Diasporas and international entrepreneurship – evidence from the Indian IT industry

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December 2012
INTRODUCTION

Globalization is the single idea that has dominated the discussion across disciplines over the last twenty years. The basic idea of globalization has been an increased cross border movement of capital, goods, and services facilitated by developments in technology - the internet being a major driver for the growth of information technology services and containerization for manufacturing industries and propelled by the emergence of neoliberal thinking promoted by the Bretton Woods institution and the WTO.

It is often felt that the cross border movement of human capital or labour, has received less academic attention than deserved, since discussions in the last few decades have centred around the global flow of capital with its attendant risk and devastation. This paper is a preliminary exploration of ideas that brings together insights from the diasporas studies with literature of international entrepreneurship in the context of outbound FDI from the IT sector between India and the USA.

The Indian IT sector is prominent for its place as a leader in the global economy. It has been a model in successful leap-frogging of the normal stages of industrial development and has not only expanded its geographical reach, it has also moved up the technological ladder into diverse verticals from routine back-office jobs to highly skilled tasks in legal and medical outsourcing. In terms of entry mode also the industry has not only increased its exports, but has moved into more advanced modes such as outbound mergers and acquisitions (M&As), where it has emerged as the leader in the Indian context.

The primary purpose of this paper is to develop an eclectic framework using insights from entrepreneurship research and the Diaspora literature to explain the emergence of the Born Global Acquirer (BGA) from the IT sector in the context of India and the USA. It focuses on the discovery, evaluation and exploitation of international entrepreneurial opportunities that lead to the emergence of the BG firm and the role of the diasporas as a key driver of this trend.

In doing so, this paper seeks to fill an interdisciplinary vacuum in both teaching and research as it explains an emerging phenomenon of accelerated internationalization in an unexplored framework of analysis.

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DIASPORA

The Greek noun diaspora is derived from the composite verb *dia-* and *speirein*, adopting meanings of ‘to scatter, spread, disperse, be separated’. The verb, which became more widely used in the 5th Century BCE among classical philosophers and Hellenist writers, has a negative connotation. In the Septuagint, however, the noun diaspora and the verb diaspeirein were coined as technical terms to interpret Jewish existence far from the ‘Promised Land’ in light of an encompassing soteriological pattern.

In the first Century CE, Christians adopted the term ‘Diaspora, but altered its soteriological meaning to Christian eschatology. The individual writers of the different biblical stories and letters interpreted the early Church ‘as a pilgrim, sojourning and dispersed community, in the understanding that it is the eschatological people of God (Baumann Martin).

In the classical mode, the term “diaspora” applied principally to Jews and less commonly to Greeks, Armenians and Africans. “The idea that ‘diaspora’ implied fancible dispersion was found in Deuteronomy, with the additions of thunderous old Testament warning that a ‘Scattering to other lands” constituted the punishment for a period who had forsaken the righteous paths and abandon the old ways.

In fact, the term ‘diaspora’ is found in the Greek translation of the Bible and originally meant ‘to sow widely’. For the Greeks, the expression was used to describe the colonization of Asian Minor and Mediterranean in the Archaic period (800-600 B.C.), which saw some displacement of the ancient Greeks to Asia Minor as a result of poverty, overpopulation and interstate war, but the term ‘diaspora’ essentially had a positive connotation. Expansion through plunder, military conquests, colonization and migration were the predominant features of the Greek diaspora.

Since the 1960s, with the increasing transnational and global migration movements, the term ‘diasporas’ was employed to denote a national, cultural or religious group living in a foreign land. Following African Studies which compared the enslavement of the sub-Saharan Africans to the expulsion of classical Jews, the term became widely used and popular in various social sciences (Baumann Martin 2011).

Available literature on diasporas spans a range of subjects and topics, although it fails to do justice to the complex and multifaceted relationship between diasporas and their nation-states. Some areas of scholarship include studies in economic history examining the effects of the large outflows of labour from Europe in the late nineteenth century on labour markets in source countries (O'Rourke and Williamson et al 1996); the celebration of international diasporic networks as the “commons of mutual interest” divorced from the “commons of place and local resources” (Joel Kotkin 1993); the effects of diasporic networks as channels of influence for “values” (Yossi Shain 1999); the role of the Chinese diaspora (the “bamboo network”) in channeling trade and investment into China (Weidenbaum and Hughes 2002); and a burgeoning literature on the effects of financial remittances. A recent significant strand of emerging literature has focused on the political effects of international migration on countries of origin.
In his classic, if sometimes disputed, typology of diasporas, Cohen (1997) includes what he defines as ‘trade diasporas’, citing the examples of Chinese traders in the European colonies of South-East Asia and the Lebanese in the Caribbean and West Africa. More recent scholarship (Baghdiantz-McCabe et al. 2005) explores the role of ‘Diaspora entrepreneurial networks’ – merchant families and their extended regional networks with the others of the same ethnic origin- focusing particularly on Armenians, Jews and Greeks. These organised groups of Diaspora merchants were able to carry out ‘cross-cultural’ trade, mainly in the Eurasian continent in the early modern period, particularly working across a Christian-Islamic divide. While such diaspora trade networks are often characterised as ‘brokers’ between ‘East’ and ‘West’, Baghdiantz-McCabe et al. 2005, argue for a more complex understanding of the interrelationship between ethnic trade diasporas and national trading networks (Dwyare Claire 2011).

In contrast to studies on the countries that receive migrants, there is relatively limited literature on the Diaspora and the implications of migration for sending countries and societies as a result of lack of reliable international data. Unlike data on international trade and capital flows which have high quality databases maintained by international organisations such as the IMF, World Bank, UNCTAD and the WTO, comparable data on international migration simply does not exist. There are various practical reasons for this data deficiency. The sending country cannot capture data on migrants since they are no longer in the country, and data on migrants in receiving countries are limited by the variables of interest in that country. For instance, many economic studies of international migration focus on labor market effects; hence, the data of interest includes education, gender, age, and earnings. However, even this data is not available across nations and is of an uneven quality and imperfect.

Indians have been engaged in trade since ancient times with the Europeans and other parts of the world specially in cotton, spices and precious metals. Indian diaspora is considered to be among the most modern and complex diaspora of the post-colonial world - culturally, linguistically, religiously and politically. According to the Government of India, there are over 20 million people of Indian origin living outside India. They live in nearly every country of the world, and they span the spectrum of class, profession, and history—ranging from 5th generation descendents of indentured servants in the Caribbean, to 4th generation descendents of mercenaries and traders operating under British colonialism in Africa, to 2nd generation descendents of doctors and engineers in the US and Canada. Indians today continue to migrate outside India to work as undocumented construction workers or domestic servants in the Middle East, as taxi drivers in New Jersey, as CEOs of multinational banks in Latin America, or as information technology (IT) entrepreneurs in Silicon Valley. The past few decades have witnessed an increased flow of migration of both low skilled and skilled workers, first to the Gulf and more recently to North America.

The history of Indian Diaspora in the US can be studied in four phases. A first and relatively small number - perhaps 1000 persons or so - came mostly around the turn of the 19th century, when India was a unified colony of Great Britain. A second, much larger number of persons moved after India and Pakistan’s independence in 1947. The third phase followed the
enactment of the 1965 Immigration laws. The Fourth, in the 1990s with the information technology boom in the United States of America where they required technically skilled people. This section of the migrants was mainly computer software engineers (Bagoria Mukesh 2010).

The Asian-Indian population according to the US Census 2010 is 2,843,391 which is 0.9% of the US population. It has grown at 69.37% since the last census of 2000 which was 1,678,765 which was 0.6% of the US population. In the latest Census they are ranked second amongst the Asian-Americans after the Chinese and have overtaken the Filipinos’. California, New York, New Jersey, Texas and Illinois are the five most populated stated by the Asian Indians. Most of the Asian-Indians who migrated post 1965 have been highly qualified professionally and hold a bachelors degree because of which they have done well economically and professionally. The Asian-Indians as an ethnic group has the highest median income of US $ 90,525 as against the median income of the US population US $ 51,222.

In addition, a significant number of new startup technology companies were founded by Indian immigrants alongside the Taiwanese and Chinese immigrants from 1990s onward and a study by Annalee Saxenian showed that highly skilled Asian Indian immigrants were the senior executives in about one quarter of new technology businesses in the tech-heavy valley of south of San-Francisco. The Asian-Indians have collaborated to open up their offices in Delhi, Hyderabad, and Bangalore, which provides employment opportunities as well as technical know-how to the Indians.

The Asian-Indians have excelled in various fields of work, led by science and technology. As high achievers in important fields, there are approximately 300 Asian Indian entrepreneurs with a personal net worth of US $ 500 million and above of which many are in the high technology sector. Asian-Indians have also made a mark on Wall Street, and are notable for their presence at senior managerial levels as well as for the breadth of their capabilities in asset management, sales and trading research, and investing banking. Among the reasons often cited for the success of Asian-Indians on the trading floors and in the boardrooms of America’s financial capital are their capacity to work hard, ambition, fluency in English language and ability to operate in western-style bureaucracy (Narayana Shobha 1995).

The Non-Resident Indian remittances to India have played an extremely important role in India’s economic development. These have been on the rise from USD 53.64 in 2009-10, USD 55.64 in 2010-11 and USD 66.13 in 2011-12 and have exceeded the flow of FDI in the past three years.

The diaspora plays an important role in both the home and host country. Asian-Indians have been very politically active in the last two and half decades and are the only country origin (India) to have a Caucus in both the houses - the Congress and the Senate- wherein they lobby for issues affecting India and Asian Indians in the US.

They also have linkages with their home country in different forms, most of which is visible as organisations founded by them to help in rural areas or the alma mater. For example, the American Indian Foundation has been investing in primary education, setting up management
institutes, health care etc., USINPAC has been lobbying for Indian interests and the issues of the Asians Indians in USA, the IIT Alumnus have been supporting their alma mater financially and also in the primary education sector. This study however, highlights the role of the diaspora in a less visible role - as a facilitator of entrepreneurial activity in the host country.

In the post independence period the Indian government had an inward looking attitude not only in its trade and investment policies, but also in its treatment of the diaspora which it treated with varying degrees of indifference. The changing policy climate of the 1990s was reflected in a change in attitude towards the diasporas as well, with the organization of the first Pravasi Bhartiya Divas in 2003 as official recognition of the Indian diaspora. Other policy measures include the amendment of the Citizenship Act of 1955 to allow for registration of persons of Indian origin holding foreign citizenship as “Overseas Citizens of India” (OCIs).

The decade of the 1990s was also the harbinger of economic reform, notable among which were policy changes in FDI. This led to changes in the nature, volume and geographical composition of both FDI inflow and outflow and to the emergence of the Indian Born Global firm profiled here.

THE INDIAN IT INDUSTRY: A PROFILE

The IT industry is India’s most internationalised sector, known for its global competitiveness. The growth of the Indian IT industry is rooted in organizational capabilities, consisting of critical competencies and embedded routines developed during the era of dominance of the computer hardware industry. This included development of productive apparatus for manufacturing hardware, spreading computer awareness and education, and honing programming skills accumulated from the necessity for developing custom software for the machines. This became the basis of the competitive environment in which the software industry subsequently flourished. Important drivers of the industry include government investment in technical education, the role of the diaspora at different stages of industry development, facilitating role of government policies and the push given by the industry association in promoting Indian software as a global brand.

There have been four discernable waves of development of IT industry. The first wave in the 1970s and 1980s created the “bodyshopping” model, which led to the birth of some of India’s premier IT firms. The second wave in the 1990s built up the outsourcing business. The third wave from 2000–2006 witnessed an unprecedented spree of acquisitions abroad. The fourth discernable wave—2006 onwards seems to be focusing on the development of software products.

The birth of the global software industry was the result of IBM’s decision to unbundle hardware from software in 1969 (Steinmuller 1996). This was followed by Intel's invention of the microprocessor in 1972 leading to the development of powerful mini and
microcomputers that successfully challenged the dominance of the larger and more expensive mainframe computers. The availability of increasingly more powerful and inexpensive hardware, led to a huge increase in computer usage in various economic sectors, and a consequent demand for software. This led to the birth of the software industry along the lines of industrial engineering (Parthasarthy 2004).

The Indian software industry began with the establishment of TCS as the first Indian firm to establish “bodyshopping” – the practice of sending engineers from India to attend to software issues in countries such as the USA. The practice gained momentum due to the dearth of skilled qualified personnel in the USA and an oversupply in India. This led to the establishment of a network where programmers who had experience abroad became a growing pool of software engineers to be repeatedly employed in different assignments. The diaspora played a key role in “bodyshopping” exports as they helped US buyers to locate Indian suppliers of repute acting as key players in a fast growing network (Arora 2001). The availability of low cost skilled engineers and a liberal US immigration policy immensely helped this phase of industry growth.

The next stage in the development of the IT industry was the offshoring phase as the industry matured and moved up the value chain as it established a reputation for quality and competence. The abundance of a low-cost, skilled English-speaking workforce willing to turn its work day around became the genesis of the offshoring model. Several new companies which had started as subcontractors for technical manpower took on complete projects and solutions to be delivered from India.

The growth of the industry was facilitated by an enabling policy regime beginning with recognising software as an industry in 1984, making it eligible for investment allowances and other incentives. It also lowered duties on software imports, and made software exports a priority. The Computer Software Export, Development and Training Policy of December 1986 explicitly aimed at increasing India's share of world software production. The means to do this was the 'flood in, flood out' feature: firms in India were provided with liberal access to global technologies to encourage 'thousands of small software companies in the country thereby increasing export as well as local development' (Dataquest 1987).

The National Association of Software and Service Companies (NASSCOM) came into existence in 1988, to promote the interests, and subsequent policy measures of the industry. The clearest instance of this was the establishment, in 1990, of the Software Technology Parks (STPs) in 39 locations across India. As export zones dedicated to the software industry, the STPs offered data communication facilities, using which firms could offer offshoring services, i.e. service provision from India, instead of having to work at customer sites overseas. Other policy reforms include developments in telecommunication and internet infrastructure needed for offshoring work.

The benefits of policies meant specifically for the IT industry were reinforced by certain serendipitous benefits conferred by policies from earlier years. For all the criticism that the Indian education system has received for being a legacy of the British times, the policy
framework implemented in the post Independence era managed to create a large pool of English speaking, skilled labour force, characterised by under-employment. A conscious policy decision in higher education led to the establishment of a plethora of engineering colleges and technical institutes especially in the southern parts of India. This led to the evolution of the Indian software engineer, which became the much needed resource for both bodyshopping and outsourcing. Indian programmers had worked on a variety of platforms in the 1970s, which proved helpful in acquiring contracts to maintain various older systems in the 1980s.

A geographical accident which worked in favour of Indian firms was the 12.5 hours difference with the US, their main market, allowing them to undertake offshore maintenance and re-engineering after regular users there left for the day. This meant lower costs and profitability as professionals in India are paid an Indian wage whereas, once abroad, they are also paid an overseas allowance. Offshore development also offers the advantage of having most employees under one roof, instead of them being scattered across customer sites, allowing the firm to build a repository of knowledge to compete for subsequent projects, and to move employees from one project to another in a critical situation.

The story of the IT industry began with the establishment of linkages through exports. The industry exported software and services worth USD 25 billion in 1985; this has touched USD 69 billion in 2012. The industry has 58% of the global market share in the outsourcing industry, and provides direct employment to about 2.8 million, and indirectly employs 8.9 million people. The industry’s share of total Indian exports (merchandise plus services) increased from less than 4 per cent in 1998 to about 25 per cent in 2012 (NASSCOM 2012).

Software and services revenues (excluding Hardware), comprise nearly 87 per cent of the total industry revenues; within Software and services exports, IT services accounts for 58 per cent, BPO is nearly 23 per cent and ER&D and Software Products account for 19 per cent of the revenue break up.

In the period 2000 onwards outbound FDI from India was led by the IT sector and witnessed a spate of acquisitions. 12% of these acquisitions were carried out by firms termed the Born Global Acquirer, seen for the first time in the Indian context (Varma 2011).

RESOURCE DYNAMICS OF THE BORN GLOBAL FIRM

The term Born Global firm refers to a host of small and medium sized firms with a geocentric orientation which enables them to make their first global footsteps within a few years of coming into existence. Innovations in manufacturing, information and communication technology and increasing liberalisation in the emerging markets have enabled the birth of this new class of start-ups that view the global market as their natural home. These firms have made their initial global venturing by engaging in a variety of internationalisation modes ranging from exports to more complex forms of engagement such as joint ventures, wholly-owned subsidiaries or franchising networks.

The typical small business firm in the developing country context is characterised by resource munificence and a weak institutional environment. In this background the ability of such a
firm to take its first global footprints through international acquisitions is indeed creditable and is made possible by network linkages formed during prior international exposure. Its most important linkages include the prior experience of the entrepreneur and connections made with employees, suppliers, customers and the diaspora, bringing them within the ambit of international entrepreneurship.

Perspectives on international entrepreneurship have viewed it as a nexus of individuals and opportunities. This viewpoint “examines the characteristics of opportunities; the individuals who discover and exploit them; the process of resource acquisition and organizing; and the strategies used to exploit and protect the profits from those efforts” (Shane, 2003). Opportunities are situations in which people believe they can use new means-ends frameworks to yield novel resource combinations for generating profit (Shane, 2000). Individuals typically discover opportunities based on their prior knowledge which comes to bear on how they perceive external stimuli. To them, entrepreneurship is viewed as focusing on opportunities that may be bought and sold, or they may form the foundation of new organisations. This framework is based on earlier work by Schumpeter (1934) who opined that entrepreneurs create value by engaging in novel combinations of resources; and Kirzner (1973) who talked of the knowledge gained by the discovery of entrepreneurial opportunities taking markets to an efficient end.

Alternate literature lists the diaspora channel (Kapur 2010) and the impact of emigrants on their country of origin. Emigrants can be a source of augmented trade, investment, and financial flows, but also of new ideas, practices, and technologies to source country economies. Their transnational social capital may not only result in strengthening international civil society, but can also have more direct learning effects as a result of education, foreign language competence, links with prior networks and technological competence.

Firms from the less developed countries face several barriers to entry in foreign lands. Reputational barriers are among the most important of these especially in the service industry, where quality is more tacit and the ex ante determination of the quality of the product is difficult to ascertain. There is greater risk of adverse outcomes, designing contractual mechanisms to reduce information asymmetries is difficult and reliable supply is extremely important. The Indian IT industry has used reputational certification of its capabilities in the form of ISO, SEI and Carnegie Mellon University’s CMM level ratings to work through this barrier.

The diaspora has also played an important role as a mechanism for reputation enhancement for the Indian IT sector in the USA. Diasporas play the role of facilitator of economic exchange in global production networks. Networks embedded in social institutions imitate market structures through signalling and informational exchange among participants, and affect the flow of information in fundamental ways, shaping content, access and credibility of information.
The network Firms from emerging economies have emerged as latecomers in global competition having started as suppliers or distributors to other manufacturers and therefore their strategies and performance are posited to be strongly influenced by networks. The Linkage, Leverage, Learning (LLL) framework suggested by (Mathews 2002) explains how firms leverage prior linkages developed in the global economy through experiential learning and gain a foothold in the interconnected global network.

Arenius (2002) discusses the benefits of increased social capital for new ventures as a means by which to overcome the liabilities of newness and foreignness. Social capital may be generated by both social ties, and can also be business- based. In this context, the diasporas are a form of external social capital (in the form of management contacts, involved customers and involved suppliers) and have a positive impact on foreign market knowledge and, in turn, the international growth of new ventures.

RESEARCH METHODOLOGY

There has been a significant flow of outbound FDI from India from 2000 onwards led by a spate of mergers and acquisitions (M&As) from the IT and pharmaceutical sector. Some of the acquiring firms were barely five years old at the time of acquisition classifying them as Born Global, the first of a kind in the Indian context. In the international business typology M&A is an advanced entry mode that a firm seeks for making its international presence in the global market and merits careful attention and study.

This paper has chosen the case study method as the research strategy which is considered suitable for model and grounded theory development along with a focus on complex processes that take a long time to unfold (Yin 1991). Consistent with Eisenhardt’s recommendation for a theoretical sampling strategy, we introduced variance along important theoretical dimensions by including both hardware and software firms, with varying areas of specialization.

Data Sources

The data for this study was initially taken from “Prowess”, the database of the Centre for Monitoring Indian Economy (CMIE). It examined the M&A activity of the Indian IT industry during January 2001 to March 2007 and included firms which had made multiple acquisitions within a few years of incorporation, earning themselves the right to be included in the Born Global category. All firms in this sample were less than 5 years old at the time of international venturing and derived significant competitive advantage from the use of resources and sale of outputs in multiple countries from inception. The analysis of this data was then supplemented with information from the firm websites, annual reports, financial databases and media and marketing reports including reported interviews of the CEO / founders.

Case Analysis

Case details are available with the authors on request
A careful analysis of the data reveals that all five firms included in the sample were led by individuals who had prior experience in varied domains and in Silicon Valley. The network linkages developed by them at that stage included the diasporas and their technological and reputational certification in the form of ISO and CMMI capabilities acted as facilitator. An enabling policy environment in both the home and host country also helped these firms in their early acquisitions.

**ANALYSIS AND DISCUSSION**

The focus of the study are five firms from the IT industry, christened Born Global Acquirers, who made a series of acquisitions within a few years of coming into existence, helped by a geocentric orientation that helped them consider the global market as their natural home, driven by personal characteristics of their entrepreneur and facilitated by links to various networks including the diasporas.

All firms profiled in the study have been led by individuals with prior international experience of both the IT industry and also other domains, using opportunities in prior networks and the tacit knowledge vested in these leaders for rapid internationalization. This is consistent with Keeble et al. (1998) that competencies embodied in the founder/entrepreneur often relate to “a new and specialised technological niche which provides the opportunity for internationalisation.” These competencies are derived from previous employment, prior networks and technological expertise which makes them aware of new international opportunities that others remain unaware of.

The firms themselves have technological and reputational certification of the highest order in the form of ISO and CMMI capabilities. The linkages developed by Indian professionals in Silicon Valley in the initial phase of the growth of the industry based on personal networks and valuable reputations established the basis of further development of the industry and the facilitation of acquisitions in later years.

Institutional policy as a result of liberalization of the domestic economy including the establishment of software technology parks, the benefits of spatial agglomeration, public private partnerships and developments in the government diaspora relationships also facilitated the growth of the industry and its aggressive venturing into global markets. The recognition given to the diaspora by the Indian government and to Indians by the US government provided the necessary policy push.

**CONCLUSION**

This paper is a pioneering study, focused on the role of diaspora networks as drivers of a specific kind of Born Global Firm – the Born Global Acquirer, in the Indian context. It makes an important contribution to the literature by combining insights from international entrepreneurship with diaspora literature as a unique experiment in research and teaching. Born Globals reflect an emerging breed of firms typifying the process of accelerated internationalization in the global economy. Driven by personal characteristics of their entrepreneurs and linkages to business and institutional networks including the diaspora, the
born-global acquirer as a phenomenon is indicative of the emergence of an international exchange system in which any firm, regardless of age, experience, and tangible resources, can be an active international business participant.

The lessons learnt from the accelerated internationalization of the IT sector can be replicated in other sectors as well, as software success has enhanced India’s reputation and credibility as a provider of skilled services. Other knowledge based services have also begun to leverage the strengths of the large pool of skilled, inexpensive English speaking talent. Finally since software and IT are “general purpose technologies” capabilities built up here have been leveraged in the accelerated internationalization of firms from different domains like travel and tourism and shipping in this study, and can be applied in other high technology areas as well.

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i The term Asian-Indians was used for the first time in the Census Bureau of USA in 1980 at the urging of the Indian community in USA to differentiate itself from the Native Americans i.e. the Indian Americans.


vi Details of the firms studied here may be obtained from the authors.

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