Attitude to authority:**

- ◆ The Asian child has a high regard for those in authority and believe they should give them loyalty, respect and obedience.
- ◆ The English children's attitude to authority is one of little regard.

**Passivity/activity:**

- ◆ The Asian child is taught to value silence, meditation, reflection, and knowledge gained from within us.
- ◆ The English child is taught to value activity as this is often linked to achievement.

Source: Child (1982)

As Punnett (1996) points out, because culture is so fundamental to society, it influences people's behaviours in critical ways. This means that understanding culture is important for managers. Where cultural differences exist they should be accommodated to achieve desired behaviour and results. However, this is easier in theory than it is in reality since each of us is influenced by our own culture, and people are inevitably somewhat ethnocentric<sup>69</sup>. Sandstrom (1992) suggests that the most important factor in sustaining and developing exchange relationships is the '*atmosphere*' encompassing the exchange relationship as it largely determines the rules and behaviour of exchange. It can also be helpful for international organisations to identify overlapping cultural values that may be found in different locations. Familiarity with the cultural values of a group in one location can then be useful in identifying values of a counterpart group elsewhere; for example, UK Indians and Indians on the Indian sub-continent.

<sup>69</sup> Ethnocentric means that the view of our own and other cultures is centered on our own, and the belief that our own culture is superior to others.



**Table 5.4**  
**A Comparison Between Indian And English Cultural Values And Attitudes**

Indian People Are ...	English People Are ...
<ul style="list-style-type: none"> <li>◆ more emotional</li> <li>◆ fearful of people in positions of power                             <ul style="list-style-type: none"> <li>◆ more obedient to seniors</li> </ul> </li> <li>◆ more dependent on others                             <ul style="list-style-type: none"> <li>◆ more fatalist</li> <li>◆ submissive</li> </ul> </li> <li>◆ more open to bribery</li> <li>◆ less able to cope with new and uncertain situations</li> <li>◆ less concerned about others outside own community                             <ul style="list-style-type: none"> <li>◆ less willing to accept responsibility                                     <ul style="list-style-type: none"> <li>◆ less disciplined</li> <li>◆ more modest</li> <li>◆ less reserved</li> </ul> </li> <li>◆ more collectivist</li> <li>◆ caste conscious                                     <ul style="list-style-type: none"> <li>◆ law abiding</li> </ul> </li> <li>◆ opposed to change</li> <li>◆ less self-controlled                                     <ul style="list-style-type: none"> <li>◆ less trustworthy   <ul style="list-style-type: none"> <li>◆ more friendly</li> <li>◆ less tenacious</li> </ul> </li> </ul> </li> <li>◆ more clan oriented</li> </ul> </li> <li>◆ less willing to take account of other people's views</li> </ul>	<ul style="list-style-type: none"> <li>◆ less emotional</li> <li>◆ respectful of people in positions of power</li> <li>◆ less obedient to seniors</li> <li>◆ less dependent on others</li> <li>◆ less fatalist</li> <li>◆ aggressive</li> <li>◆ less open to bribery</li> <li>◆ more able to cope with new and uncertain situations</li> <li>◆ more concerned about others outside own community                             <ul style="list-style-type: none"> <li>◆ more willing to accept responsibility</li> <li>◆ more disciplined</li> <li>◆ more arrogant</li> <li>◆ more reserved</li> <li>◆ more individualist</li> <li>◆ class conscious                                     <ul style="list-style-type: none"> <li>◆ willing to bend the law</li> </ul> </li> <li>◆ opposed to change</li> <li>◆ more self-controlled</li> <li>◆ more trustworthy</li> <li>◆ less friendly</li> <li>◆ more tenacious</li> <li>◆ less clan oriented</li> </ul> </li> <li>◆ more willing to take account of other people's views</li> </ul>

Source: Tayeb (1984)

**Table 5.5 UK-India Cultural Dimensions - A Summary of Hofstede's Findings**

Dimension	Comparison (scores recorded)
Masculinity Uncertainty Avoidance Individualism/Collectivism Power Distance	UK (66) > India (56) UK (35) < India (40) UK (89) > India (48) UK (35) < India (77)

Source: Hofstede (1980)

## 5.6 Summary and Conclusions

This section has highlighted major difficulties that are experienced by researchers seeking to explore cross-cultural dimensions as they relate to organisations and management. It has been identified that *cultural differences* influence the effectiveness of international business relationships, and relationships between sub-cultures in one society and that society at large. Indeed, it is only when we leave our community that we become alert to the dynamics of our shared culture. As we come in contact with people from other cultures, we become aware of our uniqueness and begin to appreciate our differences. This is an issue which expatriates, emigrants, international business executives, and the general public (when on holiday abroad) experience and grapple with to maintain a healthy level of sanity.

A review of the literature on UK Asian sub-culture and behaviour suggests that UK Indians have adopted similar cultural values and norms as can be observed on the Indian sub-continent. Consequently, it can be suggested that UK Indians would pursue a different **process** to the development and execution of FMED strategies, strategies which may well be significantly affected by cultural values and norms.

A conclusion which can be drawn from the literature is that the emphasis in the process of socialisation of younger UK Indian generations is geared towards the deep-rooted cultural values in India, rather than towards deep-rooted UK cultural values. Clearly, time has a key role to play in any possible swings in *cultural values* and business practices. This would support the notion of continuity of Indian culture within the UK Indian community and over the immediate generations. Consequently, the writer suggests that the literature implies that the *internationalization process* adopted by UK Indians would be similar in nature to that found on the Indian sub-continent, i.e. a process which is significantly influenced by Indian national cultural factors, of which social networks and ethnic ties play a significant part.

The literature, in particular the findings of Child (1982), Tayeb (1984), and Hofstede (1980), implies that when developing FMED strategies, as Sandstrom (1992) suggests, careful thought must be placed on developing an appropriate '*atmosphere*' between the parties involved which aims to minimise any '*cultural differences*' which may exist. Firms need to consider cultural factors and establish acceptable exchange practices in order to safeguard economical international business relationships, practices which aim to minimise the feelings of *cultural/psychic distance* (as denoted in the internationalization literature) between the parties involved.

Any possibility of developing an international business relationship where exchange is not



hampered by *cultural differences*, will be entirely dependent on the attitudes of the parties involved. Quite clearly, should *cultural differences* in values and behaviour exist, in order to bridge the '*difference gap*' both parties must wish to develop/continue a relationship in the presence of *mutual orientation*.

Overall, the literature implies that the process by which UK Indians generate, evaluate, and implement FMED strategies will be different from mainstream UK firms, the key governance being '*culture*'. This suggests that the criteria or checklist against which FMED strategies are evaluated in respect of the criteria of feasibility, vulnerability and acceptability are different between UK Indian and mainstream UK firms.

The writer suggests the reader attempts to visualise *culture* as an onion which has many layers. Culture takes a long time to change, especially deep rooted aspects of culture. However, superficial changes in attitude towards various issues (for example, traditional Indian taboos, politics, society, technology, acceptance, racism, careers, food, sex, education, etc.) show that the environment of the second and third generation '*British Indians*' is different, and they are adopting acceptability (Jamal and Chapman, 2000), although the deep rooted aspects of Indian Culture may not have changed so rapidly, giving them a distinct UK Indian sub-culture.

The literature also suggests that Western attitudes which believe only individualistic societies are successful is questionable. Indians have shown that collectivist, family orientated values based on sacrifice, community, etc. can also succeed (see **Section 4.4**). The literature suggests that cultural values will remain with UK Indians for generations to come because they are deep rooted and form the basis of identity.

Although models of cultural values are helpful in understanding cultural similarities and differences, in essence, they are stereotypes. It is clear that any culture is far more complex than the models which are presented would suggest and it is important that this complexity is recognised when considering internationalization.

It should also be noted that it is possible that exchange relationships will be broken less by *national culture* than by violation of *industry culture*, as industry culture is more of a '*rule setter*' than national culture when it comes to business relationships especially for global industries.

The literature clearly suggests the relationship of *culture* and *internationalization* is an extremely complex one; consequently an understanding of the issues associated with

developing and using cultural understanding, to enhance international operations, is critical to the '*internationalization of the firm*', as well as in the provision of business support directed at ethnic firms (see **Section 4.4.4**).

The psychic distance literature is limited when it comes to defining cultural dimensions which may/do influence the internationalization decision-making process. Cultural variables can/do make a significant impact on the internationalization of the firm. The literature provides evidence that specific cultural factors are important considerations when internationalization of the firm takes place and that the psychic distance concept is too broad an issue and limited in clarification. The writer suggests that current research which adopts psychic distance parameters is failing to develop meaningful findings to further internationalization research and it can be argued is hindering progression in the field.

### **5.7 Potential Issues for Investigation Through Primary Research**

The literature review presented in this section relating to Cultural Differences has identified that by exploring the following emergent issues a contribution can be made to both practitioner and academic audiences:

- ◆ Identification of what UK Indian firms regard as a suitable business exchange '*atmosphere*' through which they can exploit international opportunities.
- ◆ The extent to which '*cultural differences*' influence internationalization decisions, and to what extent, if any, UK Indian firms go to minimise the influence of '*cultural distance*'. For example, do they only do business internationally with other Indians regardless of global location? Why?
- ◆ The extent to which UK Indian firms are competing in industries which are more amenable to internationalization, and consequently establish whether issues of '*cultural distance*' are more or less important than '*industry culture*' when operating internationally.
- ◆ Whether or not the '*business culture*' of second and third generation UK Indians is similar to that of the first generation, and in particular how they perceive internationalization.
- ◆ An assessment of the extent to which religion, authority structures and hierarchies, and a sense of community, influence the internationalization decision-making process.
- ◆ The degree to which UK Indians maintain links with individuals on the Indian sub-continent and globally, and explore how these relationships are perceived from a business perspective.
- ◆ Identification of various '*cultural issues*' which surround the internationalization decision-making process, in addition to identifying the size and constitution of the decision-making



unit (DMU). This will provide an insight in to how the criteria of acceptability, vulnerability and feasibility are addressed when deciding on a suitable FMED strategy.

The reader should note that the writer has sought to enrich the study by selectively incorporating a number of the emergent issues presented above, which were derived following synthesis of the literature presented in this section, with emergent issues presented in **Section 3.7** and **Section 4.6**, relating to the 'Internationalization of the Firm' and 'UK Indian Enterprise' respectively. This is reflected in the study's research propositions which were presented earlier in **Section 1.6**.

## 6.0 Indian Networks

### 6.1 Introduction

This section probes in more depth another strand of the literature which emerged as important in the internationalization literature and which proved to be of particular relevance to the study, i.e. *Networks*. This section draws upon **Section 3.3** which introduced the '*Network Approach*' to internationalization in addition to drawing upon the broader literature on *Networks* and *Asian Networks*, especially since '*networking*' emerged as culturally significant in the discussion regarding UK Indian Enterprise presented in **Section 4.0**. The discussion suggests that '*networks*' are a mechanism by which Indian firms can pursue international business, and suggests '*networks*' per se should be regarded as being culturally significant in the dynamics and characteristics of Indian Enterprise regardless of location internationally. The conclusions drawn from this section were important in defining the study's research propositions presented earlier in **Section 1.6**.

### 6.2 Networks and Networking

*"Small firms do engage in networking as a matter of course but to engage in networks across national, geographic and cultural barriers although helped by modern communication systems etc. may be limited without some kind of supporting infrastructure."*

- Jones (1992)

Jones suggests that recently *networking* has become a buzz-word attached to almost anything which involves linkages between entities whether they be electronic, biological or less tangible as in human interaction and communication. In a western context, the author suggests that the terms '*networks*' and '*networking*' enjoy popularity in usage across a diverse range of disciplines such as: economics, marketing, organisation and management, information science and a number of sciences and social sciences. Similarities can be drawn with the use of the term '*culture*' which is also used across many disciplines. Consequently, few authors have attempted to clearly define the terms, preferring to rely on



vague or situation specific descriptions or assume an implicit understanding<sup>70</sup>. However, Jones proposes that current interest in the term perhaps derives from the emergence of the *Industrial Network Approach* in social research. Indeed, the focus on '*networks*' has recently attracted more academic attention, implying that it is now a significant issue for future research. Indeed, as stated earlier, it emerged as an important dimension with regard to this study.

Expanding on the introduction to Network Theory in **Section 3.3.2.2**, Pierre and Sabel (1984) and Dick and Morgan (1987) draw attention to '*networks*' when explaining the apparent '*success*' of industrial regions and in particular to the configuration of social relations, such as the family and kinship ties, that SMEs are often thought to utilise to generate this '*success*' (as **Section 3.5.4** suggests for Asian SMEs). However, this perspective does have its sceptics. For example, Curran et al (1991/1997) have concerns over the meaning of the term, the extent of its coverage, and its relevance to SMEs. Ram (1994) suggests that the popularity of the '*networks*' notion shows little sign of abating and suggests that "*nowhere is this more evident than in the debate on ethnic minority enterprise*".

In **Section 4.0** which discussed UK Indian Enterprise and **Section 5.0** which discussed Culture per se, it was identified that past studies have revealed that '*Indians*' (located in the UK and elsewhere) mobilise strong '*social networks*' for many things, including, sourcing customers, sourcing vendors, sourcing employment, sourcing specialist business advice, as well as sourcing finance, and even sourcing suitable marriage partners for their children. It is evident that UK Indians have (and continue to develop) strong *social networks* to satisfy a range of demands - personal, social, and business. Scholars have argued that the cohesion which such '*networks*' exhibit in the UK are the result of discrimination which UK Asian communities have experienced (as outlined in **Section 4.4.2** on Asian Entrepreneurship)

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#### <sup>70</sup> Network Definitions

Axelsson and Easton (1992) provide a generic description of a network:

*"A network is a model or metaphor which describes a number, usually a large number, of entities, which are connected"*.

Their description suggests that a network may be a model. In applying this description to industrial networks they offer a more specific explanation:

*"... the entities are actors involved in economic processes which convert resources to finished goods and services for consumption by end users whether they be individuals or organisations"*. The major focus here is economic exchange and the relationship between production, consumption and distribution is implied.

Rogers and Kincaid's (1981) definition views networks as:

*"... all linkages between actors in a system"*.

Their view goes beyond that of Axelsson and Easton's in that it includes social and communication exchanges.

Blackburn, Curran and Jarvis (1990) focus on "*notions*" of networks and suggest a continuum of understanding from the qualitative "*almost literary idea of people or firms linked together through a web of relations*", to more quantitatively based approaches as graph theory.

and are underpinned and reinforced by cultural factors and norms (discussed in **Section 5.5**).

The literature suggests that the emphasis and dynamics of the networks in Western and Asian contexts are very different. In a Western context, networks are essential to do business, i.e. one must network in order to do business. However, in the Asian context networks are a way of life, they represent the fabric of life and provide an infrastructure for doing business and establishing relationships. Networking is seen to come naturally to Asians and is embedded in the cultural fabric of their respective nations. Consequently, the writer suggests they will inevitably influence *'Indian'* business practices when Internationalizing operations far more than psychic distance.

### **6.3 Networks and Internationalization**

*"doing business outside the home country can be an important and difficult activity for the international firm. It is this paradox that has made foreign market entry an important topic in business research."*

**- Blankenburg (1992)**

Birley et al (1991) suggests that the primary purpose of most firms is to produce goods and services which meet the needs of their customers. This involves numerous decisions on the sourcing and allocation of resources, which implies that in order to carry out these duties effectively, managers require appropriate and timely information (Mintzberg, 1973; Johannisson, 1986; Humphreys, 1987). The writer suggests that *'networks'* play an important role in this decision-making process.

Humphreys considers that ad hoc interpersonal approaches such as informal lunches and contacts with friends are limited and inefficient. However, Mintzberg disagrees. He argues that managers, as information processors, have an advantage over non-managers *"... not in the documented information that is widely available, and which takes much time to process, but in the current, non-documented information transmitted largely by word of mouth"*.

Agiular (1967) concurs, agreeing that there is a relatively heavy reliance by managers on their *'personal networks'* of communication. Johannisson proposes that *"Networking is commensurate with the egocentric nature of business proprietorship. Entrepreneurs frequently adopt a personalised as opposed to an administrative approach to management and a network of contacts reinforces this way of doing things"*. This implies that *personal/social networking* is a particularly valuable method of information gathering for



entrepreneurs which enables them to get things done and also presents opportunities and scope for FMEDS.

These scholars support the notion that in general '*networks*' are a particularly useful resource for entrepreneurs in a Western context and imply that they should be actively developed (Birley, 1985; Aldrich and Zimmer, 1986; Tjosvold and Weicker, 1993; Jones, 1999; Hakansson, 1989; Malecki and Veldhoen, 1993; Perry, 1996). Indeed, Peterson and Rondstadt (1986) consider that entrepreneurial success is a function of the *new venture idea*, entrepreneurial *know how* and entrepreneurial *know who*. This is a statement which the writer suggests is of interest when considering business growth opportunities internationally. It implies that '*international*' networks provide a mechanism through which FMEDS can be executed, a notion which shaped this study.

The reader should note that a network, similar to an organisation's structure, is an abstract concept, where the former is even more difficult to analyse because each set of interconnections is unique to the focal person or firm which creates it. This is primarily because members of networks do not usually disclose their contacts and they rarely discuss the nature of their association with others. Consequently, Johannisson (1986) describes them as loosely coupled systems with fuzzy boundaries, and this casualness (and the fact that individual networks are strongly influenced by the personality of the focal actor) make it rather difficult to develop *models of networks*. Indeed, scholars suggest that *Industrial Network Theory* does not prescribe an approach or model, but rather provides an aid to analysis and understanding, al beit in a Western context.

Birley et al (1991) comment on the following two (2) key features of social networks:

- ◆ *Ties* - Ties between persons or organisations can be instrumental, affective<sup>71</sup> and moral<sup>72</sup>; and
- ◆ *Diversity*<sup>73</sup> - In gathering information it is much better to obtain data from divergent sources, for example, consultants, government agencies, suppliers, customers, friends, financiers, universities, solicitors, etc.

The literature suggests that the social networks of '*Indians*' are heavily weighted in the '*moral*' category of *ties* with the dimension of *diversity* of the networks being significantly

<sup>71</sup> If two (2) persons have a purely instrumental association reciprocity will be all important and they may limit their interaction to the exchange of information on a specific issue. If two (2) persons in a network have instrumental and affective ties one or both parties may use their contacts in other networks to glean information for their '*friend*' and may initiate unsolicited action on the behalf of their associate.

<sup>72</sup> If moral commitment exists between parties they may feel duty to do all they can for each other. In this case the individuals may make the totality of their roles and their concomitant networks available to the others (Johannisson and Johnsson, 1988).

<sup>73</sup> Divergent sources may have differing perspectives on the same issue and are likely to have access to a variety of information which may be of use to the focal person or organisation.

restricted. This raises the issue as to whether or not the social networks which UK Indians are involved in are able to generate genuine opportunities for FMED.

In discussing *cross-national differences* in networking, Birley et al (1991) suggest that since networking is a rather informal, idiosyncratic mechanism of information gathering for decision-making, it is plausible that owner/managers in - and from for that matter - different nations will take differing approaches to the process. The literature suggests that firms in different countries structure their decision-making differently. For example, subsidiaries of multinational firms located in foreign nations have different decision-making arrangements from indigenous firms (Negandhi, 1979; Ajiboye, 1980; Mallory et al, 1983). Consequently, the writer suggests that the social networks established by managers within Indian firms may well differ in dynamics when compared to non-Indian business networks in the same nation, for example, Western networks.

When probing the dimension of networks and their influence in internationalization, Blankenburg (1992) suggests that *"as no firm or any other organisation exists in a vacuum (Hakansson and Snehota, 1990), one can undoubtedly claim that every actor, more or less is connected to surrounding actors, who in turn are connected to others. This means that everyone is linked, directly or indirectly. A single firm cannot overview all its indirect connections but only glimpse what is behind its visual field. The knowledge that a firm's counterpart has relationships or connections with other actors, let us say in a foreign market, may be an incentive to try to get closer to these other actors, by using the relationship to this counterpart"*. Blankenburg suggests that networks can provide a realistic avenue to the international growth of a business and its activities. Indeed, **Section 3.3** which discusses the various internationalization schools of thought, reinforces this by suggesting that *'Networks and Networking'* provide one (1) plausible approach to FMED.

It is important to recognise that the Industrial Network Approach (see **Section 3.3.2.2**) has been developed in a *'Western'* context and its emergence and development (**Appendix 1** identifies the key contributors to this theory) has predominantly been based on Western business practices and ideology (Johanson, 1992; Williamson, 1975; Blau, 1968; Pfeffer and Salancik, 1978; Cook and Emerson, 1978; Rogers and Kincaid, 1981). Consequently, it has a strong Western orientation, with little being known regarding its applicability and validity in an *'Indian'* context. The following sub-sections discuss this dimension in greater detail since the emergent issues influenced the study's design by clarifying the study's research propositions.



## 6.4 Networks in an Asian Context

Although the literature on culture discussed in Section 5.5 suggests that deep rooted UK Indian culture is similar to that which may be observed on the Indian sub-continent, it is important to evaluate the degree of consistency between the nature of Indian networks in the UK (i.e. in a Western context) and those operating in India (i.e. in a Indian context). The 'Asian Networks' literature leads the writer to conclude that similarities in cultural factors can be drawn between Asians<sup>74</sup> and Chinese, and since little has been identified regarding the importance of *Indian ethnic ties and social networks* (apart from they are an important characteristic of these firms - see Section 4.4), the dynamics and nature of *Chinese Business Networks* in the economies of East and South-East Asia were reviewed to highlight research implications for this study and a plausible way forward.

However, it should be noted that Zafarullah et al's (1998) exploratory research in Pakistan, investigating the '*Internationalization of Small Firms in Developing Nations*', uncovered that Pakistani networks - relatives, friends, ethnic ties - were influential in all aspects of business and market development - establishing the company, visiting markets, obtaining orders (both solicited and unsolicited), expanding in to new country markets, etc. Their finding supports the writer's suggestion that Indian Networks are a plausible mechanism for FMED. Zafarullah et al's findings clearly demonstrate the importance of ethnic ties and social networks to the export development process and highlight them as potentially critical to the internationalization process for Asian firms per se.

### 6.4.1 Business Groups and Economic Development

The growth which the East and South-East Asian economies have generated has begun to attract interest in examining and explaining their success<sup>75</sup>. Chen and Hamilton (1996) comment that most analysts have turned to policy and institutional variables at the macro level for explanation and have failed to discuss how economic activities are organised and conducted at the micro level which can also influence performance.

The findings of the research of Hamilton et al (1996) which focused on micro level activities, in particular on the inter-firm relationship between firms, is drawn upon in the following sub-sections, in particular those relating to overseas Chinese business communities. One of the

<sup>74</sup> Those of Indian, Pakistani, or Bangladeshi origins.

<sup>75</sup> East and South-East Asian growth has been rapid, sustained, and extensive. Even during recessionary intervals in the global economy the Japanese, Hong Kong, Singaporean, Taiwanese, South Korean, Thai, Malaysian, South Chinese, Indonesian, Vietnamese and the Philippine economies have fared far better than their counterparts in Europe and the Americas (Chen and Hamilton, 1996).

key reasons the researchers gave for their particular focus was that *“the most important organisational feature of Asian capitalistic economies is that they are organised through networks of firms”*.

Indeed, Redding (1996) states that *“in every country of the region<sup>76</sup> the business networks are more significant - that is stronger - than the individual firms that make up the networks. Networks are the main units of analysis for all of the economies. Therefore, if one would understand Asian economic development, one must first understand Asian business networks”*. Since Asean economic development, the writer suggests, would include the *‘international’* dimension, Asian business networks are a worthy research area to probe when researching the *Internationalization of Indian firms per se*.

#### **6.4.2 Chinese Business Networks**

Hamilton (1996) suggests that wherever Chinese live and work the social networks that they create are similar in structure and in mode of operation with Chinese social organisation, shaping the way Chinese do business in all settings. This raises the following key question: *Are these similarities superficial, in which case they have very little impact on the way Chinese firms are organised in different locations, or are these similarities consequential and have significant impact on Chinese firms wherever they occur?*

#### **6.4.3 Factors Influencing the Characteristics of Chinese Networks**

This sub-section introduces a number of key *‘influencers’* which determine the dynamics of Chinese networks, i.e. trust, culture, management ideology, and strategic orientation.

##### **6.4.3.1 Trust**

Empirical studies have identified that the ethic of trust is central to the business success of Chinese entrepreneurs in Hong Kong and in overseas communities. Silin (1972) found that *xinyong*, or trust, was the crucial factor in upholding the complex network of trading relations.

With *‘trust’* establishing itself as a central issue of critical importance and value to Asian networks (Wong, 1988; Sit and Wong, 1989; Ryan, 1961; Barton, 1983), it can be argued as being culturally significant (see **Section 5.0**). **Appendix 2** provides further background to

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<sup>76</sup> East and South-East Asia



the concept of 'trust'.

Although *system trust*<sup>77</sup> may exist in Hong Kong and in other overseas nations where Chinese communities have established themselves, this does not diminish the vigour of *personal trust*<sup>78</sup> in business life. Particularistic ties<sup>79</sup> still prevail, with suggestions that there is little sign of these being superseded by universalistic orientations<sup>80</sup>. The Chinese communities have managed to position themselves as entrepreneurs who capitalise on the opportunities which system trust provides whilst maintaining their personal trust values. This has enabled them to succeed by combining both in a manner which gives them a unique source of *competitive advantage*. The UK Indian Enterprise literature discussed in **Section 4.0** also suggests that successful UK Indian firms exhibit similar traits.

As in UK Asian communities, the range of personal relations used by Chinese entrepreneurs to maintain business trust are found to be similar with family and regional ties being particularly important. On the whole, family ties play a critical role in cementing the internal organisation of Chinese firms in Hong Kong, while regional ties are prominent in regulating inter-firm transactions. However, a key finding to note is that in inter-firm transactions regional ties based on common territorial origins are more important than familism.

Williamson and Ouchi (1981) identified that one (1) of the characteristics of the Hong Kong economy is the proliferation of SMEs based on this relationship. Indeed, the UK literature suggests that similar factors can be applied to explain why UK Asian firms are geographically localised and predominately small in nature.

In the Chinese case, entrepreneurs tend to dominate the market by activating particularistic ties<sup>81</sup> such as regional networks rather than by building large impersonal corporations. Indeed, the writer suggests that it should be noted that immigrants from the Indian sub-continent arrived in the UK from localised regions (as discussed in **Section 4.2.2.1**) and this factor would enable particularistic ties to exist, and may go some way to explaining why

<sup>77</sup> *System trust* is built on impersonal and generalised "media of communication" such as money, power, opportunity structure for self-advancement, justice (political trust) and truth (Wong, 1996). System trust is independent of individual motivations.

<sup>78</sup> *Personal trust* is dependent on familiarity. In personal trust, one must penetrate [self-presentation], anticipate deception and arm oneself against it.

<sup>79</sup> *Particularistic trust* is rooted in the 'community of blood' and rested upon purely personal, familial, or semi-familial relationships.

<sup>80</sup> *Universalistic trust* is based on the 'superior community of faith' such as the Puritan sects in the West, i.e. "without regard to the person in question ... without hate and without love, without personal predilection and therefore without grace, but sheerly in accordance with the factual, material responsibility imposed by his calling, and not as a result of any concrete personal relationship" (Weber, 1966, p.235).

<sup>81</sup> Particularistic ties are used to fulfil two (2) crucial functions (Wong, 1996):

- They provide a firmer basis for trust within the networks. Members can have more information with which to evaluate one another's credit-worthiness. They can also exert greater control over those who do not conform by invoking communal sanctions;

- They furnish a justification for discrimination. It can be claimed that people with common ties belong to a moral community with shared rights and obligations, so that it is legitimate to keep economic benefits within the network. But since particularistic ties are flexible in nature, the boundary between insider and outsider is rarely clear-cut and the monopoly seldom absolute. Personal networks are constantly breaking up and being regrouped. Thus economic order has to be achieved through the

many Indian firms are not large impersonal organisations.

However, the literature suggests that the personal trust created through these means are not totally secure, because family ties are impermanent and regional ties are elastic and not strictly binding. Clearly, there are limits to the usefulness of personal ties in maintaining trust; therefore to complement personal trust, it can be argued that system trust is required. Without such system trust, social investment in personal trust would become excessive and too costly for business (Wong, 1996). However, system trust cannot operate in a void. It is not self-sufficient, it needs to be embedded in the dense network of particularistic ties. Indeed, it can be argued that system trust and personal trust are mutually reinforcing and not mutually antagonistic. Indeed, Buckley and Casson (1988) suggest that although the role of nation states is paramount in the legal enforcement of contracts (with respect to their legislative and judicial systems), co-operation is ultimately a function of *'trust'* (i.e. personal trust) rather than legal sanction, and trust depends more on the unifying influence of social groups than the coercive power of the state (i.e. system trust).

The literature suggests that mutual suspicion and absence of sincerity are two (2) major characteristics of the Chinese people. Smith (1894/1986) comments that *"there are said to be two reasons why people do not trust one another: first, because they do not know one another, and second, because they do. The Chinese think that they have each of these reasons for mistrust, and they act accordingly"*. For the Chinese, trust is neither absolute nor unconditionally given. Consequently, trustworthiness is essentially tentative and transient, and personal trust has to be continually renewed.

Redding (1996) in his answer to the question: *"How can organisations that are themselves so constrained produce economies that are so dramatically efficient?"* concludes that a significant portion of the explanation may lie in the linkage mechanisms that allow such organisations to transcend their inherent limitations. His proposition is thus one of *'weak organisations and strong linkages'*. It is implied here that social networks/bonds are the foundations of these strong linkages with trust being of critical importance.

#### **6.4.3.2 Cultural Influences**

Redding suggests that the influence of culture on patterns of business behaviour and on the relative success or failure of firms is still in an early and relatively primitive stage of development. However, he suggests that different societies will produce different *'recipes'* for economic co-ordination and control.

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multiple overlaps of shifting personal networks.



**Section 5.3.3** discussed cultural influences in enough detail for it to be sufficient to state here that cultural differences will influence network dynamics, if not govern them as the literature would suggest is the case for Asian networks.

#### **6.4.3.3 Managerial Ideology**

One (1) of the influences on the business strategies of overseas Chinese entrepreneurs is the set of norms and values that this distinct business culture has inherited from its historical experience, i.e. the process of socialisation.

The combination of the original cultural basis of Chinese civilisation and varying degrees of oppression throughout the region, leads to a relatively homogeneous set of beliefs about the conduct of economic activity (Maignan and Lukas, 1997). Redding's study comprising of seventy two (72) CEOs in Hong Kong, Singapore, Taiwan and Indonesia identified patterns of belief that dominated. The role of networks was identified and it materialised that they are embedded into the cultural fabric and ideology of Chinese society. Indeed, the writer suggests that similarities in this case can be drawn between Chinese and Indian society. This could be due to the experience of the average Chinese person, and the folklore of the family, which leads to a perception of life being a matter of survival by one's wit and energy under threatening conditions, and with no help from the state. This is an ideology which discrimination in the labour market would stimulate and consequently foster much of UK Indian Enterprise (**Section 4.0**).

Given this background, it is possible to speculate that an Overseas Chinese CEO's view of an appropriate strategy for their firm, influenced by the prevailing management paradigm which exists (see **Section 5.4.2**), will be coloured by the following definitions of corporate circumstances (Redding, 1996):

- ◇ It is essential to retain control of the firm in the interests of the long-term family prosperity;
- ◇ Risks should be hedged to protect family assets;
- ◇ Key decisions should remain within an inner circle; and
- ◇ Dependence on non-belongers, for such essentials as managerial, technical, or marketing skills, should be carefully limited.

In such circumstances, one would anticipate that such firms would operate within the confines of a set of constraints that reduce the influence of any professional managerial elite. The literature on UK Indian Enterprise (discussed in **Section 4.4**) suggests that similar

dynamics pervade these firms also. Clearly, managerial ideology influences network characteristics.

#### 6.4.3.4 Strategic Patterns

Limlingan (1986) undertook a study attempting to specify the strategic patterns found in the Chinese family firm and proposed a four-stage model, the final outcome of which will be dependent on a specific country environment. The writer suggests that large successful UK Indian firms may well share similar patterns in this respect.

The question of business growth is important, presenting many barriers to a firm as discussed in **Section 3.5**. Taking the legal firm as the prime unit of economic action, one possible conclusion is that (Redding, 1996): the firm normally stays within a narrow field of specialisation normally associated with the knowledge and inclinations of the paterfamilias. However, networking, can provide an expansion of the activities without necessarily requiring a more complex integrative structure: the principal economic actor thus becomes an informal coalition, a linked network of units, each node being a legally defined firm.

The literature suggests that the strategic patterns of Chinese firms involve the utilisation and leverage of their networks in order to minimise risk, whilst simultaneously bringing benefits to the network as a whole, an argument which the writer suggests can also be made with regards to UK Indian firms. One might conclude from this that the growth of the firm as seen through Western eyes is constrained by this structural and strategic limitation; and yet paradoxically the growth of their economies have demonstrably not suffered. A prima facie conclusion is that the larger structures of co-operation needed for an economy to flourish and to manage economic exchanges are reliant on a peculiarly effective mechanism for inter-firm linkages (Redding, 1996), i.e. networks.

#### 6.4.4 Explaining the Network Strength

*"No capitalistic development without an entrepreneurial class; no entrepreneurial class without a moral charter; no moral charter without religious premises."*

- Poggi (1983)

As presented in **Section 5.5.2** which discussed Indian culture, religion emerged as a significant influence. In addition, when considering networking processes in an Indian context, there are two (2) forces that especially foster it and contribute to its strength. These are:



- ◆ the ethic of trust, and
- ◆ the relatively greater power of the key actors.

With regards to the issue of *'trust'* (introduced in **Section 6.4.3.1**), in practice the breaking of trust has wide spread social ramifications; the individual concerned is likely to be ostracised and to find it difficult to re-establish connections. With such penalties on the one hand and on the other hand with encouragement from the ethical system, the trustworthiness of interpersonal bonds serves to reduce dramatically the cost of economic transactions within a limited sphere. Eventually, with very complex relations, interpersonal trust is so difficult to extend beyond a narrow circle that it turns in to a constraint, but that constraint is seemingly acknowledged in the strategic limitations that appear self-imposed (Redding, 1996). It can be argued that a *competitive disadvantage* begins to develop.

Regarding the second point of *'power'*, if negotiating with another person and if the exchange is to be optimally efficient, (s)he needs to have the power to speak on the behalf of a whole firm without going back to seek approval for any decisions reached. The virtual domination of both strategy and operations by key individuals in the Chinese family business serves this need. The person making the agreement is in a position to *'deliver'*. The extent to which this works, i.e. the proportion of firms and interactions to which it applies, is uniquely high in the economic cultures of the overseas Chinese because they are almost totally reliant on the family business form of enterprise; as the literature would also suggest are overseas Indians.

The writer suggests that consolidation of the literature on UK Indian Enterprise leads one to a similar explanation of their *'network'* strengths.

#### 6.4.5 The Larger Context of Efficiency

Redding (1996) suggests that to concentrate on networking is not to suggest that networking alone is the prime determinant of growth. It is clearly very important in the Chinese case, but it lies in the context of a wider system of *efficiency*<sup>82</sup>.

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<sup>82</sup> The notion of the sources of efficiency in the wider system is available from a recent study by Tam (1990) aimed at contrasting Chinese and Japanese business systems. His argument is that the Chinese case presents what, at first glance, appear to be a series of anomalies, which include the following:

1. significant industrial power by atomistic businesses;
2. excellent performance by formally untrained managers;
3. constant renewal by conservative businesses;
4. high work-rates in an uncommitted workforce; and
5. innovation efficiency in preference to scale efficiency.

The pursuit of innovation efficiency in preference to scale efficiency is an outcome of a situation in which industry dominance by key players is difficult. If nobody dominates the industry then anyone can move in. The constant fission of small units also contribute by denying the possibility of keeping new business formulae secret. Each firm is surrounded by an army of entrepreneurs watching for opportunities, and each firm contains within it another cohort of potential entrepreneurs ready to spring out and start on their own, each locking on to and expanding the complexity of the core network. Again, the literature would suggest that similarities can be drawn with UK Indian Enterprise.

In many Western economies, the main efficiencies in co-ordination derive from large-scale organisation via economies of scale. In the case of the overseas Chinese, the equivalent efficiencies derive from networks which derive their legitimacy from certain cultural predispositions, most of which are traceable to Confucian values (i.e. religion).

This reciprocation releases other forms of efficiency which can be explained technically in terms of low transaction costs, strategic flexibility, and a capacity for innovation, all of which facilitate a contribution of the successful recipe in the future. These are characteristics which are commonly cited in the SME literature.

The writer suggests that networks in an Asian context derive efficiencies from both competitive and collaborative forces, i.e. a tension which generates constructive conflict.

### **6.5 Networks in a UK Indian Context**

The literature review presented in **Section 4.0** on UK Indian Enterprise (Ward and Randall, 1988; Werbner, 1984; Waldinger et al, 1989; Ward, 1991) is riddled with the notion that '*social networks*' are integrated into the fabric of UK Indian Enterprise. The literature suggests that they are vital to the start-up of ethnic enterprise, inter-firm relations, market location, and the basis of such firms '*competitive advantage*' and can equally be a source of '*competitive disadvantage*' (Ram, 1994).

Ram suggests that "*the relationship of 'trust' that is assumed to exist between family and community members is important in creating effective relationships with suppliers, customer and other businesses that firms rely upon ... the commonality of language, culture and adherence to particular authority structures act as a critical spur to the operation of ethnic enterprise*". He continues that "*when seeking to explain ethnic entrepreneurship, such*



*theories (Werbner, 1984; Saker, 1992; Phizacklea, 1990) underestimate the impact that racial discrimination in all its forms may have on the development of ethnic groupings and the reliance on 'community' resources for survival ... it was a combination of recession, racism and general economic decline - not cultural flair - that pushed many Asians into self-employment, and once in business, racial constraints seemed to continue to have an impact" resulting in a reliance on strong social networks for survival and security.*

## **6.6 Summary and Conclusions**

The literature review contained in this section has identified:

- ◆ Networking is an important activity for owner managers;
- ◆ Network density and diversity, as well as network activity, are topics worthy of further consideration;
- ◆ Family and friends are the most likely contacts for growing firms; and
- ◆ Proprietors from different nations may exhibit different networking styles.

These findings suggest *networks* and *networking* are dimensions which would influence and impact the internationalization process in a UK Indian context.

By comparing the literature on Chinese Enterprise and Indian Enterprise, it can be seen that many similarities between Chinese business networks and UK Indian business networks can be drawn. It is suggested that both these groups use *social networks* which stem from '*ethnic ties*' (which are culturally significant) as a means for facilitating business activities. It is also suggested that the dynamics of *Asian networks*, in the broad sense of the term, go far beyond the basis of Western social and business networks. Networking for Asians is suggested by the writer to be a way of life.

Whereas firms in many Western economies are more or less autonomous from (and competitive with) other firms, firms in East and South-East Asia are inter-linked, are connected to one another and so create vast, co-operative networks of independent yet dependent firms. It emerges that networks are significant in both domestic and international business development.

The literature suggests that ethnic minorities capitalise upon contacts and networks which exist with persons with similar ancestral roots, primarily because of the greater level of empathy which exists between such persons. This is predominately because of similarities regarding the predicaments they find themselves in; i.e. operating in a country with different

values/beliefs/culture. It is implied that the major distinction between Asian networks (in the broadest sense) and Western networks is that: in Asian networks there is a stronger emphasis placed on *personal trust* within the networks, whereas in Western networks emphasis is more on *systems trust*. In the West, firms and individuals engage in networking primarily to satisfy their own corporate needs, i.e. self interest. In the UK, honesty has a legal and religious meaning enforced by the courts, whereas in China and India honesty rests on the cohesiveness and identity of regional groups which reinforce personal honour and religious values.

It should be noted that Asian networks have strongly embedded within them many issues regarding religious beliefs and obligations to one's fellow man and the community at large, i.e. cultural factors. Consequently, the objectives which these Asian networks serve are diverse when compared to Western business networks which tend to be more structured to meet specific business related ends. The writer suggests that Asian networks can be regarded as '*strategies*' which overcome many barriers of unfairness and serve many needs. Networks are a mechanism which safeguard the needs of Asian communities, by providing protection, survival and growth whilst maximising flexibility. They can also be argued to offer enormous opportunities for the internationalization of the '*Asian*' firm because Asian communities are settled across many nations.

If the organisation of networks in UK Indian society is an important contributing factor to the development of a distinctively UK Indian mode of international business activity, then:

- ◇ What are the characteristics of these international networks?
- ◇ How do they arise?
- ◇ What are their effects upon international economic activity?

Would it be appropriate to comment as Hamilton (1996) does about the Chinese, that "*wherever Indians live and work the social networks that they create are similar in structure and in mode of operation and that Indian social organisation shapes the way Indians do business in all settings*", including an international one?

As with Hamilton's research, this statement raises the following key question: Are similarities between the way UK Indians Internationalize business superficial, in which case they have very little impact on the way UK Indian firms Internationalize in different locations; or are these similarities consequential and have significant impact on the internationalization activities of UK Indian firms wherever they occur?

Some of the dimensions and characteristics of '*Asian Networks*' which emerged following a



review of the literature relating to the Chinese business community were considered by the writer to possibly also be of significance to UK Indian networks; and consequently they present some interesting implications and propositions for the study. It should be noted that although the five (5) perspectives which the Industrial Network Theory to FMED proposes can be applied for descriptive analysis and evaluation of '*Indian networks*', it should be recognised that due to the cultural characteristics of the Indian community one (1) perspective is most dominant, i.e. '*networks as relationships*'.

### **6.7 Potential Issues for Investigation Through Primary Research**

The literature review presented in this section relating to *Networking* has identified that by exploring the following emergent issues a contribution can be made to both practitioner and academic audiences:

- ◆ What is the effectiveness of the current infrastructural network of internationalization facilitators such as the various business support agencies which UK Indian firms may utilise for advice and information regarding aspects of internationalisation? The nature of the role played by these actors in supplying or making accessible aspects such as finance, FMED assistance, technological and international marketing expertise, and the nature of the linkages between the service providers network and UK Indian firms, needs to be determined and appraised. This will clarify the extent to which external resources, otherwise inaccessible or unavailable to SMEs, are brought within their reach to assist the internationalization process. This is primarily a mapping exercise.
- ◆ What is the nature of international social networks (accessible to UK Indians). This needs to be established in order to determine whether they can assist in international growth, and establish if they have contributed to the successful internationalization of UK Indian firms. There must be clarification as to whether participation in networks will overcome the problem of internal deficiencies in UK Indian firms. The SME literature on growth barriers shows overwhelmingly that the predominant and prevailing problem facing SMEs is lack of internal resources, in particular, management and technical expertise and know-how. The extent to which knowledge development takes place and knowledge-based bonds are formed between firms to bridge these internationalization deficiencies needs to be established.
- ◆ Clarification regarding to the nature of the relationships which UK Indian firms have with Indians on the Indian sub-continent and elsewhere around the world needs to be established; and an appraisal should be undertaken to identify whether these relationships are the entrepreneurial/business catalysts necessary for internationalization.

- ◆ Clarification regarding the structure and dynamics of UK Indian business networks needs to be established, coupled with clarification regarding the activities of participants, and the nature of bonding in order to determine the long-term durability and competitiveness of the network, and the survival and competitiveness of the firms which participate.
- ◆ Clarification regarding whether or not particularistic ties prevail amongst UK Indian entrepreneurs or whether they have been superseded by universalistic orientations, and how UK Indian Enterprise per se has evolved as a result requires exploration.
- ◆ Does *systems trust*, which exists in the UK and in other Western nations where Indian communities have established themselves, diminish the vigour of *personal trust* in UK Indian Enterprise? Clarity should be sought as to the usefulness of personal ties in maintaining trust and the importance of systems trust in complementing personal trust, especially when considering international decision-making. Have Indian communities managed to position themselves as entrepreneurs who capitalise on the opportunities which systems trust provides whilst maintaining their personal trust values? Such a combination may possibly provide these firms with a unique and powerful *competitive advantage* in their international decision-making processes.
- ◆ Are family and regional ties are particularly important to Indian entrepreneurs? There is a need to establish: whether family ties play a critical role in cementing the internal organisation of Indian firms in the UK; and whether regional ties are prominent in regulating inter-business transactions. Do they influence internationalisation?
- ◆ Clarification regarding the degree to which mutual suspicion and absence of sincerity exists in Indian networks and how this impacts international decision-making requires appraisal.
- ◆ To what extent are Asian networks stable and permanent? For example, in a Chinese family sons are equal heirs; this introduces an inherent tendency towards segmentation in the life cycle of the family making Chinese family firms strong in entrepreneurship but weak in management. Consequently, as the family is not a permanent entity, family reputation is likewise short-lived. This implies that trustworthiness is essentially tentative and transient and personal trust has to be continually renewed. To what extent does this impact international decision-making?
- ◆ To what extent do Indians perceive life being a matter of survival by one's wit and energy under threatening conditions and with no help from the state? Does this influence international decision-making?
- ◆ Can Indian social networks promote/accelerate internationalisation?

As with the findings of the synthesis of the other streams of literature - discussed in the previous sections of this volume, i.e. Internationalization (see **Section 3.7**), UK Indian Enterprise (see **Section 4.6**), and Culture (see **Section 5.7**) - the writer sought to enrich the



study by selectively incorporating a number of the above emergent *Networking* related issues to define the study's research focus.

By selectively combining emergent issues from the various streams of literature presented throughout this volume, the writer devised the study's definitive research propositions presented earlier in **Section 1.6** which were explored via the study's fieldwork presented in **Volume 2**.

## 7.0 Summary

The material presented throughout this volume has been derived from the writer's synthesis of the relevant streams of literature which emerged as pertinent to exploring the study's focus, i.e. Internationalization (see **Section 3.0**), UK Indian Enterprise (see **Section 4.0**), Culture (see **Section 5.0**), and Networks (see **Section 6.0**).

It is important that the reader notes that the literature review resulted in highlighting particular gaps in the various literature streams worthy of research attention from both practitioner and academic perspectives. In order to maintain focus around the writer's governing research objective, i.e. ***"To investigate the significance of ethnic ties and entrepreneurial networks in the internationalization of the firm"***; and devise a rational research methodology (see **Volume 2, Section 3.0**), the writer chose to be selective with regard to the emergent issues (see **Section 3.7, Section 4.6, Section 5.7, and Section 6.7**) which would be incorporated into the study's definitive research propositions (see **Section 1.6**), which in turn shaped the study's design discussed in **Volume 2**.

The reader should now refer to **Volume 2**, which draws upon the material presented in this volume, and presents:

- ◇ the study's research methodology;
- ◇ the study's research design;
- ◇ discussion relating to the study's sample frame;
- ◇ the study's primary research findings;
- ◇ conclusions and recommendations which can be derived from the fieldwork;
- ◇ plausible limitations of the study; and
- ◇ suggests areas for future research.



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## **APPENDICES**

- Appendix 1 Major Network Studies**
- Appendix 2 Types of Trust**

## Appendix 1 Major Network Studies

*Major studies which have contributed to the notion and development of the literature of industrial networks. The 5 major groups:*

### **Conceptual and comparative studies**

These are concerned mainly with the conceptual development of the network approach, its roots and directions:

- ◆ Turnbull and Valla (1986);
- ◆ Johanson (1992);
- ◆ Mattsson (1992);
- ◆ Hammarkvist (1983);
- ◆ Mattson (1984); and
- ◆ Johanson and Mattsson (1987).

### **Aspects of the network approach**

In these studies the focus is on aspects of components of networks, contribution being made to paradigmatic or methodological development of a network approach:

- ◆ Turnbull (1987);
- ◆ Gadde and Mattsson (1987);
- ◆ Mattsson (1989);
- ◆ Dant (1989);
- ◆ Brandes and Lilliecreutz (1990);
- ◆ Easton and Lundgren (1991); and
- ◆ Axelsson and Easton (1992).

### **Purchasing and marketing studies**

These studies focus on industrial purchasing and/or marketing, the focus being predominately on buyer-seller interaction and the subsequent development of inter-organisational relationships. Distribution and international supply feature strongly in this group:

- ◆ Axelsson and Hakansson (1986);
- ◆ Arnaud, Salle and Valla (1986);
- ◆ Easton and Quale (1990); and
- ◆ Gadde and Hakansson (1990).

### **Innovation and technology strategy studies**

These studies have been concerned with the management of technology and in particular competitiveness and innovation through networks:

- ◆ Berger (1990);
- ◆ Hakansson (1990);
- ◆ Den Hond, Groenewegen and Vergragt (1990); and
- ◆ Shaw (1991).

### **International studies**

A few studies have focused on international or business management. Others have been concerned with international market entry and development and internationalization and on international strategy and collaboration:

- ◆ Blankenburg and Johanson (1992);
- ◆ Axelsson and Hakansson (1986);
- ◆ Turnbull and Ellwood (1986);
- ◆ Johanson and Mattsson (1986, 1988); and
- ◆ Johanson and Mattsson, et al (1990).



## Appendix 2      Types of Trust

What exactly is meant by 'trust'? Barber (1983, p.9) defines trust in terms of the content of the expectations that social actors have of one another. He identifies three kinds of expectations:

1. expectations of the continuity of the natural and moral order
2. expectations of the technical competence of the actors in roles
3. expectation on the fiduciary responsibility of social actors, that is their duties in certain situations to place others interest before their own

To summarise, for Barber, there is:

- ◆ general trust,
- ◆ technical trust, and
- ◆ fiduciary trust.

Luhmann (1988, p.97) evaluates the issue of trust in terms of its function and the social mechanisms which sustain it. He distinguishes between confidence and trust. In his view, confidence relates to the existence of danger which is an external condition. Whereas trust assumes a situation of risk which is created by the internal decisions made by an actor. Based on the above distinctions, Luhmann differentiates between what he refers to as:

- ◆ personal trust, and
- ◆ systems trust.

Personal trust is dependent on familiarity and is thus limited in scope. As social life becomes more complex, system trust is required which is built on impersonal and generalised "media of communication" such as money, power, opportunity structure for self-advancement, justice (political trust) and truth (Wong, 1996). Luhmann (1979, p.50) states:

*"Anyone who trusts in the stability of the value of money ... basically assumes that a system is functioning and places his trust in that function, not in people. Such system trust is automatically built up through continual, affirmative experience in utilising money. It needs constant 'feedback' but does not require specific built-in guarantees and is therefore incomparably easier to acquire than personal trust in new and different people all the time."*

System trust, therefore, is independent of individual motivations. "While, in personal trust, one must penetrate [self-presentation], anticipate deception and arm oneself against it, the case of system trust relieves one of these requirements for trust." By relieving such burdens and absorbing certain functions of familiarity, system trust stands beyond personal trust. In the view of Luhmann (1979, pp.57-58), the transition from a reliance on personal trust to system trust is part of the "great civilising processes" of modern life, which can be implied to mean Westernisation.

In a comparative study of world religions exploring the problem of trust, Weber (1951) was concerned with the basis on which trust was given, whether it was built on:

- ◆ *particularistic* trust grounds - rooted in the 'community of blood' and rested upon purely personal, familial, or semi-familial relationships; or on
- ◆ *universalistic* trust grounds - on the 'superior community of faith' such as the Puritan sects in the West, i.e. "without regard to the person in question ... without hate and without love, without personal predilection and therefore without grace, but sheerly in accordance with the factual, material responsibility imposed by his calling, and not as a result of any concrete personal relationship" (Weber, 1966, p.235).

It was this orientation which laid the foundations for capitalistic enterprises to emerge in Western Europe. While in China, Weber argued, because of the dependence on particularistic trust, *"there failed to originate on the economic plane those great and methodical business conceptions which are rational in nature and are presupposed by modern capitalism"* (Weber, 1951, p.242).

There were inherent obstacles preventing capitalism from emerging on its own in traditional China. But Weber believed that the Chinese would be quick to adopt the capitalistic form of business once it had been invented in the West. The Chinese success in Hong Kong and other countries could be argued to be testament to this.

Wong (1996) states that, *"it can be argued that business trust as found in late traditional China was personal and particularistic in nature, and through contact with the West, system trust and universalistic trust have been established in Hong Kong and in overseas Chinese communities, thus proving a congenial environment for entrepreneurship to grow"*.